

December 16, 2020



Ms. Paula Boggs Muething
City Manager
City of Cincinnati
801 Plum Street
Cincinnati, Ohio 45202

Dear Ms. Boggs Muething,

At the direction of the Cincinnati Retirement System (CRS) Board of Trustees (Board), I am making the following requests regarding the funding of the CRS by the City of Cincinnati.

Introduction

The Board appreciates the unprecedented challenge to balance the City's budget while providing basic services during this time of pandemic. Nonetheless, the Board would be remiss if it did not bring forth concerns about CRS funding. The CRS actuary, Cheiron, updated the thirty-year projection of the pension trust in a report dated September 29, 2020. The report projects that the pension trust will be insolvent in 2048 after including the actual ERIP participants, assumed vacant positions, and the estimated investment return for 2020. There are many variables that will affect CRS funding between now and 2048; however, this projection must raise CRS funding as an urgent priority for the City. Under Ohio law and the Collaborative Settlement Agreement (CSA) both the Board and the City have a fiduciary duty to over 8,500 CRS members to manage and preserve the pension and healthcare trusts to ensure that CRS obligations to both current and future retirees are met.

Early Retirement Incentive Program (ERIP)

In an effort to balance its operating budget, the City implemented the ERIP even though such increases in benefits are not included or contemplated by the CSA. By doing so, the City increased the retirement benefit for 253 CRS members, thereby increasing the pension trust liability by \$23.8 million as of December 31, 2020 and contributing to the depletion of pension trust assets by December 31, 2048, according to the Cheiron ERIP impact report. Furthermore, the report stated, "It is our understanding that the City intends on funding the increase in the liabilities of this program through level annual dollar amounts over 15 years beginning January 1, 2022". The report also states that "To fund this increase in liabilities, the City would need to contribute an additional \$2.7 million per year for the next 15 years beginning January 1, 2022".

The Board asks that the City include the additional annual actuarially determined employer contribution amount of \$2.7 million in its next biennial budget and the annual actuarially determined amount in each budget thereafter, until the increased CRS liability is paid in 15 years.

Deferred Retirement Incentive Program (DROP)

The CSA includes a Deferred Retirement Option Plan (DROP) provided by and managed by the City. The DROP actuary report by Cheiron dated August 20, 2020 "determined the impact on the System [CRS] liability to be approximately \$11.6 million as of July 1, 2020". The CSA states that "The DROP program

shall be cost neutral to the CRS Pension Trust Fund and shall not negatively impact the CRS Funding Ratio". The CSA further provides that the City establish funding "to insure against negative performance and to cover the cost of administration and expenses to the CRS".

The Board requests that the City reimburse the CRS for the DROP cost to date of \$11.6 million and any future actuarially determined cost of the DROP that the CRS would incur.

Board Budget Approval

The City Administrative Code states that "The general administration and responsibility for the proper operation of the retirement system shall be vested in a board of trustees". The CSA states that "The Board shall be responsible for determining and approving the CRS budget and all components in a timely fashion". Furthermore, the CSA defines the Board's role regarding the CRS budget and changes to it. It states "Any deposits, expenditures, transfers, loans, or withdrawals for the CRS Pension Fund, the 115 Trust [healthcare], or staff funds that were not identified by category in the annual budgets of the Retirement Department and the City must be approved by two-thirds of the Trustees present. All such actions shall be included and identified as a line item in the budget which shall be approved annually by the Board by a two-thirds vote of those present." The ERIP and DROP expenditures have increased or will increase the liability of the pension trust but neither were brought before the Board by the City for consideration as required by the CSA.

The Board requests that all City proposed CRS budget items and budget changes be properly brought before the Board in compliance with the CSA. That is, that such budget items be brought to the Board for consideration and to determine if two-thirds of the members present approve them.

Again, the Board appreciates the difficulty of this unprecedented time; however, the Board is bound by its fiduciary responsibility to CRS members as defined by law and the CSA to bring these matters to your attention.

Sincerely,



William. E. Moller, Chair
Cincinnati Retirement System
Board of Trustees

Cc: Mayor and Members of City Council;
CRS Board Members;
Paula Tilsley, CRS Director