

# Cincinnati Retirement System (CRS) Overview

## Overview of CRS

The Cincinnati Retirement System (CRS) was established in 1931, the first Ohio pension plan for general City employees. The Pension Trust includes a single employer defined benefit pension plan for general employees (excluding sworn police & fire employees, and elected officials) a deferred retirement option program (DROP), and an OPEB Health Care Trust with combined Pension and Health Care assets of \$2.4 billion. CRS serves approximately 3,000 full-time active members and 4,200 pensioners.

CRS is governed by a Board of Trustees and is administered by the Retirement Department of the City that includes a staff of thirteen. The City Manager is the appointing authority for the Director and supervises performance. The CRS Board of Trustees actively participates in Director candidate searches and participates in performance evaluations. The System is financed through contributions from the employees and the employer as well as income earned on investments of the System.

## Board Authority and Responsibilities

- Collaborative Settlement Agreement, Section 30 (Agreed Order)
- Cincinnati Municipal Code, Section 203 – 65. – Management of Fund and Duties of Trustees
- Cincinnati Administrative Code, Article XV, Retirement System

## CRS Trusts

Pension and Healthcare assets are held in separate trusts, are irrevocable and are for the benefit of CRS members only. The assets are commingled for investment purposes only. CRS staff uses a pension administration system, supported by an outside firm, to collect and maintain member data, track employee contributions, calculate benefits, process monthly pension payroll, maintain health care eligibility and premiums, etc.

- The Pension Trust provides defined benefit pension benefits, a DROP, death benefits, and survivor benefits.
- Under a Defined Benefit Plan:
  - Employer and employees contribute to the retirement plan.
  - Employer (through the CRS Board) assumes responsibility for investing the contributions.
  - Employer assumes the financial risk of providing sufficient retirement benefits in the form of monthly pension payments.
  - In Ohio, public employees do not participate in Social Security.

- Most private employers now offer only Defined Contribution Plans:
  - Employer and employees contribute to the retirement plan.
  - Employee assumes responsibility for investing the contributions.
  - Employee assumes the risk of providing sufficient annual retirement benefits.
- The Health Care Trust provides retiree medical, dental and vision benefits to eligible members.
  - There are three pre-65 medical plans, three Medicare Advantage plans for post-65 members, each with different premium share arrangements.
  - The dental plan and vision plan are paid in full by retirees.
  - The retiree health care benefits are funded and administered by CRS, not the City's Risk Dept.
  - CRS members who are hired on/after January 1, 2016 are not eligible for retiree healthcare benefits in the future.

### **Asset Management**

CMC Section 203-65 provides the Board full investment authority over the Pension Trust and Health Care Trust assets subject to the prudent investor guidelines and in accordance with the Ohio Revised Code.

- The Board maintains and adheres to an Investment Policy (see CRS website) with the following objectives:
  - Preserve the safety of principal.
  - Earn the highest possible return consistent with prudent levels of risk.
  - Create a stream of investment returns to insure the systematic and adequate funding of actuarially determined benefits through contributions and professional management of the System assets.
- The Board retains an outside investment consultant to provide guidance on the Investment Policy, assist in choosing investments, negotiate investment fees, assist CRS staff with cash flow and asset allocation requirements, and provide detailed investment reports.
- Outside legal counsel is retained (through the Law Dept.) to assist in the review and negotiation of certain investment contracts.

### **Actuarial Valuations and Consulting**

The Board retains an actuarial firm to prepare annual valuations and special reports as requested for the Pension Trust and the Health Care Trust. The valuations provide detailed information on the current and projected funding levels, liabilities, plan assumptions, member data, and plan benefits.

- Funding Equation: Employer & Employee Contributions + Investment Income = Benefit Payments + Expenses
- An important component of an Annual Valuation is to calculate the Actuarially Determine Contribution (ADC) and the funding level for the trusts. The ADC for pension benefits as of 12/31/20 (setting the contribution rates for FY2022) was as follows:

Normal Cost Rate*	12.15%
Unfunded Liability Rate**	28.17%
Administrative Expenses	0.80%
Employee Contribution	<u>(9.00%)</u>
City's ADC ***	33.46%

\*Normal Cost contribution is the annual cost of the future liability associated with the benefits earned in that particular year.

\*\* An unfunded liability occurs when assets aren't sufficient to cover liabilities. This can occur as a result of multiple events such as lower contributions than prescribed, lower investment returns than expected, adverse actuarial experience such as longer life spans, or unexpected early retirement programs, etc.

\*\*\* Though the City's ADC as of 12/31/20 was 33.46%, the CSA provides for a minimum 16.25% employer contribution. When the CSA was finalized in 2015, a stated goal was to bring the system to 100% funding in 30 years.

- Factors affecting the funding ratio since the CSA:
  - The minimum rate of 16.25% has consistently underfunded the ADC
  - Implementation of CSA more costly than expected
  - Change in mortality tables to reflect longer lifespans
  - Variability of investment returns and the impact of negative cash flows (benefits & expenses are greater than employer & employee contributions + investment returns)
- The following are some of the many assumptions used by the actuaries when preparing their reports:
  - Investment Rate of Return (currently 7.5% per CSA)
  - Contribution Percent of Payroll
  - Retirement Age
  - Years of Service
  - Salary Increases
  - Mortality
  - Terminations Prior to Retirement
  - Administrative Costs
  - Inflation

#### Outside consultants/providers used by CRS:

- Actuary: Cheiron
- Pension Administrative System Support: Levy, Ray & Shoup
- Fiduciary Insurance: Chubb (\$5 million primary), and Hudson Insurance (\$2 million excess)
- Investment Consultant: Marquette Associates
- Custodian: BNY Mellon
- Legal Investment Contract Review: Ice Miller
- Medical coverage: Anthem
- Prescription coverage: CVS Caremark & SilverScript insurance Company
- HRA/MERP: J&K Consultants
- Vision: Eyemed
- Dental: Superior Dental

#### **Resources:**

- Board Contact List
- Board & Committee Meetings Schedule
- Summary Description of Committees
- Sunshine Law & Fiduciary Duties PowerPoint
- CRS Governance Manual
- CRS Board Rules
- Cincinnati Municipal Code, Section 203
- Cincinnati Administrative Code, Article XV, Retirement System
- Collaborative Settlement Agreement
- CRS website: <https://www.cincinnati-oh.gov/retirement/>