



City of Cincinnati Retirement System Board of Trustees Meeting

Agenda

August 3, 2023 / 2:00 P.M.

City Hall, Council Chambers and via Zoom

Members

Bill Moller, Chair
Tom Gamel, Vice Chair
Kathy Rahtz
Mark Menkhaus, Jr.
Monica Morton
John Juech
Tom West
Seth Walsh
Aliya Riddle

CRS Staff

Karen Alder
Mike Barnhill, Contractor

Law

Ann Schooley
Linda Smith

Call to Order

Public Comment

Approval of Minutes

- Meeting Minutes – July 13, 2023

Report from Investment Committee

Informational – Staff Report

- June 2023 Investment Results (Marquette)
- 2nd Quarter Budget Update
- Procurement Update (RFPs for Investment Consultant, Fiduciary Audit)
- Status of Executive Director Search Process
- 2nd Quarter Drop Report
- DROP Actuarial Analysis Peer Review Update
- Disabled Adult Children Ordinance
- Healthcare Funding Policy

Old Business

- CRS CY2022 Annual Report

New Business

Adjournment

Next Meeting: Thursday, September 14, 2023, 2:00 P.M. City Hall Council Chambers and via Zoom

**City of Cincinnati Retirement System
Board of Trustees Meeting Minutes
July 13, 2023 / 2:00 P.M.
City Hall – Council Chambers and remote**

Board Members

Bill Moller, Chair
Tom Gamel, Co-Chair
Kathy Rahtz
Mark Menkhaus Jr.
Monica Morton
John Juech
Tom West
Seth Walsh
Aliya Riddle

Administration

Karen Alder
Mike Barnhill, Consultant
Keva Elam

Law

Ann Schooley
Linda Smith

CALL TO ORDER

Chair Moller called the meeting to order at 2:01 p.m. and a roll call of attendance was taken. Trustee Juech and Walsh were absent.

PUBLIC COMMENT

No public comment.

APPROVAL OF MINUTES

Approval of the minutes of the Board meeting of June 8, 2023, was moved by Trustee Gamel and seconded by Trustee Menkhaus. The minutes were approved by unanimous roll call vote.

Report from Governance Committee

Trustee Menkhaus explained the motion to approve the new Ethics Policy. The Ethics Policy would apply to the Board members but not to employees that are part of the City Administration. Trustee Menkhaus highlighted that the Ethics Policy mirrors the Ohio Administrative Code and the ORC. Chair Moller motioned to approve, and no second was needed. Motion was approved by a majority roll call vote.

Trustee Menkhaus explained the motion to approve a revision to the Training Policy that would make training for the Board members a requirement. He also indicated that the Executive Director would be responsible for creating a training plan for each individual and making training opportunities known to the Board. Chair Moller motioned to approve, and no second was needed. Motion was approved by a unanimous roll call vote.

Trustee Menkhaus explained the motion to adopt Committee Charters for the Benefits Committee, Governance Committee, and Investment Committee. Chair Moller motioned to approve the three charters and no second was needed. Motion was approved by a unanimous roll call vote.

Report from Performance Evaluation Committee

Trustee Rahtz explained the motion to add the Annual Performance Evaluation of the Executive Director to the 2023 Performance Evaluation Committee Goals and Objectives. Chair Moller motioned to approve the addition and no second was needed. Motion was approved by a unanimous roll call vote.

Informational – Staff Report

May 2023 Investment Results (Marquette)

Chair Moller explained that YTD investment returns were just slightly less than the benchmark but a little over 3% which is much less than the current 7.5% assumption.

Procurement Update (RFPs for Investment Consultant, Fiduciary, Audit, Dental)

Director Alder stated that the evaluation of the Fiduciary Audit proposals is complete. The Evaluation Committee has a recommendation for the Board, which is to go with Funston Advisory Services. They were the lowest cost as well as a competitive proposal with very comprehensive experience in this area. Chair Moller asked what the actual cost is, and Director Alder answered it is \$102,400. She also stated, just for comparison, the most expensive is \$152,500, and the next closest price is \$139,500. Chair Moller commented that Funston has done similar work for the State of Ohio systems. Chair Moller motioned to approve Funston as the Fiduciary Auditor and the motion was seconded by Trustee Gamel. Motion was approved by a unanimous roll call vote.

Director Alder explained that five proposals have been received from investment consulting firms which are currently being evaluated and the Evaluation Committee's scoring is due Friday, July 21, 2023.

Chair Moller asked Director Alder to remind the Board of the process, who makes the decision, and who is involved. Director Alder reminded the Board that the Evaluation Committee is made up of City employees that will do the scoring. There are a few advisory members, who are Board members, and they have access to the proposals received. Mr. Barnhill is also in an advisory role. The recommended award will then come to the Board for approval. If the Board approves the recommended vendor, the next step is approval of the vendor award by the City Manager.

Director Alder explained that the Dental RFP was cancelled, at the direction of the Board, and will be revisited next year. The contract with Superior was amended to continue for the next calendar year.

Status of Executive Director Search Process

Director Alder told the Board that an offer was extended and denied, so additional interviews have been conducted. Another candidate has been selected and they will be contacted to begin negotiations. Director Alder will inform the Board once finalized.

Staff Update

Director Alder told the Board that Terra Williams started on June 26, 2023, in the Finance Manager role, double filling with Bev Nussman. She has been working diligently to get up-to-speed prior to Bev's retirement.

The Benefit Counselor position will be held vacant until a new Executive Director is hired. Director Alder feels that it is important for the new Director to assess the staff that are currently there and select the person they think is most suitable for that role.

DROP Actuarial Analysis Update

Director Alder stated the report from Foster and Foster had been received. The report is different than what was conducted by Cheiron originally. Cheiron did an analysis based on the participants already in DROP, where Foster and Foster did an analysis of the cost of the system looking forward with projections on DROP participation. The Foster and Foster's analysis determined that the DROP program is cost neutral. Director Alder has reached out to Cheiron to do a peer analysis of the Foster and Foster proposal and has not received that back yet.

Chair Moller reminded the Board that a copy of the analysis is in the packet. Cheiron's analysis in August 2020 concluded there would be \$11.6 million in additional liability due to DROP. He stated the Foster and Foster analysis is based more on assumptions and not experience.

Healthcare Funding Policy

Director Alder explained that in the packet, there is the motion that was passed by the Board earlier this year and a draft proposal that the City Administration has created.

Chair Moller commented that the recent draft created by the City Administration does not reflect what the Board had approved in its motion. There are some significant differences, with the most significant being the "no contribution in the City draft policy until the Pension Trust is 85% funded." Chair Moller further explained that based on the Board's incremental approach funding the pension, which would not occur until 2043 so effectively the City Policy says they do not have to contribute to the healthcare policy until 2043. Chair Moller does not think this is particularly helpful.

Benefits Committee: July 25

Chair Moller explained that there will be several items on the agenda and encouraged members to attend if they can.

Old Business

Chair Moller addressed the Annual Report, which was included in the packet. He explained that it was modeled after reports that have been provided in the past in terms of organization and style. The Board's recommendation on the Pension Trust Funding is included. Chair Moller thanked Director Alder for creating the report and Trustee Gamel for helping to review it.

Chair Moller motioned to accept the Annual Report that is in the packet and the motion was seconded by Trustee Gamel. Chair Moller will give the report to the Mayor and members of the City Council once approved. Motion was approved by a unanimous roll call vote.

New Business

Director Alder informed the Board the Fiduciary Insurance, which insures the Board against any lawsuits, was up for renewal on July 7th. The renewal included an increase of \$3,000 to the annual premium. The insurance includes \$5 million worth of basic coverage and excess coverage of up to \$10 million for a total of \$15 million. Director Alder also explained that there has been concern over ensuring the Board due to the lack of funding for the system.

Chair Moller commented that the renewal was not as a result of an RFP or bid process, but a renewal of a contract that the Board has had, which Director Alder confirmed. She explained that the broker does bid things out but given the circumstances the Board is fortunate to be able to renew the coverage with the current carrier. Trustee Menkhaus asked how significant the \$3,000 increase is to the premium. Director Alder responded that it went from \$96,959 to \$99,950 which is not significant.

Director Alder proposed to add discussion regarding retiree Health Reimbursement Arrangement (HRA) Plan to the Benefits Committee meeting in July. Currently, CRS has out-of-pocket maximums that are a little less than what the active population offers. The City recently raised their out-of-pocket maximums to try to encourage more participation in the HRA program. The more people that participate, the less healthcare expenses the Retirement system is paying. Director Alder will be recommending slight increases to make the maximums even with the Actives plan.

Chair Moller asked how many people are currently participating in the HRA program, to which Director Alder responded she believes participation is very low.

Chair Moller will refer this to the Benefits Committee on July 25, 2023.

Adjournment

Following a motion to adjourn by Trustee Menkhaus and seconded by Trustee Gamel. The Board approved the motion by unanimous roll call vote. The meeting adjourned at 2:24 p.m.

Meeting video link: <https://archive.org/details/crs-board-7-13-23>

Next Meeting: Thursday, August 3, 2023 at 2:00 p.m. – City Hall Council Chambers and via Zoom

Secretary



Cincinnati Retirement System

City of Cincinnati
Retirement System
Executive Summary

June 30, 2023

Total Fund Composite

As of June 30, 2023

Summary of Cash Flows

	Last Month
Beginning Market Value	\$2,205,790,829
Net Cash Flow	-\$17,459,792
Net Investment Change	\$64,765,173
Ending Market Value	\$2,253,096,210

Market Value

	Market Value (\$)	% of Portfolio	Policy %	Policy Difference (\$)
Total Fund Composite	2,253,096,210	100.0	100.0	0
Fixed Income Composite	361,456,789	16.0	22.5	-145,489,858
Private Debt Composite	35,618,570	1.6	3.0	-31,974,317
U.S. Equity Composite	670,348,037	29.8	28.5	28,215,617
Non-U.S. Equity Composite	407,766,372	18.1	18.0	2,209,054
Volatility Risk Premium Composite	58,862,288	2.6	2.5	2,534,882
Real Estate Composite	188,466,047	8.4	7.5	19,483,831
Infrastructure Composite	269,966,147	12.0	10.0	44,656,526
Private Equity Composite	246,469,808	10.9	8.0	66,222,111
Total Cash Equivalents	14,142,152	0.6	--	14,142,152

Performance

	1 Mo	3 Mo	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception	Inception Date
Total Fund Composite	2.9%	2.6%	6.3%	7.6%	10.3%	6.7%	7.5%	8.7%	May-85
Target Benchmark	3.1%	2.7%	6.7%	8.0%	9.4%	6.9%	7.7%	--	May-85
Fixed Income Composite	0.1%	-0.1%	3.2%	1.6%	-0.7%	1.7%	2.7%	5.0%	Nov-95
Bloomberg US Aggregate TR	-0.4%	-0.8%	2.1%	-0.9%	-4.0%	0.8%	1.5%	4.2%	Nov-95
Private Debt Composite	0.0%	0.0%	4.8%	8.6%	--	--	--	1.5%	Sep-20
Bloomberg US Aggregate TR	-0.4%	-0.8%	2.1%	-0.9%	-4.0%	0.8%	1.5%	-4.5%	Sep-20
U.S. Equity Composite	7.0%	7.1%	12.6%	16.3%	16.6%	9.3%	10.9%	9.3%	Feb-89
Russell 3000	6.8%	8.4%	16.2%	19.0%	13.9%	11.4%	12.3%	10.5%	Feb-89
Non-U.S. Equity Composite	4.5%	2.5%	9.3%	12.3%	8.6%	2.9%	4.8%	5.7%	May-93
MSCI ACWI ex USA	4.5%	2.4%	9.5%	12.7%	7.2%	3.5%	4.7%	--	May-93
Volatility Risk Premium Composite	2.2%	5.4%	10.7%	12.8%	--	--	--	2.3%	Jan-22
CBOE Put Write Index	2.5%	5.4%	12.5%	12.1%	13.6%	6.3%	7.1%	4.5%	Jan-22
Real Estate Composite	-1.3%	-1.9%	-4.0%	-8.4%	8.3%	6.8%	8.9%	5.8%	Aug-07
NFI-ODCE	-1.0%	-2.8%	-6.1%	-10.7%	7.1%	5.6%	7.8%	4.8%	Aug-07
NPI	0.0%	0.0%	-1.8%	-4.7%	7.5%	6.3%	8.0%	6.4%	Aug-07
Infrastructure Composite	1.0%	0.9%	3.2%	7.1%	9.1%	8.5%	7.4%	8.3%	Aug-08
3 Month T-Bill +4%	0.8%	2.2%	4.3%	7.7%	5.3%	5.5%	5.0%	4.7%	Aug-08
Private Equity Composite	0.0%	0.0%	0.7%	-0.3%	17.7%	14.0%	13.5%	8.7%	Jul-93
Burgiss Global All Private Equity	0.0%	0.0%	1.3%	-0.3%	19.6%	16.3%	15.7%	15.6%	Jul-93

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**City of Cincinnati Retirement System
Cash Flow Budget Analysis - As of June 30, 2023**

	Budget 2023	Actual Q2, 2023	Difference	% of Budget Utilized	50% of Budget	Difference 50% of Budget v Actual
50% Expectation						
Office Staff	2,179,260	748,049	1,431,211	34%	1,089,630	341,581
Office Expenses	131,000	39,813	91,187	30%	65,500	25,687
Training and Travel	84,230	5,500	78,730	7%	42,115	36,615
Data Processing	607,500	58,515	548,985	10%	303,750	245,235
Professional Fees	607,740	135,507	472,233	22%	303,870	168,363
Other	7,500	1,250	6,250	17%	3,750	2,500
Fud Ins	106,700	0	106,700	0%	53,350	53,350
Operating						
Budget Total	3,723,930	988,634	2,735,296	27%	1,861,965	873,331
Member						
Cost (50% expectation)	232,418,700	110,882,792	121,535,908	48%	116,209,350	5,326,558
Contributions						
(50% Expectation)	63,290,350	31,256,389	(32,033,961)	0	31,645,175	(388,786)
Net Investment						
Returns						
(50% Expectation)	148,528,149	148,524,152	(3,997)		74,264,075	74,260,078

2023 CRS CASH FLOW BUDGET

L. OPERATING EXPENSES	2023 BUDGET	% Cost of Operations	2023 YTD June	Difference Budget v Actual	50% of Budget	Difference 50% v Actual
A. Office Staff						
1. Salaries & Wages	1,565,260	42.03%	539,470	1,025,790	782,630	243,160
2. Fringe (35%)	574,000	15.41%	177,251	396,749	287,000	109,749
3. Temporary Services	40,000	1.07%	31,328	8,672	20,000	(11,328)
A. Total Office Staff	2,179,260	58.51%	748,049	1,431,211	1,089,630	341,581
B. Office Expenses						
1. Office Improvements	28,000	0.75%	2,000	26,000	14,000	12,000
2. Equipment / Purchase and Rent	10,000	0.27%	1,305	8,695	5,000	3,695
3. Supplies	3,300	0.09%	733	2,567	1,650	917
4. Printing and Postage	89,700	2.41%	35,775	53,925	44,850	9,075
B. Total Office Expenses	131,000	3.52%	39,813	91,187	65,500	25,687
C. Training and Travel						
1. Training/Travel Board	32,500	0.87%	0	32,500	16,250	16,250
2. Training/Travel Staff	51,730	1.39%	5,500	46,230	25,865	20,365
C. Total Training and Travel	84,230	2.26%	5,500	78,730	42,115	36,615
D. Data Processing Expenses						
1. Pension Gold Hosting and Modification	202,200	5.43%	150	202,050	101,100	100,950
2. Pension Gold Annual License Fee	150,000	4.03%	0	150,000	75,000	75,000
3. Regional Computer Center (ETS)	4,200	0.11%	1,830	2,370	2,100	270
4. Hardware and Software for PCs	90,750	2.44%	40,952	49,798	45,375	4,423
5. Other	160,350	4.31%	15,583	144,767	80,175	64,592
D. Total IT Expenses	607,500	16.32%	58,515	548,985	303,750	245,235
E. Professional Services						
1. Actuarial Fees	178,000	4.78%	64,999	113,001	89,000	24,001
2. Consulting Fees	241,740	6.49%	54,164	187,576	120,870	66,706
3. Legal Services	110,000	2.95%	5,290	104,710	55,000	49,710
4. Retiree Locator Fees	3,000	0.08%	200	2,800	1,500	1,300
5. Treasury, Accounts and Audits	25,000	0.67%	10,854	14,146	12,500	1,646
6. Financial Audit	50,000	1.34%	0	50,000	25,000	25,000
E. Total Professional Services	607,740	16.31%	135,507	472,233	303,870	168,363
F. Other Expenses						
1. Board Meeting Expenses	2,500	0.07%	0	2,500	1,250	1,250
2. Membership and Subscriptions	5,000	0.13%	1,250	3,750	2,500	1,250
F. Total Other	7,500	0.20%	1,250	6,250	3,750	2,500
G. Insurance						
Fiduciary Insurance	106,700	2.87%	0	106,700	53,350	53,350
G. Total Insurance	106,700	2.87%	0	106,700	53,350	53,350
Total Operating Costs	3,723,930	99.99%	988,634	2,735,296	1,861,965	873,331

Programming fees paid in block purchase
Paid once per year

Paid once per year

2023 CRS CASH FLOW BUDGET (Continued)		2023	% Cost of Operations	2023	2023	Difference	50% of	Difference
II. MEMBER BENEFITS EXPENSES		BUDGET		YTD June	Budget v Actual	Budget		50% v Actual
A. Pensions		197,006,500	84.76%	97,189,977	99,816,523	98,503,250	1,313,273	
B. Return of Contributions		2,874,000	1.24%	1,386,528	1,487,472	1,437,000	50,472	
C. Death Benefits		670,000	0.29%	314,500	355,500	335,000	20,500	
D. Medical		31,868,200	13.71%	11,991,786	19,876,414	15,934,100	3,942,314	
Total Benefit Costs		232,418,700	100.00%	110,882,791	121,535,909	116,209,350	5,326,559	
III. CONTRIBUTIONS		2023	% of	2023	Difference	50% of	Difference	
		BUDGET	Contributions	YTD June	Budget v Actual	Budget	50% v Actual	
A. City Contributions		39,930,050	63.09%	19,336,652	(20,593,398)	19,965,025	(628,373)	
B. Employee Contributions (9.0%)		21,377,100	33.78%	11,158,696	(10,218,404)	10,688,550	470,146	
C. Retiree Medical Premiums		2,233,200	3.53%	1,118,714	(1,114,486)	1,116,600	2,114	
D. Transfers In (Out) Reciprocity		(250,000)	-0.40%	(357,673)	(107,673)	(125,000)	(232,673)	
Total Contributions		63,290,350	100.00%	31,256,389	(32,033,961)	31,645,175	(388,786)	
IV. NET INVESTMENT RETURNS								
A. Gross Returns		156,455,149		151,860,334	(4,594,815)	78,227,575	73,632,759	
B. Investment Expenses								
1. Custodial Fees		232,000		99,600	132,400	116,000	16,400	
2. Investment Consultant		285,000		117,500	167,500	142,500	25,000	
3. Investment Management Fees		7,410,000		3,119,082	4,290,918	3,705,000	585,918	
Total Investment Expenses		7,927,000	0.38%	3,336,182	4,590,818	3,963,500	627,318	
Net Investment Returns (Budget 7.5%)		148,528,149		148,524,152	(3,997)	74,264,075	74,260,077	
NET CHANGE IN FUND BALANCE		(24,324,131)		67,909,116	92,233,247	(12,162,065)	80,071,181	
Net Assets Beginning Balance		2,203,917,404	1/1/2023	2,203,917,404				
Net Assets Ending Balance		2,179,593,273	12/31/2023	2,271,826,520				

Cincinnati Retirement System
DROP Quarterly Report for 2023

	Totals at 12/31/2022	Q1	Q2	Q3	Q4	2023	Life of Plan Participation
Participants							
Beginning		173	158			173	
New Participants	373	1	6			7	380
Withdrawn Participants	-200	-16	-9			-25	-225
Remaining	173	158	155			155	155
DROP Balance							
Opening Balance						\$ 26,520,139	
In-Flows to DROP							
Deferred Pension Payments	\$ 50,283,884	\$ 2,000,043	\$ 1,902,362			\$ 3,902,405	\$ 54,186,289
Member Contributions*	\$ 7,192,305	\$ 327,276	\$ 262,832			\$ 590,108	\$ 7,782,413
Interest Payable	\$ 1,829,799	\$ 273,092	\$ 260,203			\$ 533,295	\$ 2,363,094
Subtotal	\$ 59,305,988	\$ 2,600,411	\$ 2,425,397	\$ -	\$ -	\$ 5,025,808	\$ 64,331,796
Out-Flows from DROP							
Disbursement of Accounts	\$ (30,947,360)	\$ (3,487,459)	\$ (2,864,795)			\$ (6,352,254)	\$ (37,299,614)
Transfers to Pension Trust							
Participant Fees*	\$ (1,796,519)	\$ (81,816)	\$ (65,709)			\$ (147,525)	\$ (1,944,044)
Forfeited Interest	\$ (41,970)	\$ -	\$ -			\$ -	\$ (41,970)
Subtotal	\$ (32,785,849)	\$ (3,569,275)	\$ (2,930,504)	\$ -	\$ -	\$ (6,499,779)	\$ (39,285,628)
Change To DROP Quarterly		\$ (968,864)	\$ (505,107)	\$ -	\$ -	\$ (1,473,971)	
Ending DROP Liability	\$ 26,520,139					\$ 25,046,168	\$ 25,046,168

* Member Contributions equal 9% of pensionable compensation with 25% of collected amount transferred to Pension Trust as fees for participation in the DROP program.

Via Electronic Mail

July 25, 2023

Ms. Karen Alder
Finance Director
City of Cincinnati
801 Plum Street, Suite 250
Cincinnati, Ohio 45202

Re: *Estimated Impact of the Deferred Retirement Option Plan on the Cincinnati Retirement System*

Dear Karen:

As requested, we are writing to review the DROP analysis dated June 14, 2023 prepared by Foster and Foster and compare the results of their analysis to that prepared by Cheiron in our letter dated August 20, 2020. The purpose of each analysis was to determine the impact that the Deferred Retirement Option Program (DROP) had on the Cincinnati Retirement System (CRS or System).

Conclusions of Each Analysis

Cheiron concluded that the impact on the liability of the System due to the DROP was approximately \$11.6 million as of July 1, 2020. This was based on **known actual experience** of the 290 participants who elected to participate in the DROP between January 1, 2016 and April 1, 2020. Total liabilities for the System as of December 31, 2019 (the most recent valuation performed at the time of the analysis) were \$2,466.3 million.

Foster and Foster concluded that “the existence of DROP in its current form is cost neutral to the CRS and does not negatively impact the CRS Funded Ratio.” Their rationale is that members are working 1.5 years longer than they were before the implementation of the DROP and that regular service retirement is neutralized when the retirement age (i.e., age at DROP Exit) is one to two, or more, years later than the assumed retirement age had there been no DROP. Their conclusions are based on calculations using a hypothetical participant and assume all assumptions are realized.

Differences in Conclusions

Cheiron and Foster and Foster reached different conclusions regarding the impact that the DROP had on the CRS. The differences can be explained by the methodology and data used to prepare the analysis. Cheiron’s analysis was aimed at how **actual** DROP experience has impacted the System, whereas Foster and Foster’s analysis seemed to determine if the DROP design feature would have any impact on the System based on a hypothetical participant.

Methodology Used to Determine the DROP Impact

Cheiron's August 20, 2020 letter estimated the impact the DROP had on the System as of July 1, 2020 by calculating the following difference for each of the 290 participants who elected to participate in the DROP between January 1, 2016 and April 1, 2020: (a) the liabilities reflecting their actual DROP participation election (DROP Entry), compared to (b) the liabilities as if they remained an active participant and retired on their actual or assumed exit from DROP (DROP Exit).

Foster and Foster compared (a) the liability assuming a hypothetical participant regularly retired if there was no DROP, to (b) the liability at an assumed DROP Exit date three years after electing to participate, discounted to the regular retirement date. Their calculations assume all assumptions are realized.

This difference in methodology and timing will impact the results of the analysis.

Actual Data Versus Hypothetical Data

The other significant difference is that Foster and Foster's conclusion is based on 5 **hypothetical** participants. Therefore, their analysis is solely focused on whether the "design" may lead to neutrality or minimal impact, whereas Cheiron's analysis measured the impact for the **actual** 290 participants who elected to participate in DROP from January 1, 2016 through April 1, 2020, reflecting each participants actual experience in the System. By using actual participants, known experience (e.g., salary earnings after entering DROP) are included as part of the calculated financial impact that the DROP has had to date.

Cheiron's analysis showed that the average cost for the 290 participants who elected to participate in the DROP between January 1, 2016 and April 1, 2020 was approximately \$40,000; however, the amount significantly varied based on each participants' characteristics (age, salary, service, etc.) at the time of DROP entry as well as subsequent pay levels and amount of time they spent in DROP (i.e., known experience). In fact, the impact ranged from a savings of \$50,000 per participant to a cost of over \$150,000 per participant depending on the characteristics of the participant. A participant's decision to elect to go into the DROP will be based on personal circumstances and what is best for that individual. Given anti-selection, it does not come as a surprise that our study yielded an increase in liabilities due to the DROP. Although not accounted for by Foster and Foster, their report alludes to the potential impact of actual experience on page 9 of their report under adverse selection.

Disclosures

Cheiron's analysis only reflects the financial impact to the System and does not factor in additional costs that the City incurs such as salaries and other benefits, including health insurance, had the participants retired on a date different than their actual or assumed DROP exit date.

Cheiron's results were based on the same census data, financial information, methods and assumptions, and plan provisions used in the December 31, 2019 actuarial valuation, except as otherwise noted. The assumptions used were the same for all participants regardless of the participant's date of entry into the DROP. For any participant that has not yet exited DROP, we assumed that the DROP account would accumulate 3.25% per year based on the DROP crediting rate used in our December 31, 2019 valuation.



Ms. Karen Alder
July 25, 2023
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In preparing Cheiron's results, we relied on information (some oral and some written) supplied by the Retirement System's staff as well as information available through Pension Gold. This information includes, but is not limited to, plan provisions, employee data, financial information, and earnings information after DROP entry through June 30, 2020. Where data was incomplete, reasonable assumptions were used. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standards of Practice No. 23. Please refer to Cheiron's letter August 20, 2020 for the data, assumptions and methods, and other disclosures used in our analysis. We also relied on Foster and Foster's letter dated June 14, 2023 for our review of their analysis.

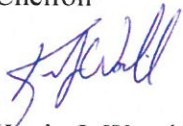
Future actuarial measurements may differ significantly from the current results due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; changes in plan provisions or applicable law; and final audited fiscal year financial results.

This report and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinions contained in this report. This report does not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.

This letter was prepared solely for the Cincinnati Retirement System for the purposes described herein. Other uses of this letter are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to such other users.

If you have any questions, please let us know.

Sincerely,
Cheiron



Kevin J. Woodrich, FSA, EA, MAAA
Principal Consulting Actuary



Janet Cranna, FSA, FCA, EA, MAAA
Principal Consulting Actuary

MODIFYING the provisions of Chapter 203, “Employees’ Retirement System,” of the Cincinnati Municipal Code by **AMENDING** Section 203-42, “Health Care Benefits,” Section 203-43, “Health Care Benefits For Membership Dates Prior to January 9, 1997 and Retirement Effective Dates After January 1, 2016,” Section 203-44, “Health Care Benefits For Membership Dates On and After January 9, 1997,” and Section 203-48, “Health Care Benefits for Eligible Dependent Family Members,” to implement policy changes made by the Cincinnati Retirement System Board.

WHEREAS, the Cincinnati Retirement System Board (“Board”) desires to provide healthcare coverage to the adult disabled children of retirees whenever possible; and

WHEREAS, following a review of the rules related to Social Security Disability Income (“SSDI”) and Supplemental Security Income (“SSI”), the Board has determined that the cost of this healthcare coverage to the 115 Trust that funds retirees’ healthcare is not significant; and

WHEREAS, the Board no longer wants to require retirees to provide a Certificate of Disability from the Social Security Administration or to apply for SSI on behalf of a disabled adult child as a condition for retiree healthcare coverage for an adult disabled child under Chapter 203, regardless of the disabled adult child’s eligibility for such benefits, and

WHEREAS, the Board wants to require those retiree members and their spouses or eligible dependent children who are eligible to receive Medicare benefits to enroll in Medicare as a condition of receiving retiree healthcare coverage under Chapter 203; and

WHEREAS, the Board voted to change the Board’s policies to address eligibility requirements for retirees’ disabled adult children to receive retiree healthcare coverage and desires to revise Chapter 203 to implement those changes; now, therefore,

BE IT ORDAINED by the Council of the City of Cincinnati, State of Ohio:

Section 1. That existing Section 203-42, “Health Care Benefits,” Section 203-43, “Health Care Benefits For Membership Dates Prior to January 9, 1997 and Retirement Effective Dates After January 1, 2016,” Section 203-44, “Health Care Benefits For Membership Dates On and After January 9, 1997,” and Section 203-48, “Health Care Benefits for Eligible Dependent Family Members,” of the Cincinnati Municipal Code are hereby amended to read as follows:

Sec. 203-42. Health Care Benefits.

- (a) In addition to other benefits provided in this chapter, the Retiree health care benefits described in this Section shall be provided to the following persons:
 - (i) A Member who retired on or before July 1, 2011 and whose eligibility for health care benefits was determined on their Retirement Effective Date according to the provisions of this chapter in effect on such date, or
 - (ii) A Member of Group C who retires on or after August 1, 2011 with 15 years of Membership Service, or
 - (iii) A Member of Group D, E, or F whose most recent membership enrollment date is before January 9, 1997 and who retired on or after August 1, 2011 and on or before January 1, 2016 with 15 years of Membership Service, or
 - (iv) Persons receiving the benefits of a retirement optional allowance under Section 203-63 and who are eligible for benefits under Section 203-48 of this chapter, provided that the Member satisfied the health care eligibility requirements of paragraph (i), (ii) or (iii) above at the time the Member retired, or
 - (v) A surviving spouse, eligible dependent child and/or orphan receiving survivor benefits as provided in Section 203-49 of this chapter on or before January 1, 2016.
- (b) The benefits to be provided under this Section are:
 - (i) Medical and prescription drug coverage similar to coverage in effect for eligible ~~Retirees~~Pensioners on January 1, 2014, and ~~Member~~Retiree premium contributions are not to exceed 5% of the full funding rate for each tier of coverage:
 - (A) For in-network benefits:
 - (I) An annual deductible of \$300 per person and \$600 per family;
 - (II) A maximum annual medical out-of-pocket expense of \$1,500 per person and \$3,000 per family; and
 - (III) Prescription co-pays: \$10 for generic; \$20 for brand name; \$30 for non-formulary; with no out-of-pocket limit.
 - (B) For out-of-network benefits:
 - (I) An annual deductible of \$600 per person and \$1,200 per family;
 - (II) A maximum annual medical out-of-pocket expense of \$3000 per person and \$6,000 per family; and
 - (III) Limited out-of-network coverage for prescription drugs.
 - (ii) Dental and vision insurance coverage which shall be purchased and fully paid for by the Retirees, their surviving spouse, or their eligible dependents or orphans, as provided in Section 203-48 of this chapter.
- (c) Members who retired before September 1, 2007, and their surviving spouse as provided in Section 203-48 of this chapter, who met the requirements of former Section 203-43(d), subsections (i), (ii), (iii), or (iv) as in effect prior to July 1, 2011,

and who as of January 1, 2012, and annually thereafter, meet the requirements of subsection (i) below are entitled to the benefits described in subsection (ii) below.

(i) Members Pensioners must establish that their annual household income is less than \$30,000 by annually submitting to the Retirement System a copy of their federal income tax return or any other or additional documentation the Retirement System requires to determine annually whether the Member's Pensioner's household income is less than \$30,000. For purposes of this Section, "household income" shall mean the total income of the Member Pensioner, including the income of the Member's Pensioner's spouse if married, after adding back the nontaxable portion of interest, dividends, pensions, annuities, IRA distributions, and social security benefits. Business or investment losses are not included in "household income" and may not be used to reduce the amount of "household income" for purposes of this Section. Members Pensioners must submit a copy of their federal income tax return (and that of their spouse, if applicable) for the prior year to the Retirement System no later than the date determined by the Retirement System each year, or any other or additional documentation the Retirement System requires. Failure to submit the required documentation shall result in the Member Pensioner becoming permanently ineligible for the benefits described in (c)(ii) of this Section. The Member Pensioner will be eligible for coverage as described in (b) of this Section.

(ii) Members Pensioners who meet the requirements of subsection (i); above shall receive medical and prescription drug coverage with no premium cost with the following benefits:

(A) For in-network benefits:

(I) An annual deductible of \$0;

(II) A maximum annual medical out-of-pocket expense of \$500 per person and \$1,000 per family;

(III) A maximum annual prescription drug out-of-pocket expense of \$500 per person; and

(IV) Prescription drug tiers: \$5 for generic; \$15 for brand name; \$30 for non-formulary.

(B) For out-of-network benefits:

(I) An annual deductible of \$0;

(II) A maximum annual medical out-of-pocket expense of \$1000 per person and \$2,000 per family; and

(III) Limited out-of-network coverage for prescription drugs.

Members Pensioners who meet the requirements of subsection (i) above shall be provided dental and vision coverage to be purchased and fully paid for by the Retirees, their surviving spouse, or their eligible dependents or orphans.

- (d) Any person eligible to receive healthcare coverage under this Chapter who is eligible for coverage under Medicare shall apply for Medicare coverage and provide documentation to the Retirement System that is acceptable to the Retirement System that confirms either acceptance or denial for such coverage. To the extent allowable under applicable federal law, coverage under this Section for any person who is eligible to be covered under Medicare shall be secondary to coverage of such person under Medicare. The benefit payable under this Section shall be reduced by the greater of: (a) the amount actually paid by Medicare Part A and Part B; or (b) the amount Medicare would pay if the person were enrolled in Medicare Part A and Part B. A person is considered eligible for Medicare for these purposes during any period such person has coverage under Medicare Part A or Part B or, while otherwise qualifying for coverage under Medicare Part A (premium free) or Part B, does not have such coverage under Medicare Part A or Part B solely because such person has refused, discontinued, or failed to make any necessary application or applicable payment for Medicare Part A or Part B coverage.
- (e) The director of retirement or the director's designee shall adopt rules and policies necessary to implement this Section.

Sec. 203-43. Health Care Benefits For Membership Dates Prior to January 9, 1997 and Retirement Effective Dates After January 1, 2016.

- (a) In addition to other benefits provided in this chapter, the Retiree health care benefits described in this Section shall be provided to the following persons:
- (i) A Qualified Member (as defined in paragraph (c) below) who retires after January 1, 2016 who is at least 60 years of age with a minimum of 20 years of Membership Service and who is not otherwise eligible for health care benefits under Section 203-42, or
- (ii) A Qualified Member (as defined in paragraph (c) below) who retires with 30 or more years of Creditable Service consisting of a minimum of 20 years of Membership Service and who is not otherwise entitled to benefits under Section 203-42, or
- (iii) Persons receiving the benefits of a retirement optional allowance under Section 203-63 of this chapter, and who are eligible for benefits under Section 203-48 of this chapter, provided that the Member satisfied the requirements of either paragraph (i) or paragraph (ii) above at the time the Member retired and who is not otherwise entitled to benefits under Section 203-42, or
- (iv) Each surviving spouse, and each eligible dependent child ~~and/or~~ orphan of a deceased Active Member who would have been eligible for benefits under this Ssection, who is receiving survivor benefits as provided in Section 203-49 of this Chapter, provided that:
- (A) the deceased Active Member's most recent membership enrollment date is before January 9, 1997 and the survivor benefit commenced on or after February 1, 2016 and the deceased Active Member is not otherwise entitled to benefits under Section 203-42; and

- (B) a surviving spouse may only obtain coverage if the surviving spouse possessed a valid marriage certificate or other proof of marriage recognized by the State of Ohio, dated prior to the date of the Active Member's death. However, if the deceased Active Member dies on or after January 1, 2019, the surviving spouse is eligible for coverage only if the spouse was not legally separated from the deceased Active Member at the time of the deceased Active Member's death.
- (v) Qualified Members who are not covered by the provisions of the Collaborative Settlement Agreement and who retire on or after February 1, 2016 and on or before January 1, 2017 and who have at least 15 years of Membership Service.
- (b) The benefits to be provided under this Section are:
 - (i) Medical and prescription drug coverage similar to the most favorable plan available to active Employees, excluding Police & Fire and Building & Trade unions, and Member premium contributions are not to exceed 10% of the full funding rate for each tier of coverage; and
 - (ii) Dental and vision insurance coverage which shall be purchased and fully paid for by the Retirees, their surviving spouse, or their eligible dependents or orphans as provided in Section 203-48 of this chapter.
 - (iii) Any person eligible to receive healthcare coverage under this Chapter who is eligible for coverage under Medicare shall apply for Medicare coverage and provide documentation to the Retirement System that is acceptable to the Retirement System that confirms either acceptance or denial for such coverage. To the extent allowable under applicable federal law, coverage under this Section for any person a Member who is eligible to be covered under Medicare shall be secondary to coverage of such Member under Medicare. The benefit payable under this Section shall be reduced by the greater of: (a) the amount actually paid by Medicare Part A and Part B; or (b) the amount Medicare would pay if the Member were enrolled in Medicare Part A and/or Part B. A Member is considered eligible for Medicare for these purposes during any period such Member has coverage under Medicare Part A or Part B or, while otherwise qualifying for coverage under Medicare Part A (premium free) or Part B, does not have such coverage under Medicare Part A or Part B solely because such Member has refused, discontinued, or failed to make any necessary application or applicable payment for Medicare Part A or Part B coverage.
- (c) For purposes of this Section, a Qualified Member is a Member who was an Active Member before January 9, 1997. The following rules shall apply for purposes of determining whether a Member was an Active Member before January 9, 1997:
 - (i) If the Member terminates Membership due to a withdrawal of Accumulated Contributions (as provided in Section 203-11(d)) or a transfer of service credit and Accumulated Contributions to a State Retirement System (as provided in Sections 203-8 and 203-7-A), the Member shall not be considered to have been an Active Member for any period attributable to the withdrawn or transferred contributions, irrespective of whether the Member is subsequently granted credit

for such period of service pursuant to Section 203-29, Section 203-8 or any similar provisions of this Retirement System.

- (ii) A Member shall not be considered to have been an Active Member for any period of Creditable Service of a Member that is attributable to State Retirement System Service Credit, Out of State and Federal Service Credit, or Unpaid Authorized Leave of Absence Service Credit.
 - (iii) If a Member ceases (or ceased) to be an Employee, the Member shall not be considered to have been an Active Member for any period of employment that precedes the date the Member ceases (or ceased) to be an Employee, unless the Member does not withdraw all or any part of his Accumulated Contributions.
 - (iv) Notwithstanding the foregoing, if a Member is granted service credit for a period of military absence pursuant to Sections 203-27 or 203-27A, to the extent required by federal law, the Member shall be considered to have been an Active Member during the period of military absence.
- (d) Any Inactive Member who is rehired on or after January 1, 2016 shall not be eligible for benefits under this Section.
- (e) The director of retirement or ~~his or her~~ the director's designee shall adopt rules and policies necessary to implement this Section.

Sec. 203-44. Health Care Benefits For Membership Dates On and After January 9, 1997.

- (a) In addition to other benefits provided in this chapter, the Retiree health care benefits described in this Section shall be provided to the following persons:
- (i) A Member whose most recent membership enrollment date is on or after January 9, 1997 and on or before December 31, 2015, and who:
 - (A) Retired on or after August 1, 2011 and on or before January 1, 2016 with 15 years of Membership Service and who is not entitled to benefits under Section 203-42 or 203-43, or
 - (B) Retires on or after February 1, 2016 and who is at least 60 years of age with a minimum of 20 years of Membership Service and who is not otherwise eligible for health care benefits under Section 203-42 or Section 203-43, or
 - (C) Retires on or after February 1, 2016 with 30 or more years of Creditable Service consisting of a minimum of 20 years of Membership Service and who is not otherwise entitled to benefits under Section 203-42 or Section 203-43.
 - (ii) Persons receiving the benefits of a retirement optional allowance under Section 203-63 of this Chapter, and who are eligible for benefits under Section 203-48 of this Chapter, provided that the Member satisfied the requirements of paragraph (i) above at the time the Member retired and who is not otherwise entitled to benefits under Section 203-42 or Section 203-43.
 - (iii) Members whose most recent membership enrollment date is on or after January 9, 1997 and who are not covered by the provisions of the Collaborative

Settlement Agreement and who retire on or after February 1, 2016 and on or before January 1, 2017 and who have at least 15 years of Membership Service.

- (iv) Each surviving spouse, and each eligible dependent child ~~and/or~~ orphan of a deceased Active Member who would have been eligible for benefits under this Section, who is receiving survivor benefits as provided in Section 203-49 of this Chapter, provided that:
 - (A) the deceased Active Member's most recent membership enrollment date is on or after January 9, 1997 and on or before December 31, 2015; and
 - (B) a surviving spouse may only obtain benefits if the surviving spouse possessed a valid marriage certificate or other proof of marriage recognized by the State of Ohio, dated prior to the date of the Active Member's death. However, if the deceased Active Member dies on or after January 1, 2019, the surviving spouse is eligible for coverage only if the spouse was not legally separated from the deceased Active Member at the time of the deceased Active Member's death.

Accordingly, the provisions of Section 203-33 of this Chapter, which provide for Service Retirement Allowances after vesting, shall not entitle ~~persons~~Members who are so vested to health care benefits under the provisions of this Section unless such ~~persons are~~ Members ~~who~~ also qualify for health care benefits under the provisions of this Section.

- (b) The benefits to be provided under this Section are:
 - (i) Medical and prescription drug coverage similar to the most favorable plan available to active Employees, excluding Police & Fire and Building & Trade unions; and subject to Member premium contributions described in (c) below; and
 - (ii) Dental and vision insurance coverage shall be purchased and fully paid for by the ~~Member~~Retiree, their surviving spouse, and their eligible dependents or orphans.
 - (iii) Any person eligible to receive healthcare coverage under this Chapter who is eligible for coverage under Medicare shall apply for Medicare coverage and provide documentation to the Retirement System that is acceptable to the Retirement System that confirms either acceptance or denial for such coverage. To the extent allowable under applicable federal law, coverage under this Section for any person who is eligible to be covered under Medicare shall be secondary to coverage of such person under Medicare. The benefit payable under this Section shall be reduced by the greater of: (a) the amount actually paid by Medicare Part A and Part B; or (b) the amount Medicare would pay if the person were enrolled in Medicare Part A and/or Part B. A person is considered eligible for Medicare for these purposes during any period such person has coverage under Medicare Part A or Part B or, while otherwise qualifying for coverage under Medicare Part A or Part B, does not have such coverage under Medicare Part A (premium free) or Part B solely because such

person has refused, discontinued, or failed to make any necessary application or applicable payment for Medicare Part A or Part B coverage.

- (c) Except for dental and vision insurance coverage, the percentage of the full funding rates, or premiums, for medical and prescription drug coverage to be paid by the Retirement System on behalf of persons entitled to benefits under this Section shall be based on a formula consisting of the sum of (i) the number of the Member's full years of Creditable Service, and (ii) the Member's age at the earlier of the Member's Retirement date or the date that the Member ceased to be an Active Member, with each such full year of Membership Service and each such year of age at Retirement date counting as one point each. Years of age at Retirement shall mean years of age at the birthday immediately preceding the earlier of the Member's Retirement date or the date that the Member ceased to be an Active Member. The number of full years of Creditable Service and the years of age at Retirement date shall be added together and shall result in the payment of medical and prescription drug coverage in the following percentage amounts:

95% of full cost or full premiums for 90 points

75% of full cost or full premiums for 80 to 89 points

50% of full cost or full premiums for 70 to 79 points

25% of full cost or full premiums for 60 to 69 points

If a Member's total points are less than 60, the Member is only eligible for individual medical and prescription drug coverage. The Retirement System will pay 25% of the premium for individual medical and prescription drug coverage. No spouse or family coverage is available.

A Member's years of Creditable Service shall be used for the purpose of determining the points of a Member under this subsection (c), but will not include years of Creditable Service credited under a previous Service Retirement Allowance provided under this Chapter.

- (d) If a Member leaves the City service prior to Retirement and is entitled to a deferred Service Retirement Allowance and such Member is entitled to benefits under this Section, no benefits shall be provided to the Member until the Member reaches the later of their normal retirement date, or their Medicare eligibility age.
- (e) Any Inactive Member who is rehired on or after January 1, 2016 shall not be eligible for benefits under this Section.
- (f) The director of retirement or the director's ~~his or her~~ designee shall adopt rules and policies necessary to implement this Section.

Sec. 203-48. Health Care Benefits for Eligible Dependent Family Members.

Notwithstanding any other provisions of this chapter, health care benefits provided by the Retirement System for eligible dependent family members of Retirees or deceased Active Members shall be limited to the following:

- (a) Eligibility for Health Care:

- (i) If a Retiree or deceased Active Member is eligible to receive health care benefits pursuant to this Chapter, only the following dependents as defined by and in accordance with the Ohio Administrative Code 145-4-09, "Definition of Eligible Dependent for Health Care Coverage," or Internal Revenue Code Section 152 (a)(1), "Qualifying Child," may be enrolled for health insurance purposes:
 - (A) A Retiree's spouse possessing a valid marriage certificate or other proof of marriage as recognized by the State of Ohio, dated prior to the effective date of retirement, and beginning January 1, 2019 who is not legally separated from the Retiree; or
 - (B) A surviving spouse of a deceased Retiree who is receiving benefits under Section 203-63, and who possessed a valid marriage certificate or other proof of marriage recognized by the State of Ohio, dated prior to the effective date of retirement. However, if the deceased Retiree dies on or after January 1, 2019, the spouse is eligible for coverage only if the spouse was not legally separated from the deceased Retiree at the time of the deceased Retiree's death; or
 - (C) A surviving spouse of a deceased Active Member who is receiving benefits under Section 203-49, and who possessed a valid marriage certificate or other proof of marriage recognized by the State of Ohio, dated prior to the date of death. However, if the deceased Active Member dies on or after January 1, 2019, the spouse is eligible for coverage only if the spouse was not legally separated from the deceased Active Member at the time of the deceased Active Member's death; or
 - (D) A Retiree's or a deceased Active Member's biological children who were born or children who were legally adopted by the Retiree prior to the effective date of retirement, or in the case of a deceased Active Member, prior to the date of death.
- (ii) A Retiree's child who has never entered into a marriage recognized by the State of Ohio is eligible for coverage if the child is either under the age of 19 or is a student attending an accredited school on a fulltime basis for at least 7 months of the calendar year and who has not attained the age of 24.
- (iii) Coverage shall be extended if the Retiree's child is permanently and totally disabled in accordance with Social Security Disability Definition, 42 U.S.C. 416i(1), prior to the limiting age specified in Section (a)(ii) herein ~~and maintains his or her residence within the household of the Retiree.~~ For purposes of this Section, the term "disability" means the inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment, which can be expected to result in death or has lasted or can be expected to last for a continuous period of not less than 12 months. Evidence of the incapacity shall be required to be provided to the ~~Board~~ Retirement System's Medical Director for review and recommendation regarding whether the child is permanently and totally disabled, such as a Certificate of Disability or other adequate proof from the United States Social Security Administration, and the Medical Director's recommendation shall be subject to approval by the Board. Appeals from the Board's determination will be governed by rules adopted by the director of retirement.

- (iv) Any person eligible to receive healthcare coverage under this Chapter who is eligible for coverage under Medicare shall apply for Medicare coverage and provide documentation to the Retirement System that is acceptable to the Retirement System and confirms either acceptance or denial for such coverage. To the extent allowable under applicable federal law, coverage under this Section for any person who is eligible to be covered under Medicare shall be secondary to coverage of such person under Medicare. The benefit payable under this Section shall be reduced by the greater of: (a) the amount actually paid by Medicare Part A and Part B; or (b) the amount Medicare would pay if the person were enrolled in Medicare Part A and/or Part B. A person is considered eligible for Medicare for these purposes during any period such person has coverage under Medicare Part A or Part B or, while otherwise qualifying for coverage under Medicare Part A or Part B, does not have such coverage under Medicare Part A (premium free) or Part B solely because such person has refused, discontinued, or failed to make any necessary application or applicable payment for Medicare Part A or Part B coverage.
- (b) Eligibility to Purchase Health Care at 100% of Premium Cost:
- (i) The ability to enroll a spouse, minor child, or minor grandchild for Health Care benefits shall be closed to spouses when the date of marriage is after the date of the Retiree's retirement, to children born or adopted after the Retiree's date of Retirement and to minor grandchildren after December 31, 2017, unless subsection (ii) below applies.
- (ii) Otherwise eligible spouses and dependents who were married to, born of, or adopted by the Retiree after the Retiree's date of Retirement, and one minor grandchild born to an unmarried, un-emancipated minor child of the Retiree that the Retiree is permitted to claim as a dependent on the Retiree's federal tax return in accordance with Section 152 of the Internal Revenue Code, will be entitled to remain enrolled in coverage as long as they meet all other eligibility requirements, were enrolled in Retiree Health Care coverage on January 1, 2018, and provided that there is no break in coverage. Once a break in coverage occurs, spouses, dependents, and minor grandchildren will be subject to all the eligibility requirements of Chapter 203, including this Section, and will be ineligible for re-enrollment unless they meet all the eligibility requirements of Chapter 203.
- (c) If an individual receives a monthly benefit as an Optionee of a deceased Retiree of the Retirement System, he or she may enroll the biological children who were born of the Retiree or any eligible children who were legally adopted by the Retiree prior to the effective date of the Retiree's Retirement, provided that all such individuals meet the criteria listed in Sections (a)(i),(ii), (iii), or (iv) ~~(iii)~~ herein.
- (d) If a Retiree has not selected a pension payment option that includes an Optionee, health care benefits provided by the Retirement System for the Retiree's dependent spouse and eligible biological or legally adopted dependent child/ren terminates following the death of the Retiree.
- (e) For the purposes of this chapter, it is the responsibility of the Retiree, Optionee, or survivor to notify the Retirement System in writing, within 60 days of the date that

any spouse or dependent child fails to meet eligibility requirements. Failure to provide such notice to the Retirement System may result in overpaid health care claims for which the Retiree, Optionee, or survivor shall be responsible in addition to penalties imposed in Section (f) herein.

- (f) The Board maintains the right to conduct compliance-related audits of spouse and dependent eligibility and to impose penalties for non-compliance. Penalties for non-compliance shall include suspension of health care coverage of ~~the Retiree, Optionee, or surviving spouse and his or her dependents~~ any person eligible for coverage under this chapter for a period of 3 years and a requirement that ~~the Retiree, Optionee, or surviving spouse~~ such individuals repay all improperly paid prescription drug claims. After the three-year suspension period, the ~~Retiree, Optionee, or surviving spouse, or dependent children~~ eligible individual's health insurance may only be reinstated upon full repayment of the amount of the improperly paid prescription drug claims. The ~~Retiree, Optionee, or surviving spouse~~ eligible individual is responsible for making payment arrangements to repay the amounts owed. If the ~~Retiree, Optionee, or surviving spouse~~ eligible individual has been found legally incompetent by a court, the Board, at its sole discretion, may elect to modify the penalty imposed by this Section.
- (g) The director of retirement or the director's designee shall adopt rules and policies necessary to implement this Section.

Section 2. That this ordinance shall take effect and be in force from and after the earliest period allowed by law.

Passed: _____, 2023

Aftab Pureval, Mayor

Attest: _____

Clerk

New language underscored. Deletions struck through.



Cincinnati Retirement System

City of Cincinnati
Retirement System
Executive Summary

May 31, 2023

Total Fund Composite

As of May 31, 2023

Summary of Cash Flows

	Last Month
Beginning Market Value	\$2,236,380,297
Net Cash Flow	-\$10,200,064
Net Investment Change	-\$21,535,159
Ending Market Value	\$2,204,645,074

Market Value

	Market Value (\$)	% of Portfolio	Policy %	Policy Difference (\$)
Total Fund Composite	2,204,645,074	100.0	100.0	0
Fixed Income Composite	357,894,207	16.2	22.5	-138,150,935
Private Debt Composite	33,618,570	1.5	3.0	-32,520,783
U.S. Equity Composite	635,854,671	28.8	28.5	7,530,825
Non-U.S. Equity Composite	390,392,948	17.7	18.0	-6,443,166
Volatility Risk Premium Composite	57,586,538	2.6	2.5	2,470,411
Real Estate Composite	192,895,138	8.7	7.5	27,546,758
Infrastructure Composite	266,773,908	12.1	10.0	46,309,401
Private Equity Composite	250,569,489	11.4	8.0	74,197,883
Total Cash Equivalents	16,059,605	0.7	--	16,059,605

Performance

	1 Mo	3 Mo	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception	Inception Date
Total Fund Composite	-1.0%	1.1%	3.2%	-0.2%	10.2%	6.1%	7.1%	8.7%	May-85
Target Benchmark	-0.9%	1.0%	3.5%	-0.8%	9.1%	6.2%	7.2%	--	May-85
Fixed Income Composite	-0.9%	1.9%	3.0%	-0.8%	-0.3%	1.7%	2.4%	5.0%	Nov-95
Bloomberg US Aggregate TR	-1.1%	2.0%	2.5%	-2.1%	-3.6%	0.8%	1.4%	4.2%	Nov-95
Private Debt Composite	0.0%	4.6%	4.8%	4.7%	--	--	--	1.6%	Sep-20
Bloomberg US Aggregate TR	-1.1%	2.0%	2.5%	-2.1%	-3.6%	0.8%	1.4%	-4.5%	Sep-20
U.S. Equity Composite	-0.6%	0.9%	5.2%	-0.8%	14.7%	7.9%	10.0%	9.1%	Feb-89
Russell 3000	0.4%	4.2%	8.7%	2.0%	12.2%	10.1%	11.5%	10.3%	Feb-89
Non-U.S. Equity Composite	-3.4%	0.9%	4.7%	-1.4%	8.5%	1.3%	3.9%	5.5%	May-93
MSCI ACWI ex USA	-3.6%	0.4%	4.8%	-1.4%	7.2%	2.2%	3.8%	--	May-93
Volatility Risk Premium Composite	1.3%	6.3%	8.3%	5.1%	--	--	--	0.7%	Jan-22
CBOE Put Write Index	1.4%	5.9%	9.8%	5.9%	13.1%	5.8%	6.9%	2.9%	Jan-22
Real Estate Composite	-0.2%	-1.9%	-2.7%	-5.1%	8.3%	7.4%	9.4%	5.9%	Aug-07
NFI-ODCE	0.0%	-1.1%	-3.3%	-6.7%	7.9%	6.3%	8.2%	5.0%	Aug-07
NPI	0.0%	-0.6%	-1.8%	-3.7%	7.4%	6.5%	8.1%	6.4%	Aug-07
Infrastructure Composite	-0.2%	1.7%	2.0%	7.5%	10.7%	8.5%	7.3%	8.2%	Aug-08
3 Month T-Bill +4%	0.7%	2.1%	3.5%	7.3%	5.1%	5.5%	4.9%	4.7%	Aug-08
Private Equity Composite	0.0%	0.4%	0.4%	-2.3%	20.3%	14.8%	13.9%	8.7%	Jul-93
Burgiss Global All Private Equity	0.0%	0.0%	0.0%	-6.7%	23.2%	17.1%	15.9%	15.6%	Jul-93

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City of Cincinnati
Cincinnati Retirement System
115 Trust and Other Post Employment Benefits (OPEB)
Funding Policy

Background

In 2015, the City of Cincinnati entered into a settlement agreement (Collaborative Settlement Agreement or “CSA”) to resolve pending litigation related to changes in the retirement benefits provided by the City, including healthcare benefits (also known as “Other Post Employment Benefits” or OPEB). The CSA required that the City continue to provide retiree healthcare benefits for certain City retirees through the expiration of the CSA in 2045. The CSA specified varying eligibility and cost participation by retirees. CSA paras. 23-24. The City implemented these provisions through amendments to CMC 203-42 through 203-44, and by creating a separate trust fund for the purposes of contributing to, investing and funding the health benefits of these certain retirees of the City (“115 Trust Fund”). CMC 203-122.

CSA para. 26 required the City to develop a funding policy for the 115 Trust Fund “that will satisfy all consent decree requirements including but not limited to the City’s obligation to fully fund the 115 Trust at actuarially appropriate levels for the term of this Agreement.” CSA, para 26; CMC 203-93(c). Accordingly, this funding policy is intended to implement the CSA and CMC and ensure that the 115 Trust is funded at actuarially appropriate levels at least through December 31, 2045.

Since the effective date of the CSA, the 115 Trust has either been very close to full funding or overfunded. As such, the City has not made any employer contributions to the 115 Trust, aside from the initial deposit of \$220mm earmarked for retiree healthcare. Medical costs, however, have been historically volatile. With the advent of increased inflation as well as capital market volatility, it is prudent to adopt a healthcare funding policy at this time.

Actuarial Evaluation: Valuation, Experience Study and Audit

Consistent with the City ordinances that require the regular application of sound actuarial analysis to the administration of pension and OPEB benefits, this policy requires that an actuarial valuation of CRS OPEB benefits and the 115 Trust will continue to be conducted annually. CMC 203-91. Additionally, an actuarial experience analysis will be conducted at least once every five years. Admin. Code. XV sec. 9. Finally, an actuarial audit, with full replication of data and results, will be conducted once every 10 years by an actuary who had no role in the conduct of any actuarial valuation or experience study during the 10-year period previous to the audit.

The annual actuarial valuation will compute the normal cost and any past service cost associated with the 115 Trust. The normal cost is the annual amount that should be contributed by the employer to the system to fund the projected accrual of healthcare benefits over the year, to assuming that all actuarial assumptions are accurate. The past service cost is the amount needed to make up for variances in the actual experience of the system versus the actuarial assumptions. Together, the normal cost and the past service cost, if any, equal the actuarially determined employer contribution (ADEC).

Actuarial Assumptions

Notwithstanding the provisions of the CSA and CMC, for purposes of calculating the ADEC for the 115 Trust Fund, and conservatively managing the 115 Trust, the following actuarial assumptions and methods will be used:

Assumed Investment Earnings Rate:	7.50%
Amortization period of any unfunded liability:	30 years
Amortization method:	Level dollar
Value of 115 Trust Assets:	Actuarial value

Funding Triggers

Upon a determination by the actuary that the 115 Trust is funded at a level of **95% or less**, the City will begin to contribute the normal cost of the OPEB benefits in the fiscal year that begins two years following the date of the OPEB valuation. Example: if the CY2024 OPEB valuation reflects that the 115 Trust is 94% funded and (as describe below) the CRS pension funded ratio is 85% funded, then the City will contribute the OPEB normal cost rate in the FY2026 budget. The normal cost the City will contribute will be capped at 2% of pensionable CRS member payroll.

Upon a determination by the actuary that the 115 Trust is funded at a level of **80% or less**, the City will consider an additional contribution to defray the OPEB unfunded liability in the fiscal year that begins at two years following the date of the OPEB valuation.

Any contribution of normal cost or additional contribution to defray any unfunded liability will be contingent on the CRS pension funded ratio being at least 85%.

The City may cease contributions to the 115 Trust following two consecutive years of funding levels at or above 100%, as certified by the actuary in the annual valuations, subject to re-starting contributions under the provisions of the previous two paragraphs.

Appropriation Required

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The City will seek to implement this funding policy in good faith, but recognizes that annual budgeting always involves complex balancing of a large spectrum of budget needs with limited available revenues. Nothing in this policy shall be construed to prohibit City Council from appropriating funds into the 115 Trust when conditions precedent for the funding triggers do not exist.

Effective Date

This funding policy takes effect upon the date of adoption by the City Manager, with consent from the Mayor and City Council of the City of Cincinnati.

Sunset

Acceptable and appropriate actuarial assumptions, methods and practices vary over time, as do economic conditions and investment markets. Any funding policy should be regularly evaluated and updated to determine its suitability for the times. Accordingly, this funding policy sunsets ten years after its effective date. The City of Cincinnati will re-approve, update or replace this funding policy prior to its expiration for the duration of the CSA.

July 13, 2023

To: Mayor and Members of City Council
From: Cincinnati Retirement System Board of Trustees
Copy: Sheryl Long, City Manager
Subject: Cincinnati Retirement System CY2022 Annual Report

This report is from the Cincinnati Retirement System (CRS) Board of Trustees (Board) and provides the City Council with the state of the CRS Pension Trust and Healthcare Trust. This summary report, together with the CRS Financial Report, is intended to provide a comprehensive summary of the status of the Cincinnati Retirement System, in compliance with the CRS Board's reporting requirements as set out in the City's Administrative Code and Board Rules. The report is as of December 31, 2022. For additional information, please see the City's Annual Comprehensive Financial Report, Actuarial Valuations, and Investment Results on the CRS website.

The CRS is governed by the Collaborative Settlement Agreement (CSA). Under the CSA, the CRS Pension Trust is to be 100% funded by 2045. Under the CSA, the Healthcare Trust is to be 100% funded through 2045.

Given the current and projected funding positions of the Pension Trust, we recommend that the City Council continue to take action to increase the funding of the Pension Trust. In addition, we recommend that the City Manager continue to work with class counsel to finalize a funding policy for the Healthcare Trust. The City's municipal code requires that the City obtain input and recommendations from the CRS Board for the funding policy.

Background

The purposes of the CRS Pension Trust and Healthcare Trust are to provide promised retirement benefits and healthcare benefits to eligible retired city employees. CRS is a defined benefit plan that was established in 1931. The Collaborative Settlement Agreement (CSA) was approved in 2015 to settle litigation and provide a comprehensive strategy to stabilize CRS while securing sustainable and competitive retirement benefits for both current and future retirees.

As of December 31, 2022, there were 2,875 full-time active members (which includes 157 members in the DROP plan who are still working), 4,148 pensioners receiving pension payments, and 4,762 pensioners and spouses receiving healthcare benefits. The CRS Board serves as an independent fiduciary on behalf of active and retired members of the retirement system. The Board retains Marquette Associates, an independent investment consulting firm, and Cheiron, a pension and healthcare actuarial consulting firm, both of which specialize in public sector retirement plans. Marquette and the Board have developed and follow a disciplined investment policy that can be found on the CRS website. Cheiron calculates the actuarial value of assets and liabilities and

projects the funded status of the Trusts in future years based on professional actuarial standards and practices.

The assumed investment rate of return and discount rate for calculating liabilities is 7.5% per year as prescribed in the CSA. The annualized capital market rates of return for the past 5 and 10 years as of December 31, 2022, were 5.43% and 7.32%, respectively. CRS investment performance is at or above the median of peer public defined benefit retirement plans.

The table below highlights the actuarial value of assets, liabilities, and funded ratios as of 12/31/22:

	Assets	Liabilities	Funded Ratio
Pension			
Actuarial Value	\$ 1,811,291,262	\$ 2,614,702,553	69.3%
Market Value	\$ 1,703,876,000	\$ 2,614,702,553	65.2%
Health			
Actuarial Value	\$ 532,169,108	\$ 363,450,123	146.4%
Market Value	\$ 500,041,000	\$ 363,450,123	137.6%

Pension Trust

A goal of the CSA is to establish a projected 100% funding ratio in 30 years (i.e., by 12/31/2045). The assumptions used in finalizing the CSA projected that the Pension Trust would be fully funded in 30 years if all of the assumptions played out exactly. The status of the annual contributions and distributions is described below:

- The active employees contribute 9% of covered payroll to the Pension Trust as required by the CSA.
- The City contributes the minimum rate per the CSA of 16.25% of full-time covered payroll to the Pension Trust. (The General Fund represents 35% of covered payroll and other non-general funds represent 65% of covered payroll.)
- In CY2022, the City contributed a payment of \$2.76 million as result of the continued payments toward the cost of the 2020 Early Retirement Incentive Plan (ERIP). There are now 13 annual payments remaining. Cheiron estimates that payment at 1.33% of payroll for this additional benefit, bringing the City’s contribution rate for CY2022 to 17.58%.
- In CY2022, the City also contributed a lump sum payment of \$2.0 million dollars from the General Fund fiscal year-end surplus. Cheiron estimates that payment at 0.96% of payroll for this additional benefit, bringing the City’s contribution rate for CY2022 to 18.54%.
- The Actuarially Determined Contribution (ADC) for the Pension Trust, as calculated by the actuary, is the annual employer contribution amount required to bring the Pension to a fully funded status in 30 years. **The ADC for FY2022 was 33.46% of covered payroll (as set by the CY2021 actuarial valuation). The actual contribution of 18.54% means the City contributed 55.4% of the actuarial recommendation.**
- Benefit payments and expenses have significantly exceeded employer and employee contributions for over a decade placing CRS in the bottom quartile among other public pension funds with negative cashflows. This means that CRS continues to liquidate a relatively large amount of assets to pay for benefits and expenses. This also means that CRS is much more dependent on investment returns than most public pension plans.

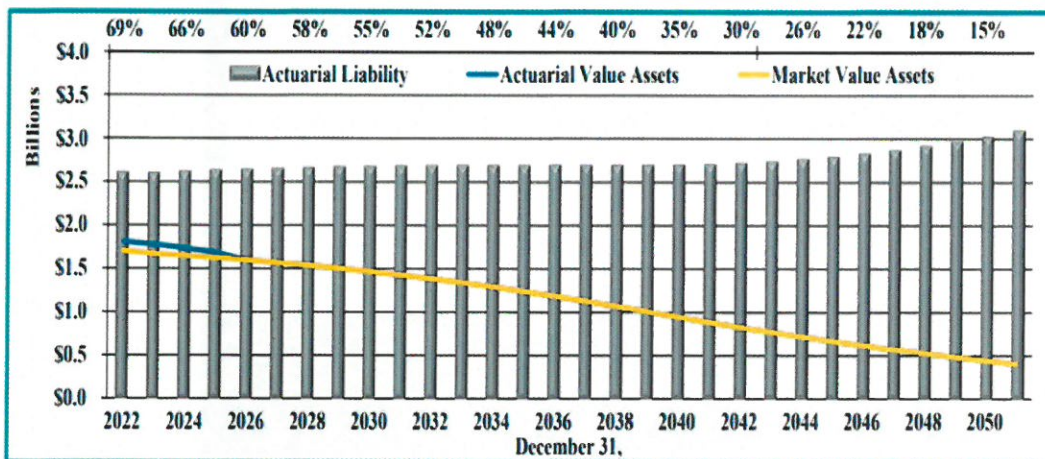
The following events occurred after the CSA was finalized:

- Ordinance 336, which reflects changes made in finalizing the CSA that increased liabilities, was approved by City Council in 2016.
- Revisions to actuarial assumptions (e.g., longer life span of retirees) occurred as recommended by the actuary and approved by the CRS Board.
- Annualized 5-year investment returns (2018 – 2022) were 5.43% as of December 31, 2022 vs. the assumed 7.5%. However, CRS is especially sensitive to the timing of capital market swings because it continues to liquidate assets to pay benefits when the capital market drops. This requires more time and a significantly higher rate of return for the remaining assets to recover from capital market volatility.
- The City offered the ERIP in 2020 that provided two (2) additional years of service to eligible participants resulting in earlier retirements, additional benefits, and an increase in liabilities.
- The Deferred Retirement Option Plan (DROP) established in the CSA is required to be cost neutral.

The actuary’s latest revised funding progress for the Pension Trust, which includes the impact of the DROP and the ERIP, projects the funded ratio on an Actuarial Value of Assets basis is projected to decrease over the next 30 years and will not reach 100% by 2045 in accordance with the CSA.

The graph below reflects the City’s minimum required contributions of 16.25% of covered payroll for 30 years. It also includes the recommended budget’s \$2.7 million contribution per year for the next 15 years to pay for the ERIP liabilities and assumes the CSA benchmark return of 7.5% investment return for all future years. The funding ratio declines precipitously over 30 years to near-insolvency.

Pension Trust

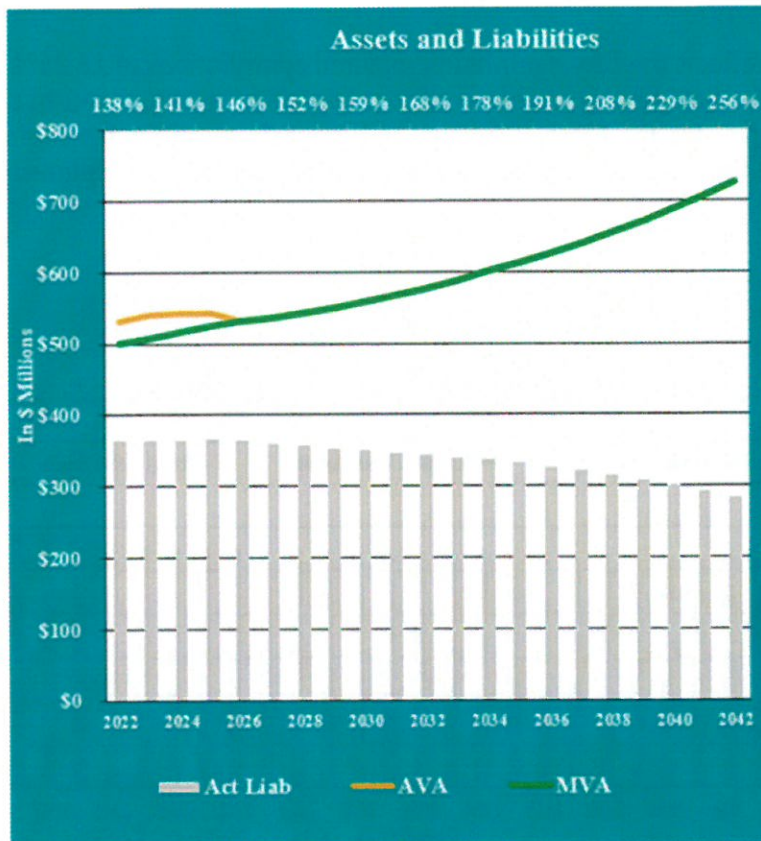


Healthcare Trust

At the time of the CSA signing, the Healthcare Trust was fully funded, and the City was required per the CSA to develop and present a proper funding policy to fully fund the healthcare trust at actuarially appropriate levels. The funding policy would keep the Trust fully funded over the lifetimes of current and future retirees and their beneficiaries covered by the CSA. Implementation of a full funding policy will ensure that the Healthcare Trust remains fully funded to provide promised benefits. The Healthcare Trust is irrevocable, and its assets must be used exclusively for healthcare benefits for CRS retirees and their beneficiaries. The City has yet to adopt a Healthcare Trust funding policy as required by the CSA and there have been no City contributions to the Trust since the CSA was signed.

In the graph below, the bars represent liabilities, and the lines represent the actuarial value of assets (AVA) and the market value of assets (MVA) assets. The graph shows that the Healthcare Trust is fully funded in 2022 and beyond. This is based on current assumptions being fully met. A funding policy would safeguard the trust for retirees and their beneficiaries in the future should the assumptions not be achieved.

Healthcare Trust



Investment Performance

While the simple conclusion may be to achieve higher returns or “invest our way out of this,” CRS’ investment performance has been solid relative to what the capital markets have provided. The 7.5% annualized return assumption remains a high hurdle as well as optimistic given persistent capital market volatility and the outlook of many investment consultants. The median investment return assumption of U.S. public retirement systems has steadily decreased over the past several years and is currently 7.0%. CRS will be challenged to achieve the 7.5% rate of return with an acceptable level of risk going forward, especially given the high negative cash flow.

The following chart reflects the annual rates of return and 10-year compound return. CRS has achieved the 7.5% CSA assumption. The poor capital market performance in 2022 has resulted in a five-year compound return that is less than the 7.5% CSA assumption.

Annual CRS Rates of Investment Return		
Plan Year	Investment Return	
	Assumption	Market Return
2013	7.50%	16.99%
2014	7.50%	6.46%
2015	7.50%	-0.11%
2016	7.50%	9.24%
2017	7.50%	14.51%
2018	7.50%	-3.93%
2019	7.50%	16.40%
2020	7.50%	8.03%
2021	7.50%	18.06%
2022	7.50%	-8.68%
10-Year compound Average		7.32%
5-Year Compound Average		5.43%

The Board’s Investment Policy provides for a well-diversified portfolio across asset class, sector, investment managers and securities. The chart below is designed to achieve the 7.5% return over time with an acceptable level of risk.

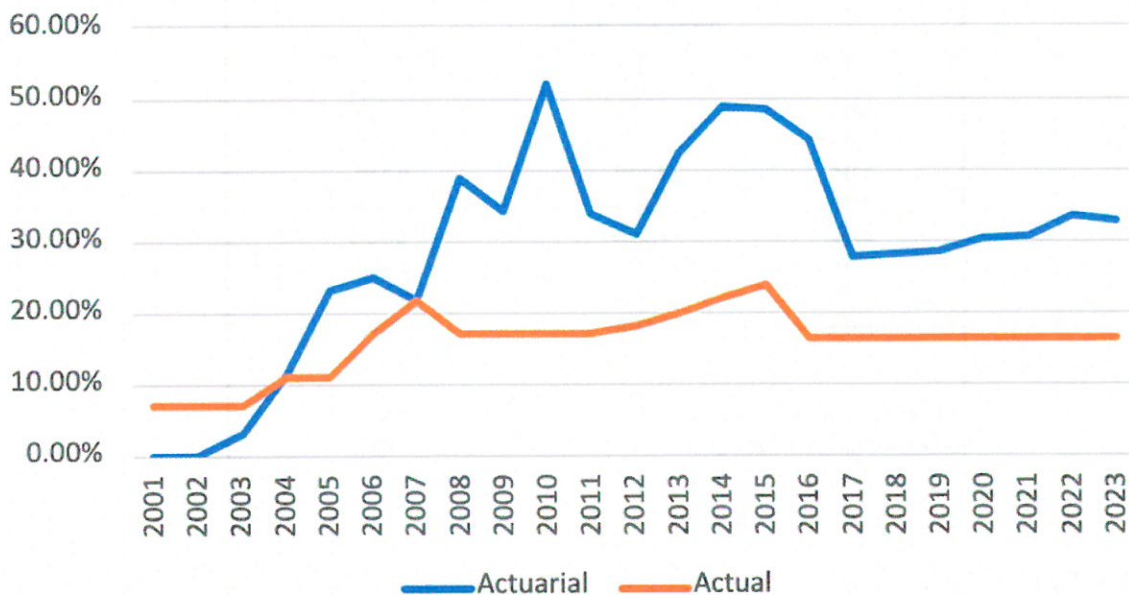
CRS Asset Allocation

Fixed Income	25.5%
Domestic Equity	28.5%
Non-US Equity	18.0%
Real Estate	7.5%
Infrastructure	10.0%
Volatility Risk Prem	2.5%
Private Equity	8.0%
Total	100.0%

Employer Contributions

In a defined benefit retirement plan such as CRS, the employer is responsible for providing benefits (as opposed to a defined contribution plan) and the employer generally accepts the financial risk. The Actuarially Determined Contribution (ADC) is the actuary recommended employer contribution to achieve full funding in 30 years. The chart below reflects the Pension Trust ADC and the City employer contribution for the last 20 years. By not contributing to the ADC the unfunded liability increases over time meaning that the actuarial liability exceeds the value of assets.

CRS Employer Contribution Rates (Pension)



Conclusion

The CRS Pension Trust and Healthcare Trust are undoubtedly challenged in providing promised retirement benefits. When the Collaborative Settlement Agreement was implemented, the Pension Trust and Healthcare Trust were projected to be fully funded in 30 years by 2045. For the Pension Trust this is no longer the case.

At the close of 2022, the Pension Trust experienced major capital market losses. The Actuarial Value of Assets decreased \$20.66 million from the prior year close, the annual investment return was a -8.68% and the funding ratio on an AVA bases dropped 2.3%. Funding vigilance therefore remains a priority for the Board. The future of the Health Care Trust is also uncertain due to the lack of a funding policy as required by the CSA.

The following are possible solutions:

1. Continued increases to City contributions to the Pension Trust above the minimum required amount of 16.25%, as provided for in the CSA. The Board has formally recommended an increase in rates by 1.5% each year until the actuarial projections reflect anticipated full funding by 2045. The Board also recommends that the City adopt the multi-year incremental increase funding methodology to achieve full funding by 2045, update the methodology annually, and budget accordingly. The Board acknowledges and appreciates the 0.75% increase in the contribution rate and the use of variable General Fund carryover to reduce unfunded pension obligations. Nonetheless, a more stable and predictable path to full funding is necessary. Failure to increase the City's annual contribution rate will result in the CRS Pension Funded Ratio steadily decreasing until it reaches 28.5% in 2045; alternatively, incremental increases in the rate are required to achieve 100% funding by 2045 based on the most recent projection:

Incremental Increase Plan

Schedule of Funded Ratios	Earnings Assumption = 7.5%			
	Flat E'r Rate of 17%		Increase E'r Rate by 1.5%	
	E'r Contr Rate	Funded Ratio	E'r Contr Rate	Funded Ratio
12/31/2022	16.25%	69.3%	16.25%	69.3%
12/31/2023	17.00%	68.2%	17.00%	68.2%
12/31/2024	17.00%	66.2%	17.00%	66.2%
12/31/2025	17.00%	64.1%	18.50%	64.2%
12/31/2026	17.00%	60.5%	20.00%	60.8%
12/31/2027	17.00%	59.3%	21.50%	60.0%
12/31/2028	17.00%	58.1%	23.00%	59.4%
12/31/2029	17.00%	56.8%	24.50%	58.9%
12/31/2030	17.00%	55.4%	26.00%	58.6%
12/31/2031	17.00%	54.0%	27.50%	58.5%
12/31/2032	17.00%	52.5%	29.00%	58.6%
12/31/2033	17.00%	50.9%	30.50%	59.0%
12/31/2034	17.00%	49.3%	32.00%	59.7%
12/31/2035	17.00%	47.6%	33.50%	60.8%
12/31/2036	17.00%	45.8%	35.00%	62.2%
12/31/2037	17.00%	43.8%	36.50%	64.1%
12/31/2038	17.00%	41.9%	38.00%	66.5%
12/31/2039	17.00%	39.9%	39.50%	69.5%
12/31/2040	17.00%	37.8%	41.00%	73.1%
12/31/2041	17.00%	35.8%	42.50%	77.4%
12/31/2042	17.00%	33.9%	44.00%	82.5%
12/31/2043	17.00%	32.0%	45.50%	88.5%
12/31/2044	17.00%	30.2%	47.00%	95.3%
12/31/2045	17.00%	28.5%	48.50%	103.0%

Cheiron Projection, May 2023

2. Increase investment performance by increasing risk. There are several strategies affecting increased investment return. These include using different investment managers, making a riskier asset allocation, and attempting to lower fees. There is little we can do regarding these factors because we believe we have the appropriate managers, the appropriate asset allocation, and fees are already on the low end. Regarding asset allocation, the only way to increase expected returns in the future is to lower the fixed income allocation and add more to equities or other “riskier” assets. Investment performance has been solid over time and the risk level of the portfolio is already aggressive relative to our peers. The Board and the investment consultant believe that taking any more risk would be imprudent. Conversely, taking less risk would decrease our chances of achieving the 7.5% target.
3. Reduce benefits. While unpopular and considered the last resort, reducing benefits would require re-opening the CSA for a prolonged negotiation.
4. As the City has done before, explore issuing judgment bonds to reduce the unfunded actuarial liability. As of 12/31/2022, the unfunded actuarial liability for the Pension Trust was \$803.4mm.

Recommendation

At this time, we recommend the following:

1. That City Council adopt a plan to continue increasing the Pension Trust employer contribution incrementally on an annual basis to assure full funding in 2045 (see table, page 8)
2. That the Incremental Annual Increase Plan be updated every two years in anticipation of the City’s fiscal year biennial budget.
3. That the City Council approve and appropriate the Pension Trust employer contribution in accordance with each updated Incremental Annual Increase Plan.
4. That the City Manager continue to negotiate the Health Funding Policy with class counsels, consider the input and recommendations from the CRS Board, and that the City Council approve the funding policy for the Healthcare Trust to ensure that the promises to CRS members will be met well into the future. The Healthcare Trust was well funded as of the December 31, 2022, valuation and does not now require an ADC amount but may in the future.
5. That the City comply with the CSA to assure that the DROP program is cost neutral to the CRS Pension Trust and does not negatively impact the CRS Funding Ratio.

Immediate action is requested. Further delays will result in higher contributions in future years.