



January 17, 2023

Ms. Sheryl Long
City Manager
City of Cincinnati
801 Plum St., Suite 152
Cincinnati, OH 45202

Re: City Employer Contribution Rate

Dear Ms. Long,

As you know, the Cincinnati Retirement System is governed by the Collaborative Settlement Agreement (CSA) which calls for 100% funding of the pension trust by 12/31/2045. The Board recently requested the CRS actuary to project what level of annual increases to the City's employer contribution rate would be required in order to achieve that goal. The actuary's response is attached to this letter.

To summarize, the CRS actuary projects that the City will need to increase its employer contribution by 1.5% each year from now until 2036 in order to achieve the goal of full funding by the end of 2045 (see Schedule of Funded Ratios, Scenario A, attached). The actuary further projects that if the City leaves its contribution rate at 16.25% until 2045, that the funding level of the CRS pension trust will reduce to only 18%. (Scenario C, attached).

The CRS Board of Trustees recommends that the City adopt an annually updated multi-year incremental funding methodology (see Schedule of Funded Ratios, Scenario A, attached) and budget the employer contribution according to the annual Schedule of Funded Ratios.

We provide this information to assist your office in its preparation efforts for the City's upcoming budget cycle. We can provide further information, if needed, and are available to discuss this matter with you at your convenience.

Sincerely,

A handwritten signature in black ink that reads "William E. Moller". The signature is written in a cursive, flowing style.

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

c: Mayor Aftab Pureval
Members of City Council

Attachment (Cheiron Letter)

Via Electronic Mail

January 4, 2023

Mr. Mike Barnhill
Cincinnati Retirement System
801 Plum Street, Suite 328
Cincinnati, Ohio 45202

Re: Schedule of Funded Ratios

Dear Mike:

As requested, we have prepared the Schedule of Funded Ratios in compliance with the Collaborative Settlement Agreement based on the projection model accompanying the December 31, 2021 actuarial valuation. The funded ratios reflect the actuarial liabilities divided by the actuarial value of assets projected as of each of the December 31 measurement dates shown below. We have shown the projected funded ratios on the attachments under three scenarios:

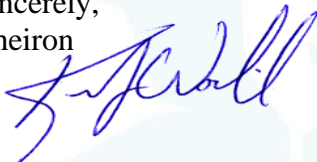
- Scenario A: City contributions increased incrementally to level needed for System to be fully funded as of December 31, 2045 (16.25% of full-time payroll increasing by 1.50% per year until 37.25% of full-time payroll)
- Scenario B: City contributions increased to level needed for System to be fully funded as of December 31, 2045 (29.50% of full-time payroll effective 2023)
- Scenario C: City contributions continue at current level (16.25% of full-time payroll)

The projected funded ratios in the attachment assume that all the assumptions in the December 31, 2021 actuarial valuation are realized. As advised by the System, we have reflected an assumed investment return of -10% for 2022 and 7.50% for all future years thereafter. Future projections may differ significantly from those presented in this letter due to such factors as the following: plan experience differing from that anticipated by the assumptions, changes in assumptions, and changes in plan provisions or applicable law.

In preparing these projections, we relied on the same census data, assumptions and methods used in performing the December 31, 2021 valuation. All the caveats in that report still apply.

If you have any questions, please let us know.

Sincerely,
Cheiron



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



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

SCENARIO A

Calendar Year	City Contribution Rate (% of Full-Time Payroll)	Funded Ratio as of December 31,
2022	16.25%	69.6%
2023	17.75%	68.5%
2024	19.25%	66.4%
2025	20.75%	64.3%
2026	22.25%	61.0%
2027	23.75%	60.4%
2028	25.25%	60.1%
2029	26.75%	59.9%
2030	28.25%	59.9%
2031	29.75%	60.1%
2032	31.25%	60.6%
2033	32.75%	61.4%
2034	34.25%	62.6%
2035	35.75%	64.1%
2036	37.25%	66.0%
2037	37.25%	68.2%
2038	37.25%	70.7%
2039	37.25%	73.6%
2040	37.25%	76.9%
2041	37.25%	80.7%
2042	37.25%	84.9%
2043	37.25%	89.6%
2044	37.25%	94.7%
2045	37.25%	100.4%

SCENARIO B

Calendar Year	City Contribution Rate (% of Full-Time Payroll)	Funded Ratio as of December 31,
2022	16.25%	69.6%
2023	29.50%	69.5%
2024	29.50%	68.4%
2025	29.50%	67.3%
2026	29.50%	64.9%
2027	29.50%	65.2%
2028	29.50%	65.6%
2029	29.50%	66.1%
2030	29.50%	66.7%
2031	29.50%	67.4%
2032	29.50%	68.3%
2033	29.50%	69.3%
2034	29.50%	70.4%
2035	29.50%	71.8%
2036	29.50%	73.3%
2037	29.50%	75.0%
2038	29.50%	77.0%
2039	29.50%	79.3%
2040	29.50%	81.9%
2041	29.50%	84.8%
2042	29.50%	88.1%
2043	29.50%	91.8%
2044	29.50%	95.9%
2045	29.50%	100.4%

SCENARIO C

Calendar Year	City Contribution Rate (% of Full-Time Payroll)	Funded Ratio as of December 31,
2022	16.25%	69.6%
2023	16.25%	68.4%
2024	16.25%	66.0%
2025	16.25%	63.5%
2026	16.25%	59.5%
2027	16.25%	58.1%
2028	16.25%	56.7%
2029	16.25%	55.1%
2030	16.25%	53.5%
2031	16.25%	51.8%
2032	16.25%	50.0%
2033	16.25%	48.1%
2034	16.25%	46.1%
2035	16.25%	43.9%
2036	16.25%	41.6%
2037	16.25%	39.2%
2038	16.25%	36.7%
2039	16.25%	34.1%
2040	16.25%	31.4%
2041	16.25%	28.8%
2042	16.25%	26.1%
2043	16.25%	23.4%
2044	16.25%	20.7%
2045	16.25%	18.1%



January 17, 2023

Ms. Sheryl Long
City Manager
City of Cincinnati
801 Plum St., Suite 152
Cincinnati, OH 45202

Re: Funding Policy for the 115 Healthcare Trust

Dear Ms. Long,

The Cincinnati Retirement System (CRS) Board would like to thank you for providing us with a copy of your draft of a 115 Healthcare Trust Policy and requesting our input and recommendations.

As you know, the Collaborative Settlement Agreement (CSA) and City Municipal Code (CMC) require the City to adopt a funding policy that implements and secures the “City’s obligation to fully fund the 115 Trust at actuarially appropriate levels” through 12/31/2045. CSA, sec. 26; CMC 203-93(c).

At its meeting of January 12, 2023, the CRS Board of Trustees unanimously passed the following motion:

MOTION: The Healthcare 115 Trust Funding Policy shall include the following provisions:

1. The Healthcare 115 Trust shall achieve full funding of at least 100% at the end of the term of the Collaborative Settlement Agreement (CSA) to provide the healthcare benefits for CRS eligible members (and their eligible spouses and children) covered by the Collaborative Settlement Agreement.
2. The City shall contribute the annual Actuarially Determined Contribution (ADC) into the Healthcare 115 Trust that is necessary to achieve full funding of at least 100% at the end of the term of the CSA.
3. If the funding ratio (defined as the AVA divided by AL) is at or below 95% in any calendar year, the City shall, within one (1) calendar year from the date that the annual Actuarial Valuation report is submitted to the CRS Board of Trustees, or eighteen (18) months after the end of the Actuarial Valuation calendar year being evaluated (whichever is earlier), contribute to the 115 Trust the funding amount necessary to achieve at least 100% funding at the end of the CSA term, based on the annual Actuarial Valuation.

4. At the end of the CSA term if there is a fund balance in the Healthcare 115 Trust, the balance shall be used to provide healthcare benefits for eligible members (and their eligible spouses and children) during their lifetimes.

We look forward to the City adopting a healthcare funding policy that complies with the CSA and CMC as soon as possible.

Sincerely,

A handwritten signature in cursive script, appearing to read "William E. Moller".

William E. Moller
Chair, Cincinnati Retirement System Board

c: Mayor Aftab Pureval
Members of City Council

Attachment (Motion)

115 Trust Funding Policy

On December 2, 2022, Billy Weber, Assistant City Manager, made the following request of the CRS Board via email. The request is consistent with the Cincinnati Municipal Code, 203-93 (c) which states that "The City, with input and recommendations from the Board shall establish a funding policy for health care in accordance with the provisions of the Collaborative Settlement Agreement." The referenced policy has been provided to the Board and is attached.

"I am writing on the behalf of the City Manager's Office to formally request Cincinnati Retirement System Board input on the attached proposed Health Funding Policy, pursuant to CMC 203-93(c) and the Collaborative Settlement Agreement. We look forward to continued discussion to resolve this outstanding item."

Board 115 Trust Fund Policy Input and Recommendations

The CRS Board, in fulfilling its fiduciary obligation, must provide a response to the City's proposed funding policy draft. The following motion is submitted to the CRS Board Benefits Committee for consideration and approval.

MOTION: The Healthcare 115 Trust Funding Policy shall include the following provisions:

1. The Healthcare 115 Trust shall achieve full funding of at least 100% at the end of the term of the Collaborative Settlement Agreement (CSA) to provide the healthcare benefits for CRS eligible members (and their eligible spouses and children) covered by the Collaborative Settlement Agreement.
2. The City shall contribute the annual Actuarially Determined Contribution (ADC) into the Healthcare 115 Trust that is necessary to achieve full funding of at least 100% at the end of the term of the CSA.
3. If the funding ratio (defined as the AVA divided by AL) is at or below 95% in any calendar year, the City shall, within one (1) calendar year from the date that the annual Actuarial Valuation report is submitted to the CRS Board of Trustees, or eighteen (18) months after the end of the Actuarial Valuation calendar year being evaluated (whichever is earlier), contribute to the 115 Trust the funding amount necessary to achieve at least 100% funding at the end of the CSA term, based on the annual Actuarial Valuation.
4. At the end of the CSA term if there is a fund balance in the Healthcare 115 Trust, the balance shall be used to provide healthcare benefits for eligible members (and their eligible spouses and children) during their lifetimes.

The approved motion provisions shall be sent to the City Manager from the CRS Board in letter format, signed by the Board Chair, with copies to the Mayor and Councilmembers. The letter shall include an introduction that references the goal of the CSA to fund the trust at actuarially appropriate levels to provide healthcare benefits.

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. 25 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, assuming that all actuarial assumptions are accurate. The past service cost is the amount needed 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 90% 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 89% funded, 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

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.

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 endeavor to re-approve, update or replace this funding policy prior to its expiration.