

City of Cincinnati Retirement System Performance Evaluation Committee

**City Hall Council Chambers and via Zoom
December 1, 2022 – 12:00 PM**

AGENDA

Members

Kathy Rahtz, Chair
Tom Gamel, Vice Chair
John Juech
Bill Moller
Mark Menkhaus, Jr.
Tom West

CRS Staff

Mike Barnhill

Call to Order

Approval of Minutes

✚ September 1, 2022

Unfinished Business

- ✚ Review of progress on Board's CY 2022 Goals and Objectives
 - Fiduciary Audit Scope: Milwaukee Approach
- ✚ Director Evaluation Form

New Business

- ✚ Annual Board Contract Evaluation
 - Actuary
 - Investment Consultant
 - Health Vendors (defer to March 2023 meeting)
- ✚ CRS Draft Risk Dashboard
- ✚ Board's CY 2023 Goals and Objectives

Adjournment

Next Meeting: March 2, 2023



**City of Cincinnati Retirement System
Performance Evaluation Committee Meeting
Minutes
September 1, 2022/ 12:00 P.M.
City Hall – Committee Room B**

Board Members Present

Kathy Rahtz, Chair
Tom Gamel, Vice Chair
John Juech
Bill Moller
Mark Menkhaus, Jr.

Administration

Mike Barnhill
Linda Smith

Call to Order

The meeting was called to order at 12:02 p.m. by Chair Rahtz and a roll call of attendance was taken. Committee members Rahtz, Gamel, Menkhaus, and Moller were present. Committee member Juech arrived at 12:09pm. The meeting was not livestreamed, and all members were physically present in Committee Room B.

Approval of Minutes

Approval of the minutes of the meeting of June 9, 2022, was moved by Trustee Gamel and seconded by Trustee Moller. The minutes were approved unanimously by roll call vote (4-0).

Unfinished Business

Review of Progress on Board's 2022 Objectives

Director Barnhill provided a status update on each the Board's 2022 objectives. The objectives and current status of each are detailed in the Committee's meeting packet.

- Item#2: The Committee discussed the pros and cons of doing a fiduciary audit v. a benchmarking project. The trustees generally expressed a preference for a fiduciary audit. Trustee Moller was uncertain about the usefulness of a peer benchmarking project given the uniqueness of CRS, and whether there were many systems that were truly peers in terms of system size and assets. Trustee Juech and Rahtz agreed with these comments. Director Barnhill suggested a discussion with Rick Funston of Funston Associates. The Committee agreed and requested that Director Barnhill reach out to Rick Funston to discuss a narrower scope fiduciary audit.

- Item #9: The City has drafted and circulated a health funding policy for comment. The Board has not commented or provided input on this draft yet.
- Item #11: The Committee discussed moving the consideration of the 2023 Budget forward to the December 2022 meeting.
- Item #27: New item added concerning a security and risk review.

Trustee Gamel moved, and Trustee Menkhaus seconded, a motion to make changes to the 2022 Board goals and objectives, which consisted of adjusting some of the timelines and making some clarifications on who is responsible for the objective. The Committee approved the motion by unanimous roll call vote (5-0).

Evaluation Form for Executive Director

The Committee discussed the performance evaluation form for the Executive Director. The Committee directed Mr. Barnhill to combine City's form into an evaluation of Board objectives, using a matrix.

Board Rule 22 re Evaluation of CRS Contractors

The Committee reviewed Director Barnhill's revised proposal under Board Rule 22 to do annual performance evaluations on just the vendors retained by the Board (actuary and investment consultant) annually at the December committee meeting. Director Barnhill also indicated he would provide performance evaluations on the CRS health vendors, even though at this time these vendors are not technically subject to Board Rule 22. Trustee Gamel moved, and Trustee Moller seconded, a motion to approve this revised proposal. The Committee approved the motion by unanimous roll call vote (5-0).

Adjournment

Following a motion to adjourn by Trustee Menkhaus and seconded by Trustee Juech, the Performance Evaluation Committee approved the motion by unanimous roll call vote. The meeting adjourned at 1:30 P.M.

Meeting video link: n/a

Next Meeting: December 1, 2022, at 12:00p.m.

Secretary

CRS Board Performance Evaluation of Exec. Dir. Form, CY 2022

Rating Scale: 1 - 3. 1 = Does not meet expectations; 2 = meets expectations; 3 = exceeds expectations

Essential Values

	<u>Quality Rating</u>	<u>Comments</u>
Acts with Integrity, Ethics & Accountability		
Communicates Effectively		
Provides Excellent Customer Service		
Relationship Building		
Embraces Change		
Attitude		

Core Competencies

	<u>Quality Rating</u>	<u>Comments</u>
Work Productivity		
Attendance		
Timeliness		
Effectiveness		

Supervisory / Leadership Skills

	<u>Quality Rating</u>	<u>Comments</u>
Provides Leadership, Trains, Motivates and Coaches		
Consistently Upholds Standards Fairly; Resolves Problems, Conflicts Appropriately and Timely		
Plans and Acts Strategically; Delegates Effectively		
Promotes, embraces and values Small Business Enterprise initiatives, EEO and Affirmative Actions Goals		
Completes Employees' Performance Evaluations on Time		

CY 2022 Board Objectives

<u>Item</u>	<u>Owner</u>	<u>Target Date</u>	<u>Status</u>	<u>Quality Rating</u>	<u>Comments</u>
1. Complete Governance Manual and Board Rules (A,B,C,D,5,6,17)	Governance Comm., Mike Barnhill	6/30/2022	Completed, 4/7/2022		
2. Establish fiduciary audit scope (D,2)	Board, Mike Barnhill	6/30/2022	Recommendation to Perf Eval Comm, 12/1/2022		
3. Prepare and present CRS orientation to City Stakeholders (City Mgr, Mayor, V. Mayor, Council Fin. Chair) (C,D,1,5,7)	Board, Mike Barnhill	6/30/2022	Ongoing; Initial Completion, 3/28/2022		

<u>Item</u>	<u>Owner</u>	<u>Target Date</u>	<u>Status</u>	<u>Quality Rating</u>	<u>Comments</u>
4. Prepare and provide trustee training plan, including training policy and curriculum <i>(A,B,C,D,1,2,3,10,12,13)</i>	Board, Mike Barnhill	6/30/2022	Ongoing; Initial Completion, 3/25/2022		
5. Establish "treadwater" employer contribution and employer contribution "ramp up" recommendation <i>(A,B,C,1,2,11)</i>	Board, Mike Barnhill	3/31/2022	Completed, 3/16/2022		
6. Develop CRS handbook for active and retired members <i>(E,5,7)</i>	Mike Barnhill	12/31/2022	Draft member handbook completed; retiree handbook for 2023		
7. Develop and provide newsletters for active and retired members <i>(E,5,7)</i>	Mike Barnhill	6/30/2022	Ongoing; 3 newsletters in 2022		
8. Develop and implement CRS website content to provide timely, complete, and easily accessible info <i>(E,5,7)</i>	Mike Barnhill	9/30/2022	Trustee, Financial, CSA pages overhauled; new pages: Thoughts and Resources		
9. Provide the City Administration with input and recommendations regarding the healthcare trust funding policy <i>(A,B,C,1,2,11,19)</i>	Mike Barnhill, Board	3/31/2022	MAB Completed, 3/16/2022; Board for 2023		
10. Review CRS Department staffing positions and complement <i>(C,D,1,2)</i>	Board, Mike Barnhill	3/31/2022	2023 Budget Proposal, 12/1/2022		
11. Prepare and approve the 2022 budget <i>(A,B,D,4,16)</i>	Board, Mike Barnhill	3/31/2022	Completed, 3/3/2022		
12. Assist the Mayor and Council in filling appointed member Board vacancies <i>(C,1)</i>	Board, Mike Barnhill	6/30/2022	Completed, 9/14/2022; New Vacancy 9/15/22		
13. Complete the five-year actuarial experience study <i>(B,C,D,1,2,11,12,13)</i>	Board, Mike Barnhill	3/31/2023	With Cheiron, to complete in 1Q23		

14. Prepare and submit the annual CRS report to City Council <i>(C,D,5,7,20)</i>	Board, Mike Barnhill	6/30/2022	Completed, 10/25/2022		
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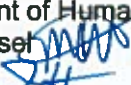

<u>Item</u>	<u>Owner</u>	<u>Target Date</u>	<u>Status</u>	<u>Quality Rating</u>	<u>Comments</u>
15. Prepare an annual financial report for active and retired members <i>(E,1,2,5,7)</i>	Investment Comm., Mike Barnhill	6/30/2022	Draft completed, 9/30/2022		
16. Review and approve the annual 12/31/2021 Actuarial Valuation Report <i>(B,1,2,12,13)</i>	Board	6/30/2022	Completed, 7/14/2022		
17. Review and approve the quarterly and Annual Investment Reports <i>(A,B,1,2,3,11)</i>	Board	Ongoing	Ongoing		
18. Establish the format for providing input into the City Manager's evaluation of the Director <i>(D,1,2,9)</i>	Performance Eval Comm.	12/31/2022	Eval Form completed, 9/2/2022		
19. Assign Board Members to Committees <i>(D,1,2,14,15)</i>	Chair Moller	Ongoing	Board action on 12/1/2022		
20. Select Board Chair and Vice Chair <i>(D,1,2,18)</i>	Board	12/31/2022	Board action on 12/1/2022		
21. Completion of the election process for one retiree and one active trustee <i>(D,1,2,18)</i>	Elections Comm., Mike Barnhill	8/4/2022	Completed, 9/14/2022		
22. Review and make recommendations regarding survivor benefits <i>(B,D,1,2)</i>	Benefits Comm.	12/31/2022	With Cheiron, to complete in 1Q23		
23. Develop for Board approval CRS Board Goals and Strategies for 2022 <i>(D,G,21)</i>	Performance Eval Comm.	3/31/2022	Completed, 3/3/22		
24. Keep the Board well-informed about important developments and issues <i>(F,5)</i>	Mike Barnhill	Ongoing	Ongoing		

<u>Item</u>	<u>Owner</u>	<u>Target Date</u>	<u>Status</u>	<u>Quality Rating</u>	<u>Comments</u>
25. Review current customer svc practices and identify strengths and opportunities for improvements <i>(D,G,21)</i>	Mike Barnhill	12/31/2022	Picking up phones as of 9/26; all staff training 10/20; Staff proposal in 2023 budget 12/1/22		
26. Review and prepare analysis and recommendation on disabled adult child healthcare eligibility matters	Mike Barnhill	6/30/2022	Completed, 5/18/2022; Ordinance being drafted by Law		
27. Security and risk review; HIPAA; SOC 1 Type 2 audit of LRS; internal control review on all cashflows; Evaluate CRS and Finance workflows and approvals	Mike Barnhill, CRS Staff	12/31/2022	Draft Risk Dashboard to Perf Eval Comm, 12/1/22		

COUNTY OF MILWAUKEE
Inter-Office Communication

Date: February 16, 2018

To: Supervisor Theodore Lipscomb, Sr., Chair, Milwaukee County Board of Supervisors
Norb Gedemer, Pension Board Chair

From: Teig Whaley-Smith, Director, Department of Administrative Services 
Kerry Mitchell, Director, Department of Human Resources 
Margaret Daun, Corporation Counsel 
Jerome J. Heer, Director of Audits 

Subject: Milwaukee County Employee's Retirement System Governance Audit

In October 2017, Baker Tilly issued a report ("Phase III") on the Milwaukee County Employees' Retirement System (ERS). The consulting report was prepared in the wake of the filing of several Voluntary Correction Programs with the Internal Revenue Service and significant breakdowns in the payment of pensions to Milwaukee County retirees. One of the key findings of the report was that ERS had unclear governance and guidance related to critical functions and rules, as well as roles and responsibilities of various departments and service providers that serve the pension fund and the pension board.

We have reviewed the report by Baker Tilly in the context of our own experiences with the ERS and conclude that additional work is needed in addressing governance challenges within the system. This conclusion is not an indication that any one part of ERS governance is not functioning well. Rather, the system of shared responsibility has often led to confusion about decision making in the County's complex pension plan. A governance audit will help assure Milwaukee County, and all parties involved in the system, that decisions are made in a clear and effective manner. Enhanced governance will reduce the likelihood of future errors and increase accountability when errors do occur. The County Executive agrees with the need for this review and we are writing to seek your support as well. We are cognizant of the investment that has been made in past and ongoing professional services related to the ERS and we believe that this project is necessary to build on those efforts.

The Audit Services Division conducted research on potential firms to solicit to conduct a governance audit of funds such as Milwaukee County ERS. Only one firm consistently emerged as a national subject matter expert on this topic. That firm, Funston Advisory Services (FAS), has an impressive client list including work with clients which have undergone stress in their pensions. The FAS "one size fits one" approach should allow a tailored result that, while rooted in national best practices and their national database, meets any needs unique to Milwaukee County. To that end, FAS would work with fiduciary and sponsor boards and managers to prioritize the audit and focus on areas of most significant need.

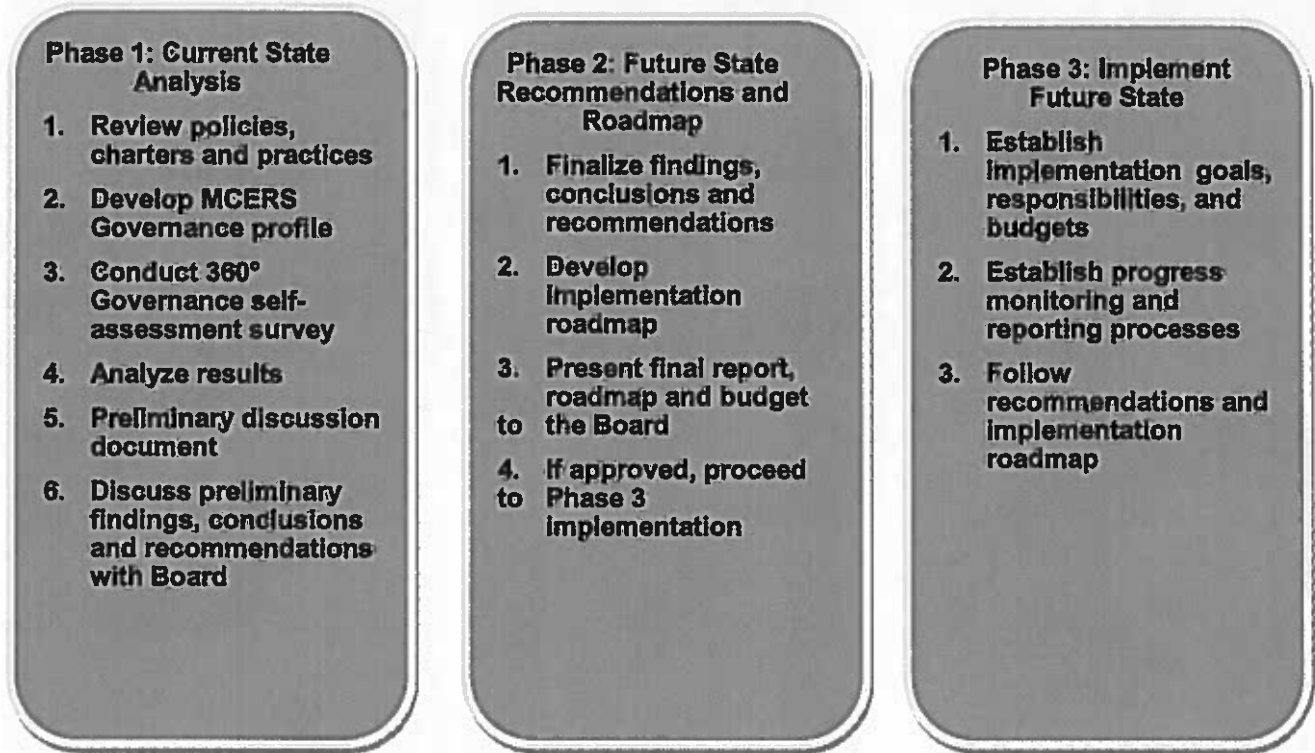
The attached resolution and fiscal note authorize the project management team (DAS, DHR, Audit, and Corporation Counsel) to enter into Phase 1 of a contract with FAS for a not-to-exceed amount of \$85,000.

The project scope may include the following items which will be prioritized by the project management team with input from stakeholders:

1. Legal and Regulatory Framework
2. Governance Framework
3. Enterprise Strategies and Policies
4. Enterprise Risks

5. Investment Operations
6. Pension and Insurance Operations
7. Any Other Areas Identified by Stakeholders

Based on the success of Phase 1, the County may commit to one or two other phases as described below:



The Phase 1 report will be provided to both the Pension Board and the Board of Supervisors. A decision about proceeding with any subsequent Phase will be made in consultation with those Boards.

It is important to note that the work will be conducted in full awareness of the potential for fundamental change in the structure of ERS as result of interest in alternatives to the current plan (e.g. some form of agreement with the Wisconsin Retirement System). Enhancing the effectiveness of ERS governance would actually make a transition smoother and provide better management of "legacy" pension benefits. If fundamental changes are not made, the ERS would be strengthened in any event.

cc: Scott B. Manske, CPA, Milwaukee County Comptroller
Chris Abele, Milwaukee County Executive
Raisa Koltun, Chief of Staff, County Executive's Office
Amy Pechacek, Director, Department of Risk Management
Kelly Bablitch, Chief of Staff, County Board Staff
Steve Cady, Research & Policy Director, Office of the Comptroller
Janelle Jensen, Legislative Services Division Manager, County Clerk's Office



Milwaukee County Retirement Plan Services

Timothy Coyne, Director

901 N. 9th Street, Courthouse, Room 210-C
Milwaukee, WI 53233
(414) 278-4207 (877) 652-6377

Date: December 19, 2018

To: Theodore Lipscomb, Sr., Chairman, Milwaukee County Board of Supervisors

From: Timothy Coyne, Director, Retirement Plan Services

Subject: **Informational Report on phase one of the Milwaukee County Employees' Retirement System Governance Review conducted by Funston Advisory Services**

Milwaukee County Employees' Retirement System – Phase One Report

Background

Under the direction of Jerome Heer, the previous Director of Audit for Milwaukee County, the County engaged Funston Advisory Services to conduct a comprehensive review of the governance of the Milwaukee County Employees' Retirement System (MCERS), including OBRA¹. Phase one of the governance review is complete. The review includes:

- The legal and regulatory framework
- The governance framework
- Other selected aspects of policies, processes and decision-making, including pension operations, administrative operations, and compliance

The objectives for phase one were to conduct a current state analysis to identify appropriate issues to address the concerns of key stakeholders and develop preliminary recommendations. The report provides a detailed analysis of identified issues, a detailed set of several recommendations to successfully address those issues, and an overview of leading practices for public retirement systems.

Governance Review Phase One Recommendations

The attached document, submitted as Exhibit A, is the completed governance review phase one report. RPS is seeking support from the Board of Supervisors – as well as other County stakeholders like the Pension Board, County Executive, and Comptroller – to move forward with recommendations. This report is an initial step towards what is likely to be a six-to-12-month implementation process.

Thank you.

¹ Retirement Plan Services (RPS) is the umbrella term for the Milwaukee County department that administers and carries out the day-to-day operations for MCERS and OBRA.

Cc: Supervisor James Schmitt, Chairman, Finance and Audit Committee
Supervisor Eddie Cullen, Chairman, Personnel Committee
Chris Abele, County Executive
Finance and Audit Committee
Personnel Committee
Raisa Koltun, Chief of Staff, Office of the County Executive
Teig Whaley-Smith, Director, Department of Administrative Services
Scott Manske, Comptroller
Jennifer Folliard Director of Audit, Office of the Comptroller
Steve Cady, Research and Policy Director, Office of the Comptroller

Exhibit A

Milwaukee County Employees' Retirement System

Governance Review – Phase 1 Report

December 17, 2018



Contents

Executive Summary

Main Body of the Report

1. Background and Purpose
2. Review Process
3. Issues Identified
4. Detailed Recommendations
5. Proposed Phase 2 Workplan

Appendices

- A. Leading Practices for a Public Pension Fund of MCERS' Size
- B. MCERS Comparisons to Leading Practices
- C. Results of Self-Assessment Survey

Executive Summary

Executive Summary

- The priorities for improving MCERS and OBRA governance vary depending upon where one sits in the Milwaukee County organization
- Even if the preliminary recommendations of the Retirement Sustainability Taskforce are implemented, ERS and OBRA responsibilities, complexities and workload will not be substantially reduced for many years
- There is broad (if not unanimous) agreement that the current MCERS and OBRA governance structure does not work well and that several areas should be addressed:
 - The Pension Board is the only fiduciary board in the County yet does not have authority to direct and oversee ERS and OBRA staff
 - Retirement Plan Services (RPS) should not report to the Human Resources Department but, rather, to the Pension Board
 - The provision of legal support for ERS and OBRA may not comply with County ordinance (“The county corporation shall be the legal advisor of the board”)
 - The relationship between the Pension Board and the Corporation Counsel is dysfunctional and needs to be fixed
 - The Pension Board is overly involved in resolving appeals
 - Many services are provided by outside providers, but there is a lack of procurement policies, standards, and procedures

Executive Summary

- Although there is general agreement that the Pension Board should have greater responsibility and be central to resolving these issues, there is concern that:
 - The Pension Board is not perceived to be prepared to take on the tasks due to lack of appropriate experience and perspective
 - The Pension Board lacks documented charters, policies and processes which could provide guidance for its members and support an effective functioning of the Board and its committees
 - The Pension Board is currently heavily involved in the resolution of appeals and lawsuits and is not focused on strategic issues and the direction of ERS and OBRA
 - There appears to be a high level of distrust among many ERS stakeholders
- Success in addressing these concerns will require a coordinated effort to implement all the recommendations in this report, as well as a greater level of trust among the stakeholders

Executive Summary

Our recommendations for improving ERS and OBRA governance are co-dependent and include:

1. Empower the Pension Board with authority over the Retirement Plan Services organization, including staffing, budgets, external provider selection and spending approval and create an Executive Director position with overall ERS and OBRA responsibility who is hired/fired/evaluated/compensated solely by the Pension Board
2. Resolve the issue regarding legal advice under MGCO Section 8.11 – Legal advisor
 - The Executive Director should be responsible for obtaining and directing legal services
 - Option 1: Corporation Counsel provides one or two full-time attorneys to support ERS and OBRA under the day-to-day direction of the Executive Director
 - Option 2: The County rescinds Section 8.11, the Executive Director hires and provides direction to an ERS full-time General Counsel who engages any external counsel
3. Enhance the capabilities of the ERS and OBRA (RPS) staff
 - Form a staff appeals group comprised of members of RPS and legal staff
 - Hire a Chief Investment Officer (CIO) to oversee the investment advisor and managers on behalf of the Pension Board
 - Consider hiring a Chief Financial Officer (CFO) or Chief Administrative Officer (CAO) to oversee ERS and OBRA finances, procurement, and human resources
4. Develop a comprehensive Board Policy Manual which includes:
 - Powers reserved for the Pension Board
 - Delegations to the Executive Director and external parties
 - Charters for the Board and each committee
 - Duties of Board and committee chairs, vice chairs and other trustees
 - Board bylaws (e.g., election of Pension Board chair, attendance, calling a meeting, appointment of committee chairs and members, procedures, etc.)
 - All Board policies

Executive Summary

Our recommendations for improving ERS and OBRA governance are co-dependent and include (cont'd):

5. Develop the ERS and OBRA strategic agenda, with a focus on key decisions to be made
 - Develop a strategic plan for ERS/OBRA and the organization (started in September)
 - Identify key decisions to be made and timing and develop a Pension Board calendar
 - Update delegations to Board committees to effectively support the strategic agenda
 - Develop Committee calendars which support the Pension Board calendar
6. Improve the functioning and efficiency of the Pension Board and its committees
 - Focus committees on the duties reflected in the charters
 - Consider creation of an Appeals Committee to reduce demands on the full Board and more effectively consider appeals
 - Reduce the number of meetings, eliminate the agenda-setting meeting, and determine the frequency of meetings required
 - Develop a formal process for accepting requests from Board members, with all requests to be discussed and agreed to by the full Board and then assigned to the Executive Director
7. Improve the capabilities of the Pension Board through a structured onboarding and mandatory continuing education program
 - Develop a year-long new trustee on-boarding process
 - Develop a Pension Board continuing education program designed to support preparation for making key policy decisions
 - The Executive Director should take the lead in developing the onboarding and continuing education program for the Pension Board

Main Body of Report

1. Background and Purpose
2. Review Process
3. Issues Identified
4. Detailed Recommendations
5. Proposed Phase 2 Workplan

1. Background and Purpose

- MCERS has experienced adverse publicity related to negative audit findings, litigation, poor record-keeping, actuarial errors, ordinance violations, policy misinterpretations, a reluctance to quickly surface and correct problems, and growth in unfunded liabilities
- To improve its governance and re-establish stakeholder confidence, MCERS engaged Funston Advisory Services LLC (FAS) to conduct a comprehensive review of the governance of the Milwaukee County Employees' Retirement System (MCERS), including OBRA
- The review includes:
 - The legal and regulatory framework
 - The governance framework
 - Other selected aspects of policies, processes and decision-making, including pension operations, administrative operations and compliance
 - Investments were considered out of scope
- The objectives for this Phase 1: Current State Analysis are to identify appropriate issues to address the concerns of key stakeholders and develop preliminary recommendations
- Phase 2: Future State Recommendations and Roadmap will build upon the current state analysis though more in-depth analysis and development of recommendations

1. Background and Purpose

- Milwaukee County created a Retirement Sustainability Taskforce (RST) in 2017 to consider the long-term direction for ERS
- A Draft Report and Recommendations issued by the RST in October 2018 recommends:
 - “New hires would be moved to WRS and receive benefits through that system. ERS would be closed to new entrants.
 - Non-vested employees would potentially be moved to WRS as well and vested Milwaukee County workers could potentially receive future service through WRS.
 - Employee contribution rates would be subject to a maximum level (though this may require a change in State law).
 - COLA reductions/modifications would be applied to reduce the unfunded liability and share costs.
 - The WRS rules, or something similar, would be considered in identifying how to reinstate COLAs when full funding is reached and provide both risk sharing as well as sharing of gains.”
- This analysis and report assumes that, even if these RST recommendations are adopted, MCERS will continue to provide retirement services for coming decades and that identified governance improvements will still be needed and beneficial

2. Review Process

1. Reviewed MCERS policies, charters and practices
2. Developed a mapping of MCERS responsibilities and authorities
3. Developed MCERS InGovSM profile based upon responses to questionnaire and comparison to FAS database
4. Conducted 360° Governance self-assessment survey with participation by 23 respondents
 - MCERS Pension Board members
 - Milwaukee County Human Resources and Retirement Plan Services staff
 - Milwaukee County stakeholders (Executive, Comptroller, Administrative Services, Audit, Corporation Counsel) and Independent Advisors (Investment Consultant, External Counsel)
5. Prepared preliminary list of issues and areas of potential opportunity
6. Conducted follow-up interviews with self-assessment participants
7. Prepared Phase 1 Assessment final report (this report)

3. Issues Identified

1. MCERS has complex administrative requirements and lacks a cohesive retirement plan document
 - Legacy of multiple plans with numerous changes resulting in many unique retirement situations and calculations
 - What is normally described in a plan document is contained in numerous County ordinances as well as rules promulgated by the Pension Board
 - Although there has been a workgroup working to rationalize ordinances and rules and ongoing plan changes have been reduced, significant legacy complexity remains for ERS
2. The Pension Board gets overly involved in resolving appeals rather than delegating final decisions to the RPS staff
 - The relatively new pension administration system (V3) cannot accommodate all calculations, resulting in many manual calculations and, sometimes, errors
 - The underlying data quality in member records is uneven
 - Due to staffing limitations:
 - The Pension Board spends significant time reviewing appeals and operational details (e.g., check registers, travel vouchers, detailed system enhancements)
 - There is a heavy reliance by the Pension Board on outside counsel for what would normally be routine decisions and general support at other retirement systems

3. Issues Identified

3. The Pension Board is the only fiduciary board in the County, with responsibility for investing \$1.6 billion in assets, yet must comply with the same governance and rules as other non-fiduciary boards
 - The Pension Board lacks any staff resources or authority for hiring, firing and compensating the Director of RPS
 - Pension Board trustees do not have the ability to hire any internal resources in support of ERS activities
 - In addition, the Pension Board does not have final authority for RPS budgets and spending

3. Issues Identified

4. The MCERS legal and governance structure is fragmented, with misalignment of responsibilities and authorities, resulting in lack of accountability and unclear lines of control
 - Roles and responsibilities of the Pension Board vis-à-vis County departments are unclear
 - Pension Board responsibilities and authorities for investments is reasonably clear
 - Most other areas of authority are unclear, often with multiple approvals required beyond the Pension Board
 - Although the Pension Board approves selection of the actuary, the actuary is not independent of the County (which is the plan sponsor)
 - The reporting relationship of the Director of Retirement Plan Services (a fiduciary) to the Chief Human Resources Officer (not a fiduciary) is not appropriate
 - There is not a document clearly identifying powers reserved for the Pension Board or delegations from the Pension Board to the Director of RPS
 - County agency cross charges to ERS are not subject to approval by the Pension Board nor do they seem to be well understood
 - Although investments were not included in the scope of this review, there is no staff oversight of investments, requiring the Pension Board to oversee the external investment advisors and managers without staff assistance

3. Issues Identified

5. Concerns have been raised that MCERS may be in non-compliance with MCGO 201.24 Section 8.11 – Legal Advisor
 - The ordinance states, “The county corporation counsel shall be the legal advisor of the board. Whenever the county corporation counsel deems it necessary to obtain the services of private legal counsel to advise the board, the county corporation counsel shall follow the provisions of section 56.30(5) of the General Ordinances of Milwaukee County.”
 - Despite the ordinance, which is clear, there is a lack of agreement concerning appropriate roles of Corporation Counsel vis-à-vis external counsel which has led to the non-compliance situation
 - Responsibilities of Corporation Counsel vs. external counsel
 - Lack of a standard protocol for engaging external counsel
 - Billing and cost concerns regarding external counsel (e.g., external counsel as Pension Board secretary)
 - There is a long history of the Pension Board relying on outside counsel for pension system expertise which was lacking within the County
 - Consequently, the Pension Board routinely obtains external legal counsel without consultation with Corporation Counsel, despite the contractual relationship of external counsel being directly with the Corporation Counsel
 - The current relationship between the Pension Board and Corporation Counsel is fractured and dysfunctional

3. Issues Identified

6. The Pension Board and its committees lack charters and formal policies in many areas
 - No clear description of the duties of:
 - The Board as a whole
 - Board committees
 - Board and committee chairs
 - Individual Board members
 - No documented process for selecting committee chairs or the Board Secretary
 - No Board Policy Manual, and many policies are not defined, for example:
 - Board by-laws (e.g., attendance, calling a meeting, appointment of chairs, procedures, etc.)
 - Board continuing education
 - Board self-assessment
 - Ethics and standards of conduct
 - Travel and gifts
 - Procurement
 - Strategic planning
 - Referral of investment opportunities and service provider candidates
 - Communications
 - Board/staff interaction
 - There is a consensus that policies and procedures documentation and updating needs significant improvement

3. Issues Identified

7. The Pension Board and committee operations are not efficient

- There is no annual Board calendar identifying key policy decisions or approvals to be acted upon at future meetings
 - This would create a structure for Board members to prepare for key decisions
 - Could link to a Board continuing education agenda
- Board and committee meeting materials are often available only 1-2 days in advance of a meeting
 - Limits preparation time for Board members
 - MCERS does not use an electronic board portal, which has become prevailing practice at larger public funds and could help improve timeliness of meeting material availability
- Committee meetings, which are monthly, are much more frequent than peer funds
 - Audit committees typically meet 4-5 times annually at peer funds
 - Investment committee meetings are more typically bi-monthly
- The agenda setting process could be more efficient and should not require a separate meeting
 - Having a forward calendar could help eliminate the need for separate agenda-setting meetings
 - The Board and committee chairs, working closely with the Director of RPS, could be responsible for finalizing Board and committee agendas
- There is no formal process for the Pension Board requesting information through the Director of RPS, resulting in inappropriate direct requests to external service providers from individual Board members and lack of accountability when requests are made

3. Issues Identified

8. The Pension Board is very tactical in focus and has not identified its strategic agenda or oversight requirements
 - There is no current strategic plan for MCERS
 - Consequently, meeting plans and agendas tend to evolve each month
 - The Pension Board has not identified its key strategic decisions to be addressed and when they expect to make them
 - The Pension Board has also not identified its requirements for oversight (what it needs to see, what level of details, frequency, etc.)
 - The Pension Board appears to lack confidence in RPS and pension operations, particularly the member contact center, member self-service capabilities, and member data management and security
 - Expectations for oversight and when situations should be brought to the Board's attention have not been articulated
 - There are no policies, standards, or procedures for oversight of external providers
 - The full Pension Board appears to spend significant time resolving appeals and administrative issues

3. Issues Identified

9. Pension Board on-boarding and continuing education and training is limited and lacking in direction and structure
 - The Pension Board does not have a continuing education program which helps trustees be ready to discuss and consider key decisions
 - There is no Board continuing education policy or requirement, which is a lagging practice
 - Leading practice would include standard ongoing trustee training for every Board member along with customized components for each to fill in experience gaps, addressing topics such as:
 - Fiduciary duties
 - Investment management
 - Ethics
 - Pensions and actuarial considerations
 - Governance
 - The trustee on-boarding process is new and could be substantially improved
 - Onboarding process could be a series of planned education sessions throughout the first year for each new trustee
 - Similar to continuing education, onboarding could include a standard core with customized optional components designed to fit the new trustee's background

4. Detailed Recommendations

1. Empower the Pension Board with authority over the Retirement Plan Services organization, including staffing, budgets, external provider selection and spending approval
 - The Director of RPS should be given the title of Executive Director of ERS and OBRA and report directly to the Pension Board and be hired/fired/evaluated/compensated solely by the Pension Board
 - The Executive Director should be given responsibility for day-to-day management of all ERS and OBRA operations, including pension operations, investments and legal services
 - RPS staff should remain County employees, but should be moved from Human Resources and become an independent group under the Executive Director
2. Resolve the issue regarding legal advice under MGCO Section 8.11 – Legal advisor
 - In any case, the Executive Director should be responsible for obtaining and directing legal services, not the Pension Board
 - Option 1: Corporation Counsel provides one or two full-time attorneys to support MCERS, under the day-to-day direction of the Executive Director, and the Corporation Counsel, in cooperation with the Executive Director, engages any external counsel, as required
 - Option 2: The County rescinds Section 8.11, the Executive Director hires and provides direction to an in-house ERS full-time General Counsel (and perhaps a second in-house attorney), and the General Counsel engages any external counsel, as required, with concurrence of the Executive Director

4. Detailed Recommendations

3. Enhance the capabilities of the ERS/OBRA (RPS) staff:

- Form a staff appeals group, including RPS and legal staff (either Corporation Counsel or internal ERS legal counsel), to handle the bulk of appeals and litigation issues, with only the most complex issues going to the Pension Board for resolution
- Hire a Chief Investment Officer (CIO) to oversee the investment advisor and managers on behalf of the Pension Board
 - Assist and advise the Board, in conjunction with the external investment advisor, in development of the strategic asset allocation and investment policies
 - Provide ongoing oversight of the fund and external investment providers and advise the Board
- Consider hiring a Chief Financial Officer (CFO) or Chief Administrative Officer (CAO) to oversee ERS finances, procurement, and human resources

4. Detailed Recommendations

4. Develop a comprehensive Board Policy Manual which includes:

- Powers reserved for the Pension Board
 - Set strategic policy and direction
 - Approve certain key decisions
 - Conduct selected activities
 - Oversee prudently delegated authority
- Delegations to the Executive Director and external parties
- Charters for the Board and each committee
- Duties of Board and committee chairs, vice chairs and other trustees
- Board bylaws (e.g., election of Pension Board chair, attendance, calling a meeting, appointment of committee chairs and members, procedures, etc.)
- Board policies, including continuing education, self-assessment, ethics and standards of conduct, travel and gifts, procurement, strategic planning, referral of investment opportunities and service provider candidates, communications and Board/staff interaction

4. Detailed Recommendations

5. Develop the MCERS strategic agenda, with a focus on key decisions to be made
 - The Executive Director and staff develop a strategic plan for ERS/OBRA and the organization in collaboration with the Pension Board
 - Identify key decisions to be made and timing (e.g., annually, every three years, etc.) and develop a Pension Board calendar for future meetings, e.g.:
 - Set investment allocation
 - Set fund target rate of return
 - Approve investment benchmarks
 - Set organizational strategy
 - Approve strategic plan
 - Update delegations to Board committees to effectively support the strategic agenda
 - Develop Committee calendars which support the Pension Board calendar

4. Detailed Recommendations

6. Improve the functioning and efficiency of the Pension Board and its committees
 - Utilize the strategic agenda to drive priority agenda items
 - Focus committees on the duties reflected in the charters
 - Consider creation of an Appeals Committee to reduce demands on the full Board and more effectively consider appeals which should come to the Board for resolution
 - Identify oversight and reporting requirements and trigger points for reporting to the Board by ERS and/or third parties
 - Add oversight reporting requirements to the annual Board and committee calendars
 - Reduce the number of meetings
 - Eliminate the agenda-setting meeting
 - With a focus on responsibilities in the new committee charters, determine the frequency of meetings required, e.g., quarterly or bi-monthly
 - With a focus on the strategic agenda and oversight requirements, determine the frequency of meetings required for the Pension Board
 - Develop a formal process for accepting requests (e.g., information, reports, analyses) from Board members
 - All requests to be discussed and agreed to by the full Board
 - The Executive Director is responsible for following up, working with the Chair, and advising the Board on progress
 - Executive Director to assign a lead staff liaison for each Board committee

4. Detailed Recommendations

7. Improve the capabilities of the Pension Board through a structured onboarding and mandatory continuing education program
 - Develop a year-long new trustee on-boarding process
 - A series of planned education sessions throughout the first year for each new trustee
 - Include a standard core curriculum, e.g.:
 - Overview of MCERS and OBRA, including legal and governance framework
 - Fiduciary duties and role of the Pension Board
 - Pension Board and committee operations and policies
 - RPS role and operations and external service providers
 - Investment policies and operations
 - Also offer customized optional components designed to fit gaps in the new trustee’s background
 - Develop a Pension Board continuing education program designed to support preparation for making key policy decisions, e.g.:
 - Establishing investment beliefs, investment policy and risk appetite
 - Setting the strategic asset allocation
 - Setting the assumed rate of return or discount rate
 - In addition, continuing education would include “refresher” topics as appropriate, e.g.:
 - Fiduciary duties and related legal requirements
 - Emerging issues in investments
 - Emerging issues in pension administration
 - The Executive Director should take the lead in developing an onboarding and continuing education program for the Pension Board using a combination of internal and external training venues

5. Proposed Phase 2 Workplan

- Obtain agreement on desirable MCERS and OBRA governance and organization “end state” to be pursued
 - Governance model and alignment of responsibilities, authorities and resources
 - Powers reserved exclusively for the Pension Board
 - Delegations to staff and third parties
- Identify key implementation steps to achieve the end state, e.g.:
 - Ordinance changes
 - Development of Pension Board charters and policies
 - MCERS/OBRA organizational development and lines of reporting
 - Pension Board onboarding and continuing education program
 - Root cause analysis on source and nature of appeals and new resolution procedures
- Identify internal and external resources required
- Develop implementation workplan
 - Key activities and milestones
 - Implementation responsibilities
 - Budgets
 - Oversight

Appendices

- A. Leading Practices for a public pension of MCERS' size
- B. MCERS compared to InGovSM Leading Practices
- C. Results of MCERS' Self-Assessment Survey

A. Leading Practices for a Public Pension Fund of MCERS' Size

For an integrated public pension system such as MCERS (with outsourced investment management), leading practices include the following characteristics:

- Board of Trustees responsibilities are aligned with and supported by authorities for managing the fund, system, budgets and staffing
- The Board can make the most appropriate investment decisions based upon the selected strategy without consideration of legal asset allocation limits or non-economic factors
- The Board maintains a consistent focus on long-term, strategic issues, oversight and monitoring of overall operations performance, with minimal focus on operational details given independent reasonable reassurance (e.g., audits)
- Clear priorities and accountabilities are established and agreed for the Board, Executive, and supporting third parties
- The Board and committees are actively involved in setting the strategic agenda on an annual basis and refining it, as appropriate
- The Board oversees stakeholder relations, for example, acting as ambassadors for the organization and overseeing the effectiveness of key stakeholder relations

A. Leading Practices for a Public Pension Fund of MCERS' Size

- The Board clearly defines the powers reserved for itself and each of its committees, e.g.:
 - Setting strategic direction and policy
 - Approving recurring decisions which are the responsibility of the Board
 - Conducting Board activities (e.g., hiring / evaluating / compensating / firing the CEO, Board self-assessments)
 - Overseeing performance, risk and controls on delegated activities
- The Board obtains effective independent reassurance (e.g., internal audits, external audits, benchmarking reports) which corroborate management and third-party reporting and assurances
- The CEO (or Executive Director) is the single direct report to the Board for operations:
 - The Board delegates to the CEO the authority for the development of policy and strategy proposals, and, once approved by the board, their implementation and the day-to-day management of the organization
 - Authority and responsibility are clearly defined, contributing to an effective working relationship based on mutual confidence and trust
 - The CEO has responsibility for hiring, evaluating, compensating and firing all executives
 - The CEO or his subordinates provide day-to-day direction to external service providers

A. Leading Practices for a Public Pension Fund of MCERS' Size

- The Board and each committee are comprised of an odd number of members to minimize tie votes
- Board committees operate effectively and assist the Board in accomplishing its work
 - Typically Investment, Audit and Compensation Committees which each meet 2-6 times per year
 - Well-defined responsibilities for each committee are described in a charter
 - Transparent process for nomination and election of committee chairs and vice chairs
 - Committee chairs are rotated for development purposes
- An effective on-boarding process for new trustees which begins as soon as elected or appointed and continues for up to two years
- Annual continuing education is required for all Board members
 - Minimum continuing education requirements include ethics, fiduciary responsibility, pension actuarial principles, investments, pension operations, and governance
 - There is a continuing education plan and budget for the entire Board and for each member that identifies targeted knowledge gaps, as well as a program for new members, linked to the Board self-assessment

A. Leading Practices for a Public Pension Fund of MCERS' Size

- The Board establishes behavior policies regarding code of ethics, conflicts of interest, external communications, travel, gifts and loans, confidentiality, continuing education and crisis communications
- A Board Policy Manual contains all key policies relating to the Board and its responsibilities, including statutory framework and charters
- Most policies are reviewed on a regular basis (rather than ad hoc) with the frequency depending on the volatility of the policy issue, typically annually, biennially, or triennially
- As external service providers are a critical resource component, there are procurement policies, standards and procedures for effectively sourcing, managing and evaluating external providers with periodic rebidding

B. MCERS Compared to InGovSM Leading Practices

- The MCERS Pension Board composition, term of office, and other requirements are typical, except for:
 - The Pension Boars comprises an even number of members (10) which can more easily result in a tie vote
 - Although term limits can be helpful, six years may be too short, resulting in premature loss of expertise – a typical trustee is not fully onboarded until after about two years of service
- As a small fund, MCERS has the two most typical committees at integrated funds – Audit and Investments
- Consistent with half of its peer group, MCERS has an outsourced CIO arrangement through its investment consultant for managing its fund
- The areas where the MCERS Board utilizes outside expertise is consistent with peer funds; the most common areas are legal, investments, and actuarial
- The MCERS exceptions allowed under the open meetings law are generally consistent with peers, with additional exceptions granted for self-evaluation, strategy and IT issues
- MCERS is consistent with its peer group with the Pension Board contracting with an independent auditing firm

B. MCERS Compared to InGovSM Leading Practices

- However, the MCERS governance structure is highly unusual and dysfunctional
- The Pension Board of Trustees has full fiduciary responsibility for the retirement system and pension fund but has limited authorities aside from overseeing the management of investments and hearing appeals
 - No executives or staff report to the Board
 - The Board does not have authority to hire, evaluate performance, or compensate the Director of RPS
 - The Board does not have final authority to approve budgets, hiring of staff, or spending for the retirement system
 - Despite delegated authority to retain the actuary, in practice, the determination is made by the County
- MCERS does not have a policy or requirement for Pension Board continuing education
 - Both effective onboarding and required annual continuing education are lacking
 - Leading practice would include a structured program with both core and individualized trustee training

B. MCERS Compared to InGovSM Leading Practices

- Most public pension funds have board and committee charters, trustee role descriptions, and a board policy manual; MCERS does not
- MCERS committees meet significantly more often than others in the peer group
- Although the Investment Committee is sometimes a committee of the whole at other funds, it is highly unusual to have an Audit Committee of the whole Board
- MCERS is unusual for having a regular meeting to determine the agenda; typical peer practice is for the Executive Director to develop the draft Board agenda, in consultation with the Board chair, and the Board provides feedback
- It is also unusual for the CEO (Director of RPS) to be a part-time role (i.e., with general, non-retirement system Human Resources duties) for a retirement system of this size which detracts from pension-related responsibilities

C. Summary Results of MCERS' Self-Assessment Survey

- Based upon the self-assessment survey, there is significant diversity of perspective among the three groups of respondents regarding needs and priorities for MCERS improvement
 - The Pension Board members (four of whom are relatively new to the Board) appear to be generally satisfied with nearly all areas – legal framework, governance structure, administrative operations, and compliance – all areas except pension operations
 - The RPS staff believes the highest priority areas for improvement are legal framework and governance structure
 - The County stakeholders appear to see significant opportunities for improvement in all five broad areas
- The only topic which all three groups rated as a high priority improvement area was “policies and procedures documentation and updating”
- Areas which were rated as functioning well by all three groups included:
 - Process for selection and hiring of the investment consultant
 - Payment processing

Staff Assessment of Actuarial Services

Summary rating: Exceeds expectations. Cheiron performs all contracted service in a timely and satisfactory manner. Cheiron performs additional work as requested in a timely and satisfactory manner. Cheiron makes periodic presentations to the Board which convey important actuarial information in an accessible manner.

Contract status: The Cheiron contract was issued for a three-year initial term and 3 one-year extensions on 11/1/2018. The contract is currently in the second one-year extension. The contract will expire on October 31, 2024. Preparation for the next RFP will start in the fall of 2023, with a plan to issue in January 2024.

Summary of CY2022 Work:

- Completed asset liability study and presented to Board
- Completed CY2021 pension and OPEB valuations and presented to Board
- Updated Board actuarial education slides (posted on Board training site)
- Provided funding scenarios in February and October to achieve full funding by 2045
- Provided range of scenarios to resolve the open CSA issue regarding the Model healthcare plan premium share grid
- Reviewed survivor benefits, and provided more standard alternative options
- Provided recommended member premium rates for CRS health plans
- Prepared Schedule of Funded Ratios per sec. 35 of CSA (revised as of 12/31/2020; next revision will be as of 12/31/2025)
- Prepared GASB 67/68 and 74/75 reports for City's financial statements
- Started 5yr experience study

Staff Assessment:

Cheiron does solid and timely actuarial work. As shown in the work summary above, Cheiron has been fairly productive in CY2022. The Cheiron actuaries have kept staff and the Board apprised of developments in actuarial governance, particular the recent and significant amendments to Actuarial Standards of Practice 4. The changes to ASOP 4 require actuaries to assess retirement liabilities under new reasonableness standards for earnings assumption and unfunded liability amortization term. This may result in the actuaries recommending adoption of a lower earnings assumption and/or a shorter amortization term in the next set of valuations. Both of these changes would increase the CRS unfunded liability, all things being equal.

Cheiron accommodates additional work on request, and provides prompt responses. This additional work included the preparation of funding scenarios with incremental funding contributions. Cheiron provided a range of scenarios, which was helpful.

Cheiron's valuations are generally easy to read, and provide an array of charts that report the status of the CRS plans. The Board uses a number of these charts in its annual report to the City Council. Cheiron's valuations would be improved through the addition of a numerical table with

the 30yr projection of assets, liabilities, contributions and benefits under current assumptions (example below). Since the pension trust has recently had a depletion date specified in the GASB reports, this table can be particularly helpful for the Board in terms of investment liquidity planning. Cheiron provided this table earlier this year on request, but did not add it to the CY2021 pension valuation. This table will be important to include in the CY2022 pension valuation.

My biggest issue with Cheiron has been the continued use of the “open 30yr” amortization of the unfunded liability. This is also referred to as the “rolling 30” amortization. I was surprised to see this in use at CRS, because this approach re-starts every year the amortization of the unfunded liability for a new 30 year term. The result of this is the same if you were to re-finance your house mortgage every year. At the end of 30 years you would have a 30 year house mortgage that has about the same amount of principal to pay off as in year 1. In researching this, I learned that Cheiron inherited this amortization methodology from the previous actuary (Cavanaugh MacDonald). CavMac apparently thought that this methodology was required by the CSA. It isn’t. In fact, the CSA contemplates that the CRS unfunded liability will be retired in 30 years. The rolling 30 amortization methodology does the opposite. Cheiron has undertaken the 5 year experience study, and I anticipate recommendations to change the amortization methodology as part of this work.

While Cheiron was generally timely on all of its projects, its presentation of the CY2021 valuations occurred at the June meeting. Next year, we should plan on Cheiron making this presentation no later than the May meeting. This is because it will be important to have the final and approved valuation in hand for making presentations to stakeholders (City Councilmembers and City Manager’s Office) in conjunction with the consideration and passage of the City’s FY2024 budget during May and June of 2023.

30 year projection table example:

City of Cincinnati Retirement System																	
Projected \$ Amounts in Thousands / Assumed Discount Rate of 7.25%																	
Year	Assumed Investment Return	Projected Valuation Results					Projected Cash Flows during Year										Net Deferred Investment Cash / (Loss)
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	
		Valuation Date	Actuarial Liability	Actuarial Value of Assets	Funding Ratio (c) ÷ (b)	Unfunded Liability / (Surplus) (b) - (c)	Full Time Actives + DROP Parts. Salaries	Part Time Actives Salaries	Total Salaries (f) + (g)	Assumed City's Fixed Contribution Rate	City's Fixed Rate Contributions [(f) x (i) + (g) x 3%]	City's ERIIP Payments	Member Contributions	Total Contributions (j) + (k) + (l)	Benefit Payments + Admin Expenses		
2021	17.00%	12/31/2020	\$2,594,746	\$1,788,850	68.9%	\$808,096	\$204,785	\$7,544	\$212,329	18.25%	\$33,504	\$0	\$17,931	\$51,435	\$204,057	\$34,285	
2022	7.25%	12/31/2021	2,598,185	1,809,754	69.7%	788,431	211,188	7,827	219,015	18.75%	35,609	2,752	18,489	56,850	200,057	160,030	
2023	7.25%	12/31/2022	2,606,651	1,830,438	70.2%	776,213	218,086	8,121	226,207	17.25%	37,863	2,752	19,090	59,705	202,358	135,881	
2024	7.25%	12/31/2023	2,614,020	1,892,224	72.4%	721,796	225,357	8,425	233,782	17.75%	40,254	2,752	19,724	62,730	202,802	71,057	
2025	7.25%	12/31/2024	2,622,160	1,928,191	73.5%	693,969	232,352	8,741	241,093	18.25%	42,667	2,752	20,333	65,752	203,165	34,615	
2026	7.25%	12/31/2025	2,631,143	1,965,157	74.7%	665,986	239,888	9,069	248,957	18.75%	45,251	2,752	20,990	68,993	203,032	0	
2027	7.25%	12/31/2026	2,641,582	1,971,291	74.6%	670,271	247,376	9,409	256,785	19.25%	47,902	2,752	21,641	72,295	206,012	0	
2028	7.25%	12/31/2027	2,650,296	1,978,324	74.6%	671,972	255,261	9,762	265,023	19.75%	50,707	2,752	22,327	75,786	208,608	0	
2029	7.25%	12/31/2028	2,657,675	1,986,920	74.8%	670,755	263,203	10,128	273,331	20.25%	53,602	2,752	23,018	79,372	211,195	0	
2030	7.25%	12/31/2029	2,663,604	1,997,304	75.0%	666,300	271,640	10,508	282,148	20.75%	56,681	2,752	23,752	83,185	213,530	0	
2031	7.25%	12/31/2030	2,668,309	2,010,108	75.3%	658,201	280,163	10,902	291,065	21.25%	59,862	2,752	24,493	87,107	216,304	0	
2032	7.25%	12/31/2031	2,671,230	2,025,172	75.8%	646,058	288,793	11,310	300,103	21.75%	63,152	2,752	25,243	91,147	218,086	0	
2033	7.25%	12/31/2032	2,673,293	2,043,834	76.5%	629,459	297,527	11,735	309,262	22.25%	66,552	2,752	26,011	95,305	220,242	0	
2034	7.25%	12/31/2033	2,674,005	2,065,051	77.3%	607,954	306,673	12,175	318,848	22.25%	68,600	2,752	26,795	98,147	221,720	0	
2035	7.25%	12/31/2034	2,674,025	2,091,394	78.2%	582,631	315,734	12,631	328,365	22.25%	70,630	2,752	27,580	100,962	223,131	0	
2036	7.25%	12/31/2035	2,673,410	2,120,130	79.3%	553,280	325,920	13,105	339,025	22.25%	72,910	2,752	28,465	104,127	223,548	0	
2037	7.25%	12/31/2036	2,673,299	2,153,910	80.6%	519,389	336,767	13,596	350,363	22.25%	75,339	0	29,409	104,748	223,782	0	
2038	7.25%	12/31/2037	2,674,005	2,190,559	81.9%	483,446	347,936	14,106	362,042	22.25%	77,839	0	30,381	108,220	223,819	0	
2039	7.25%	12/31/2038	2,675,801	2,233,483	83.5%	442,318	359,477	14,635	374,112	22.25%	80,423	0	31,384	111,807	223,960	0	
2040	7.25%	12/31/2039	2,679,619	2,284,072	85.2%	395,547	371,356	15,184	386,540	22.25%	83,082	0	32,417	115,499	222,819	0	
2041	7.25%	12/31/2040	2,685,337	2,342,675	87.2%	342,662	383,694	15,753	399,447	22.25%	85,845	0	33,490	119,335	220,188	0	
2042	7.25%	12/31/2041	2,695,162	2,412,051	89.5%	283,111	396,901	16,344	413,245	22.25%	88,801	0	34,639	123,440	218,326	0	
2043	7.25%	12/31/2042	2,709,369	2,493,096	92.0%	216,273	410,743	16,957	427,700	22.25%	91,899	0	35,845	127,744	216,181	0	
2044	7.25%	12/31/2043	2,728,343	2,586,849	94.8%	141,494	425,036	17,593	442,629	22.25%	95,098	0	37,089	132,187	214,104	0	
2045	7.25%	12/31/2044	2,752,442	2,694,312	97.9%	58,130	439,849	18,253	458,102	22.25%	98,414	0	38,378	136,792	212,121	0	
2046	7.25%	12/31/2045	2,782,008	2,816,553	101.2%	(34,545)	455,179	18,937	474,116	22.25%	101,845	0	39,713	141,558	210,262	0	
2047	7.25%	12/31/2046	2,817,369	2,954,689	104.9%	(137,300)	471,079	19,647	490,726	22.25%	105,405	0	41,097	146,502	208,867	0	
2048	7.25%	12/31/2047	2,858,595	3,109,582	108.8%	(250,987)	487,442	20,384	507,826	22.25%	109,067	0	42,521	151,588	207,611	0	
2049	7.25%	12/31/2048	2,905,974	3,282,456	113.0%	(376,482)	504,549	21,148	525,697	22.25%	112,897	0	44,010	156,907	206,849	0	
2050	7.25%	12/31/2049	2,959,565	3,474,350	117.4%	(514,785)	522,198	21,941	544,139	22.25%	116,847	0	45,546	162,393	206,395	0	

The same census data, assumptions (except as noted above for discount rate) and methods as shown in our December 31, 2020 valuation report were used in the projection above. All the caveats in that report apply.

Staff Assessment of Investment Consultant Services

Summary rating: Exceeds expectations. Marquette performs all contracted service in a timely and satisfactory manner. Marquette performs additional work as requested in a timely and satisfactory manner. Marquette makes periodic presentations to the Board which convey important investment information in an accessible manner. Marquette provides important guidance to staff in managing CRS liquidity challenges.

Contract status: The Marquette contract was issued for a three-year initial term and 2 two-year extensions on 1/1/2016. The contract was extended for a 3rd two-year extension at the end of 2020, which is set to expire on 12/31/2022. Preparation for the next RFP is underway, with a plan to issue in February 2023. Marquette has agreed to extend its current annual fees (\$235,000) until the RFP process is complete and the next contract awarded (anticipated to be Fall 2023).

Summary of CY2022 Work:

- Prepared and presented 4 quarterly investment reports.
- Updated Board educational slides (posted on Board training site)
- Board investment education session
- Regular guidance to staff on liquidity management and re-balancing
- Recommendations and due diligence on private equity manager selection
- Provided capital market projections
- Provided guidance and information on Diversity, Equity and Inclusion policies

Staff Assessment:

Brett Christiansen has been the Marquette staff supporting the CRS Board since at least 2008. Marquette provides excellent value for the fee it charges, which is actually less than the cost of the current median salary of a Chief Investment Officer (\$274,000).

CRS staff regularly consult with Mr. Christiansen on advice regarding liquidity management and rebalancing. Mr. Christiansen is quite responsive and usually responds within 24 hours.

In 2022, Mr. Christiansen provided updates to his trustee education slides and presented those to the Board at the November Investment Committee meeting. Mr. Christiansen also expanded his board presentations to include updates on the market environment, which has been quite volatile in 2022.

The Board relies almost exclusively on Marquette's recommendations and due diligence of prospective managers. In many cases, peers of CRS formalize this kind of relationship into an "Outsourced Chief Investment Officer" (OCIO) contract, and the OCIO is delegated power to make most or all investment decisions. The OCIO is evaluated on multiple criteria, most importantly, investment results.

While Marquette is not technically an OCIO, it nearly is. So review of CRS investment results seems fair for this assessment. At the end of 2021, CRS one-year returns were extraordinary: at the top of the peer universe (26 peers with \$1B+ assets in the universe). Longer term returns drop closer to median. So far in 2022, CRS's short and long term returns are basically second quartile returns (above median).

Staying above median peer return performance over both short and long term periods is superior performance. In reviewing this however, I realized that the peer universe (public funds with \$1B+ assets) used by Marquette to evaluate CRS returns against peers appears to have substantially declined. Recent investment reports show only 11-15 peers in the comparison universe versus 26 in 2021. That universe may be too small for useful comparison. Other investment consultants use a peer universe that has close to 200 peers. This is worthy of a closer look in 2023.

Another item that may need a closer look is investment manager oversight and compliance with the CRS Statement of Investment Policy. I think we have assumed that Marquette regularly performs due diligence on manager compliance. This assumption has been informed by p.3 of the Marquette quarterly report which lists the compliance status of each manager. Closer review of this page however shows that the label "In Compliance" only means that "the investment manager *states* it is acting in accordance with the Investment Policy Guidelines." See p. 3, 4thQ 2021 Marquette report. In the most recent report this language was updated, but still reflects a fairly passive approach to verifying investment manager compliance: "Marquette has not been notified of any issues or changes to the investment manager that would materially impede upon its ability to execute the investment strategy or adhere to any applicable investment guidelines."

Fiduciary duty probably imposes a more stringent obligation to actually verify manager compliance with its contractual investment management obligations. This too may be worthy of a closer look in 2023.

The investment returns reported by Marquette and Cheiron for CY 2020 deviated more than expected (2+% difference). Timing has something to do with this, and from our discussions it appears that Marquette continually updates the year-end investment return over the course of the following year as returns are updated by investment managers. Many retirement systems simply lag their illiquid returns by one quarter, and don't attempt to true them up over time. All things being equal, my preference leans towards the Marquette approach because eventually the final return is accurate with respect to all managers at a point in time, including the illiquid managers with delayed returns (private equity and real estate go through a quarterly appraisal process that delays reporting). The problem is that the return updating process is completed after the actuarial valuation process is usually completed. I don't have a particular recommendation on this except to be aware that sometimes the actuary and investment consultant returns may be different.

Considerations for scope of 2023 Investment Consultant RFP:

- Regular asset allocation evaluation, with capital market and volatility projection for range of asset mixes.

- Liquidity management has been a challenge for staff all year—we may need to get more intentional around investment consultant support for this, and/or adopt a cash asset allocation.
- Possibly include review of the defined contribution 457 plan investment options, since this is not presently reviewed (a funding source for this will need to be considered as defined benefit trust funds should not be used for this).

Cincinnati Retirement System
DRAFT Risk Management Report (11/3/2022)

Risk Category	Risk Description	Rank	Expected Risk Level		Risk Response	Risk Owner	Reporting and Oversight Committee
			Risk Level	Trend			
Market	Market volatility could lead to undesirable investment outcomes.	1	High	↔	Mitigate	Marquette	Investment Committee
Personnel	Ability to attract and retain talented staff; succession planning.	2	High	↑	Mitigate	Executive Director	Board of Trustees
Cyber	Ineffective cyber security controls could lead to breaches or sabotage of CRS systems. Unauthorized access of confidential information could result in state or federal law violations and harm the best interests of CRS and its members.	3	High	↑	Mitigate	Executive Director, ETS Director	Audit Committee (TBD)
Funding	A lack of sound funding for the plan could lead to insufficient assets to pay for long-term benefits and financial obligations.	4	High	↔	Mitigate	Executive Director	Board of Trustees
Mission	Lack of member access to information and education results in poor retirement outcomes.	5	Medium	↔	Mitigate	Executive Director	Performance Evaluation Committee
Counterparty	Business partners or entities are unable to fulfill their obligations or do not complete transactions as agreed upon.	6	Medium	↔	Mitigate	Executive Director	Audit Committee (TBD), Investment Committee
Operational	Event causes a major business interruption, such as late monthly pension payroll.	7	Medium	↔	Mitigate	Executive Director	Audit Committee (TBD)
Governance	Not following processes and procedures in decision making.	8	Medium	↓	Mitigate	Board of Trustees	Governance Committee
Physical	Inaccessible and dated space and facilities; Inadequate facilities management; ineffective space utilization.	9	Medium	↔	Accept	Executive Director	Board of Trustees
Legislative	Legislative events lead to adverse relations, unfavorable legislation, and restricted funding.	10	Low	↓	Mitigate	Executive Director	Board of Trustees

2023 Draft CRS Board Objectives

Board

- Increase City Contribution rate to 17%
- Outreach to City Council and CMO
- Provide input to CMO on healthcare funding policy
- Experience Study recommended changes: 30yr rolling amortization, etc.
- Actuary RFP (prepare fall 2023; issue Jan 2024)

Governance Committee

- Financial Disclosure Policy and Forms
- Ethics Policy
- Creation of Audit Committee, possibly from Performance Eval Comm
- Charters for Current Committees
- Consider Change to Fiscal Year
- Consolidate Governance Manual, Board Rules and Policies
- Trustee Training Policy
- Implement DROP through City Municipal Code (if cost neutral)
- Evaluate Fiduciary Governance of 457 Plans

Benefits Committee

- Review Horan healthcare plan changes
- Survivor Benefits
- Survey retirees re benefits
- Consider cafeteria benefits options (LTC, Life Ins, Ins tier options)

Performance Eval/Audit Committee (TBD)

- Financial audit and CRS financial report
- Risk review
- Fiduciary Performance Audit
- Disaster Recovery and Business Continuity Plan

Investment Committee

- Investment Consultant RFP
- Asset allocation review; cash allocation?
- Investment risk review
- Investment return peer universe
- Investment manager compliance
- Consideration of investment methods of long-term top quartile peers

Executive Director

- Support for Board and Committee objectives
- Draft retiree handbook
- Improve Customer Service
- Improve Member Education
- Improve CRS Communications
- Professional development for staff: customer svc, supervisory, subject matter
- Comprehensive Scanning Project
- Member Direct for Retirees
- RFI for 457 Plan Vendor*; wait on Governance committee
- Trustee Training
- 415(b) Compliance

CMC Amendments:

- **Disabled adult children
- **Medicare enrollment requirement
- **CRS Procurement
- **Reform 20 yr death + option 1 spouse
- **Reform \$30k cap for secure plan
- **Reform statutes of limitation for death beneficiaries,
- **Consider reform 2% svc factor for Group g after 30 yrs,
- Outreach to deferred eligible for retirement
- Outreach to inactive eligible for Return of contributions
- Transition Check Issuance to 5/3
- Consider CRS Servers to MS Azure Cloud
- Succession planning
- Paper process and mgmt
- Improve Member Direct functionality
- CRS Dashboard for Board meetings
- CSA open issues
- Stakeholder outreach
- Update Policies and Procedures; Benefits Operations Manual
- Complete service time review project
- Improve payroll process
- Update record retention policy
- Develop comprehensive long-term CRS calendar
- Pension Gold projects: multi-factor auth, improve functionality
- Think about identity verification and notary stamp and how we are using the notary stamp
- Deferment Form / Letter -- this is how we tell people when they leave what to expect as a result of deferring