

May 2005

Management Report

Retirement System for Employees
Actuarial Valuation - December 31, 2004

The City of Cincinnati

MERCER

Human Resource Consulting

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Introduction

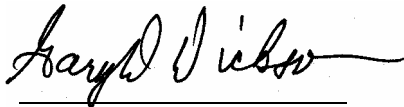
This actuarial summary provides management with current year information and historical data relative to the Retirement System. While the annual actuarial valuation report primarily develops information for the year ending December 31, 2004 and the 2006 contribution rate, this summary also tracks trends over the last 25 years regarding:

- 1) contributions as a percent of total payroll, and in dollar amounts, including sources of change from the prior year,
- 2) plan participation, and
- 3) the funding progress (last 5 years).

This summary also discusses current issues and considerations relative to the Retirement System.

The results shown in this report are based upon the data, assumptions, methods, and plan provisions stated in the December 31, 2004 valuation report.

We are available to answer any questions on the material contained in the report, or to provide explanations or further details as may be appropriate. We are employed as consultants for Mercer Human Resource Consulting. We are both members of the American Academy of Actuaries and/or the Society of Actuaries and meet the Qualifications Standards of the American Academy of Actuaries to reach the actuarial opinions contained herein.



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Summary of Valuation Results

Retirement System of The City of Cincinnati

	12/31/2002	12/31/2003	12/31/2004	Percentage (Decrease) Increase 2003/2004
Participants				
Active - Full Time	3,846	3,710	3,475	(6.3)%
Inactive	4,585	4,522	4,551	0.6%
Total Payroll	\$ 168,286,712	\$ 166,037,875	\$ 161,752,656	(2.6)%
Total Normal Cost as a Percent of Payroll	20.42%	20.82%	21.75%	
Member Contribution Rate (monthly)	7.32%	7.32%	7.32%	
Developed Employer Normal Cost as a Percent of Payroll	13.10%	13.50%	14.43%	
Total Contribution as a Percent of Payroll	18.57%	30.32%	32.19%	
Member Contribution Rate (monthly)	7.32%	7.32%	7.32%	
Employer Total Contribution as a Percent of Payroll ⁽¹⁾	11.25%	23.00%	24.87%	
Actual Contribution				
Employer	\$ 12,755,764	\$ 12,619,671	\$ 19,336,221	53.2%
Members	14,664,620	13,311,001	13,153,510	(1.2)%
Assets				
Market Value	\$ 1,976,125,182	\$ 2,279,721,027	\$ 2,384,920,618	4.6%
Actuarial Value	2,371,350,218	2,279,721,027	2,360,549,572	3.5%
Return (Market Value)	(12.07)%	21.80%	10.09%	
Return (Actuarial Value)	0.16%	8.73% ⁽²⁾	9.00%	
Present Value of Benefits ⁽³⁾	\$ 2,542,172,918	\$ 2,615,230,743	\$ 2,704,181,858	3.4%
Actuarial Accrued Liability ⁽³⁾	\$ 2,343,748,368	\$ 2,419,503,174	\$ 2,519,582,204	4.1%
Funding Progress ⁽⁴⁾	101.2%	94.2%	93.7%	(0.5)%
Value of Accrued Benefits ⁽³⁾				
Vested	\$ 2,102,288,315	\$ 2,183,365,541	\$ 2,305,848,283	5.6%
Total	2,150,090,918	2,251,167,739	2,363,590,225	5.0%

(1) Contributions are being made at 7.0% for 1999 through 2003 and 11% for 2004 and 2005.

(2) Determined under the prior actuarial asset method.

(3) The Present Value of Benefits is the present value of all future benefits (based on projected pay and service) current participants are expected to receive. The Actuarial Accrued Liability is the allocation of those benefits that are based on past service. The Value of Accrued Benefits is the present value of benefits earned to date based on current pay and current service.

(4) Ratio of Actuarial Value of Assets to Actuarial Accrued Liability. See page 17.

Summary of Valuation Results

Change in Contribution Rate

The contribution is determined by taking the normal cost of the plan (the cost of benefits accruing to participants this year) and increasing it for an amortization payment on the unfunded liability (excess of actuarial accrued liability over actuarial value of assets). The contribution amount is then converted to a contribution rate by dividing it by expected payroll.

Thus, the contribution rate depends on three things: the unfunded actuarial liability, the normal cost, and the expected payroll.

The contribution rate prior to reflecting expected employee contributions increased from 30.32% of payroll for 2005 to 32.19% for 2006. This is due primarily to the medical plan experience and the recognition of prior asset losses.

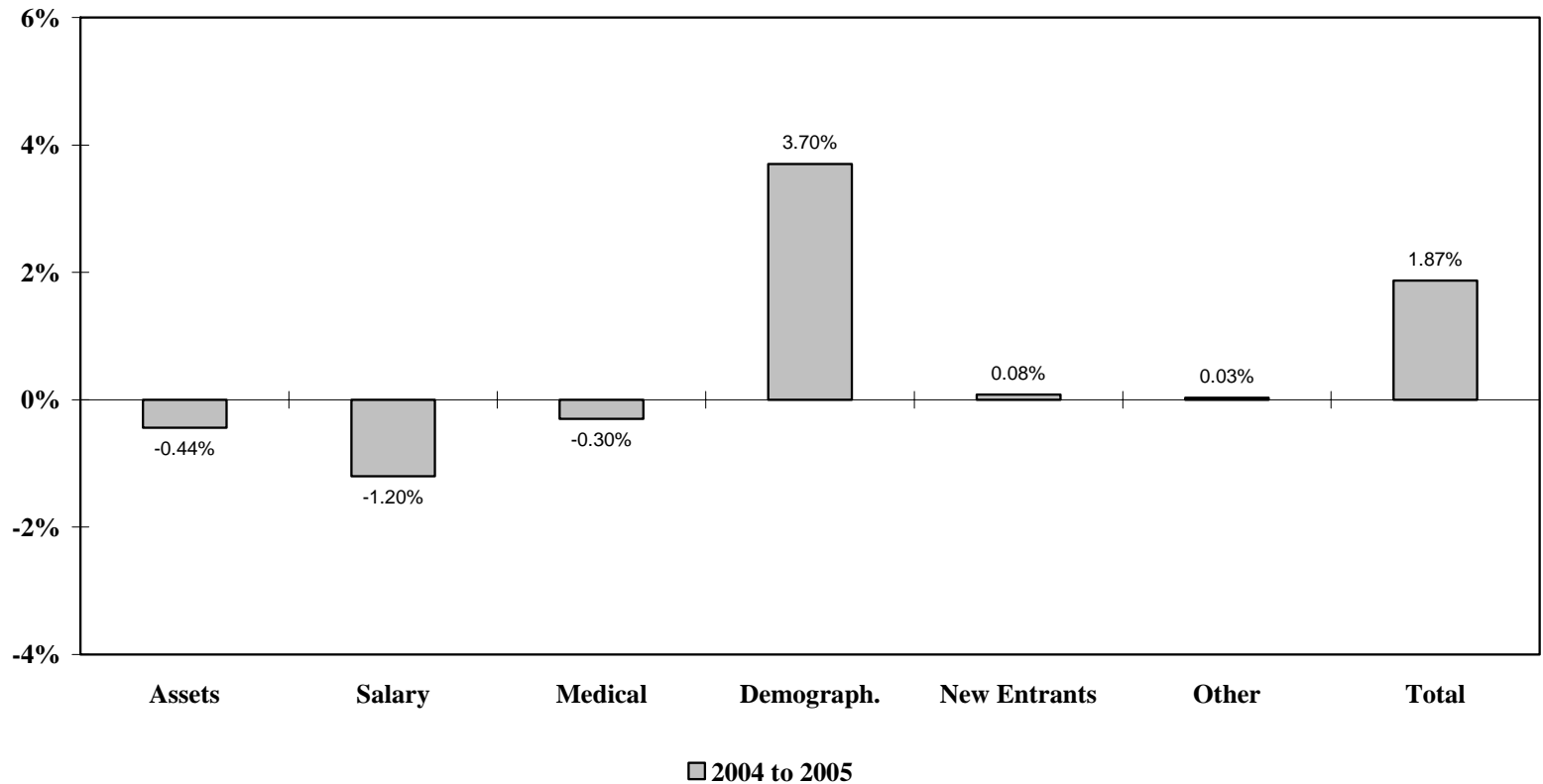
Component	Reduction in Surplus	Change in Normal Cost Rate	Change in Contribution Rate
Asset experience	\$(30,464,000)	N/A	(2.21)%
Effect of asset smoothing	24,371,000	N/A	1.77%
Total asset impact	(6,093,000)	N/A	(0.44)%
Salary experience	(23,738,000)	0.52%	(1.20)%
New entrants	2,191,000	(0.08)%	0.08%
Participant demographics*	30,456,000	0.82%	3.70%
Medical claims experience	(1,160,000)	(0.07)%	(0.15)%
Medical assumptions	9,143,000	0.52%	1.18%
Medical participation data	(7,421,000)	(0.79)%	(1.33)%
Total medical impact	562,000	(0.34)%	(0.30)%
Plan Change	0	0.00%	0.00%
Employer Contributions	391,000	0.00%	0.03%
Total Change	3,769,000	0.93%	1.87%

* Includes impact of expense amount change and decrease in payroll base.

Gains are shown as negative numbers and losses are shown as positive numbers.

The following exhibit illustrates the changes in the contribution rate.

CHANGE IN CONTRIBUTION RATE 2004



Changes in contribution rate before reflecting expected employee contributions

“Medical” includes the impact of the change in assumptions and the use of actual participant data; “Demograph.” includes the impact of the change in the investment and administrative expense amount and the impact of a smaller payroll base; “Other” reflects contribution variance.

Summary of Valuation Results

Impact of Asset Returns

The market value of assets at December 31, 2004 was \$30 million more than the expected value of assets assuming the 8.75% expected return. The annual return on the market value of assets was 10.09%. The actuarial value of assets smooths the recognition of this gain over 5 years so only \$6 million of the gain impacts the determination of the contribution requirement for 2006. The remaining \$24 million gain will be reflected in future valuations.

The actuarial value of assets uses a five year smoothing technique to help dampen the asset return volatility of the market value of assets. In this way, a portion of this year's gain will be available to offset a future loss. This works well when the asset returns fluctuate around the assumed investment return. But sometimes a series of losses may occur without an intervening gain. Then the relationship between the actuarial value and market value does not provide reasonable results of the funded position of the plan or the future funding requirements.

Medical, Dental, and Vision Cost Updates

Mercer continues to collect actual historical retiree plan experience (claims, enrollment, administrative fees, etc.) for the medical, dental and vision plans to assist in projecting future claims costs.

Also, for the second consecutive year we were able to collect more accurate retiree medical census data, which we reconciled back to the census data from last year's valuation. Mercer and the City felt that the current census information was an accurate representation of the covered retiree medical population at that time.

All of this information was used to develop projected per participant claims cost figures.

Based on the updated data received and analysis performed for this valuation the following provides highlights of updates/confirmations in the 12/31/04 valuation:

- **Medical Costs & Trend:** The projected age 65 claims cost per covered adult (retiree or spouse) for current retirees increased by 16% for pre-Medicare coverage and 15% for Medicare eligible coverage from 2004 (12/31/03 valuation) to 2005 (12/31/04 valuation) for all of the plans combined. These increases were more than the expected 2004 to 2005 increases of 11.7% for pre-Medicare coverage and 12.2% for Medicare eligible coverage assumed in last year's valuation. The future medical trend table was updated slightly based on the updated experience data and updated/expected enrollment among plans and the medical vs. prescription drug portion of costs on a pre-Medicare and Medicare eligible basis. The result is projected future trend rates equal to or less than 1% higher per year than anticipated in last year's valuation.

(Note that medical claims available for this analysis were not split between pre-Medicare and Medicare eligible groups. For this reason, total costs by plan were updated based on the 2004 data received but the cost relationships between pre-Medicare and Medicare eligible groups for individual plans were assumed to remain consistent from the pricing for the 12/31/03

valuation.)

Medicare Reform Savings: The projected savings estimate due to Medicare Reform Part D coverage being implemented in 2006 was updated based on the final regulations and updated retiree experience data. This estimate assumes that the City's plan will integrate with Medicare and contribute towards the Medicare Part D premium based on corresponding retiree contribution requirements for the various active/retiree groups. Medicare Reform savings are assumed to increase at prescription drug trend rates.

- Dental Costs & Trend: The inclusion of 2004 retiree dental claims experience into our analysis resulted in the projected claims cost for 2005 remaining the same as developed last year for 2004. This is lower than the anticipated trend of 6.25% that was anticipated from 2004 to 2005 in last year's valuation. The future dental trend table was updated accordingly and varies only slightly from last year's valuation.
- Vision Costs & Trend: The inclusion of 2004 retiree vision claims experience into our analysis resulted in the projected claims cost for 2005 remaining the same as developed last year for 2004. This is lower than the anticipated trend of 1% that was anticipated from 2004 to 2005 in last year's valuation. The future vision trend table remains the same as last year's valuation.

The net effect of these changes was a \$0.5 million increase in the Actuarial Accrued Liability.

Summary of Valuation Results (continued)

City of Cincinnati
Comparison of Results to Last Year
December 31, 2004 Preliminary Results

	12/31/2003	12/31/2004
1. Present Value of Projected Benefits:		
(a) Active Participants	1,079,203,473	1,017,945,352
(b) Participants with Deferred Benefits	38,577,073	31,665,030
(c) Participants Receiving Benefits	1,497,450,197	1,654,571,476
(d) Total	2,615,230,743	2,704,181,858
2. Present Value of Future Employee Contributions	90,861,942	85,078,393
3. Present Value of Future Normal Costs	104,865,627	99,521,261
4. Entry Age Accrued Liability (1)(d) - (2) - (3)	2,419,503,174	2,519,582,204
5. Actuarial Value of Assets	2,279,721,027	2,360,549,572
6. Unfunded/(Surplus) (4) - (5)	139,782,147	159,032,632

	Dollar Amount	Percent of Proj. Pay	Dollar Amount	Percent of Proj. Pay
7. Amortization of Unfunded/(Surplus) Over 15 Years (assuming monthly payments)	16,437,224	9.50%	16,880,461	10.44%
8. Normal Cost (assuming monthly payments)	27,678,612	15.99%	26,189,711	16.19%
9. Expenses (assuming monthly payments)	8,369,600	4.84%	8,997,320	5.56%
10. Total Normal Cost (assuming monthly payments)	36,048,212	20.83%	35,187,031	21.75%
11. Employees Expected Contributions to Normal Cost (assuming monthly payments)	12,675,012	7.32%	11,845,794	7.32%
12. Employer Normal Cost (10) - (11)	23,373,200	13.50%	23,341,237	14.43%
13. Employer Total Cost (7) + (12)	39,810,424	23.00%	40,221,698	24.87%

	<u>12/31/2003</u>		<u>12/31/2004</u>	
Total Contribution	52,485,436	30.33%	52,067,492	32.19%

Actuarial Summary

Employer Contributions

The graph on page 9 shows employer contributions over the 25 years up through 2004, expressed as a percent of total payroll.

This exhibit shows a total employer contribution which was generally stable from 1980 to 1983. However, more volatility occurred between 1984 and 1994, with a big drop in contribution rate occurring when the unfunded liability became completely paid off in 1998.

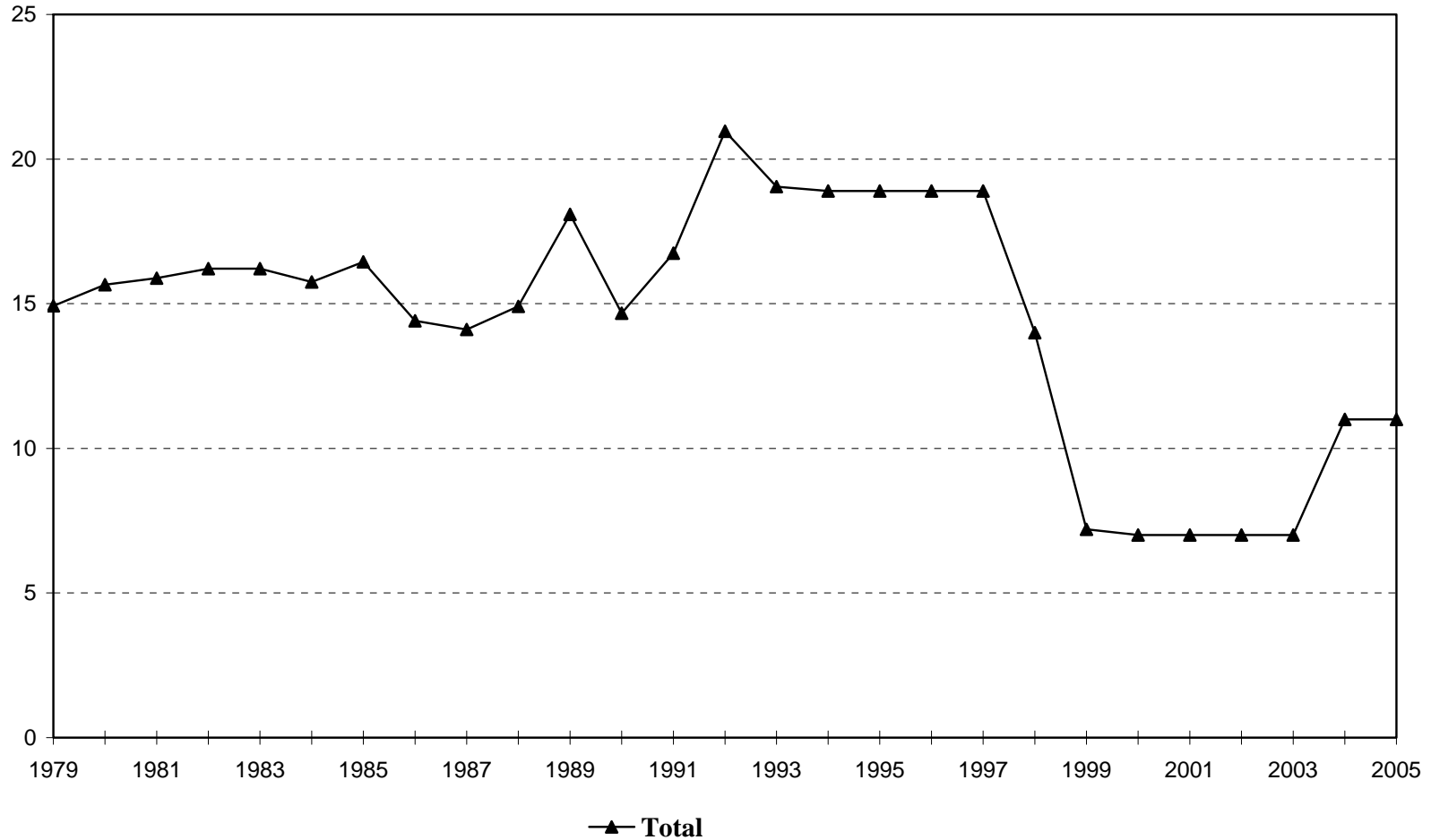
Based on the actuarial method used to value liabilities, the employer contribution is broken into two components as shown on page 9:

- One to reflect the theoretical current cost (normal cost)
- One to handle unfunded past costs or surplus.

Since this is a split based on theoretical formulas, one component absorbs most of the volatility. In the method used prior to 2001, the normal cost absorbed the volatility. As of the end of 1998 the unfunded past costs had been completely amortized, leaving only the normal cost of the plan.

Beginning with the calculation of the contribution requirements for 2002 and later, the normal cost portion of the contribution will be more stable. The volatility associated with gains and losses and the reflection of the funded status will be made in the amortization portion of the costs.

EMPLOYER CONTRIBUTION AS A PERCENT OF PAYROLL



Actuarial Summary (continued)**Employer Contributions as a Percent of Payroll****City of Cincinnati Retirement System**

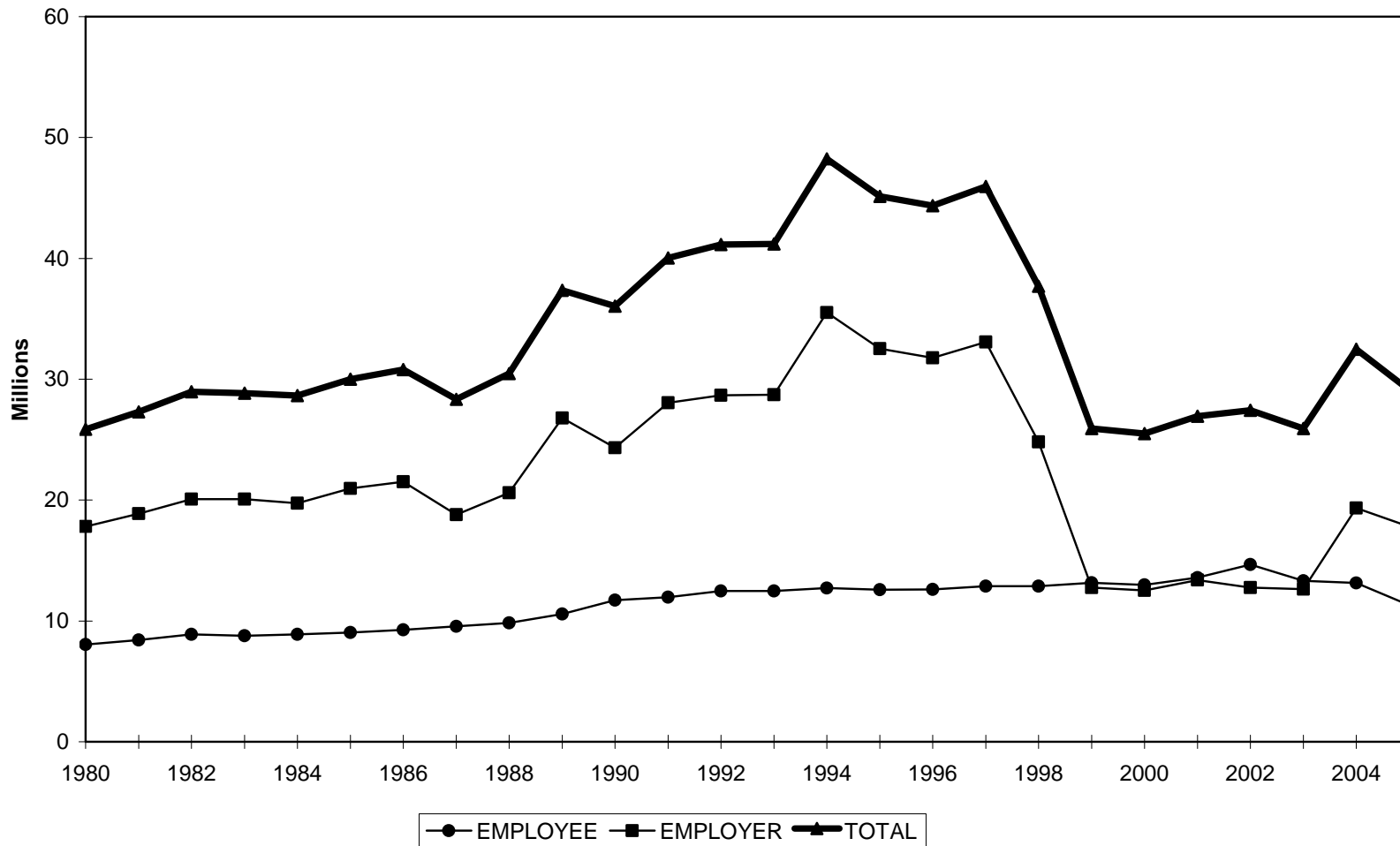
Year	Normal Cost	Unfunded Liability	Total
1980	9.74%	5.92%	15.66%
1981	9.95%	5.93%	15.88%
1982	10.24%	5.97%	16.21%
1983	10.24%	5.97%	16.21%
1984	9.78%	5.97%	15.75%
1985	10.26%	6.19%	16.45%
1986	6.42%	7.99%	14.41%
1987	4.55%	9.56%	14.11%
1988	5.08%	9.83%	14.91%
1989	8.29%	9.80%	18.09%
1990	4.02%	10.65%	14.67%
1991	6.61%	10.14%	16.75%
1992	10.94%	10.02%	20.96% *
1993	8.12%	10.93%	19.05% *
1994	7.42%	11.48%	18.90%
1995	13.42%	5.48%	18.90%
1996	5.63%	13.27%	18.90%
1997	(2.30)%	21.20%	18.90%
1998	(8.90)%	22.90%	14.00%
1999	(7.10)%	–	(7.10)% **
2000	(8.30)%	–	(8.30)% **
2001	14.43%	(19.25)%	(4.81)% **
2002	13.44%	(10.44)%	3.00% **
2003	13.10%	(1.85)%	11.25% **
2004	13.50%	9.50%	23.00% ***
2005	14.37%	10.44%	24.80% ***

* Actual contribution rate was 16.75%

** Actual contribution rate was 7.00%

*** Actual contribution rate is 11.00%

CONTRIBUTIONS



25 YEAR HISTORY

Actuarial Summary (continued)**Employee and Employer Contributions****City of Cincinnati Retirement System**

Year	Employee Contributions	Employer Contributions	Total
1980	8,041,465	17,805,044	25,846,509
1981	8,424,258	18,873,284	27,297,542
1982	8,886,544	20,069,129	28,955,673
1983	8,778,247	20,064,858	28,843,105
1984	8,894,553	19,749,529	28,644,082
1985	9,035,000	20,962,057	29,997,057
1986	9,263,000	21,524,797	30,787,797
1987	9,539,000	18,792,634	28,331,634
1988	9,839,752	20,615,414	30,455,166
1989	10,568,577	26,784,729	37,353,306
1990	11,729,000	24,330,056	36,059,056
1991	11,968,000	28,060,699	40,028,699
1992	12,469,765	28,670,374	41,140,139
1993	12,471,725	28,717,266	41,188,991
1994	12,718,012	35,516,832	48,234,844
1995	12,591,364	32,532,039	45,123,403
1996	12,604,757	31,761,983	44,366,740
1997	12,869,394	33,072,461	45,941,855
1998	12,881,766	24,815,296	37,697,062
1999	13,163,743	12,768,885	25,932,628
2000	12,991,882	12,520,902	25,512,784
2001	13,571,803	13,374,661	26,946,464
2002	14,664,620	12,755,764	27,420,384
2003	13,311,001	12,619,617	25,930,672
2004	13,140,345	19,336,221	32,476,566
2005*	11,300,000	17,800,000	29,100,000

* Expected

Actuarial Summary *(continued)*

Total Contributions to Plan

The graph on page 11 illustrates all contributions to the retirement system during the past 25 years. Employer and employee contributions are shown separately.

Although contributions increased dramatically through 1994, employer contributions had stayed about twice the amount of employee contributions. During the early 1990s, employer contributions increased to an average of 2.4 times the employee contributions. In 1998, the unfunded accrued liability was fully paid off and required contribution levels decreased. For 1998 the employer rate was set at 14.0%, which is 2.0 times the employee rate. For 1999 to 2003, the employer contribution was reduced to the same level as the employee contributions. For 2004, the employer contribution was increased to 11.0%.

Expected 2005 Contribution

Shown below is the expected 2005 contribution level.

Expected Contributions at 11% Rate	\$17,800,000
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The minimum required contribution rate (based on the December 31, 2003 valuation) is 23.0%. Therefore, the required contribution is higher than the current employer contribution rate of 11%. Unless the City's contribution rate changes (assuming no other plan or contribution changes), this lower contribution will result in an increase in the unfunded liability of the plan by about \$20 million. This increase will result in a larger amortization payment which will be reflected in future (2007 and later) contribution requirements.

Expected 2006 Contribution Rate

For 2006, required contributions will be based on the normal cost adjusted for the amortization of the current unfunded actuarial liability. Based on the December 31, 2004 actuarial valuation, the required contribution rate (assuming no other plan or contribution changes), is 24.87% assuming a 7% employee contribution rate.

Actuarial Summary *(continued)*

Plan Participants

This section illustrates changes in both active and retired participants over a 25-year period.

The number of retirees and deferred participants has grown from 2,813 at the end of 1980 to 4,551 at December 31, 2004, a 62% increase.

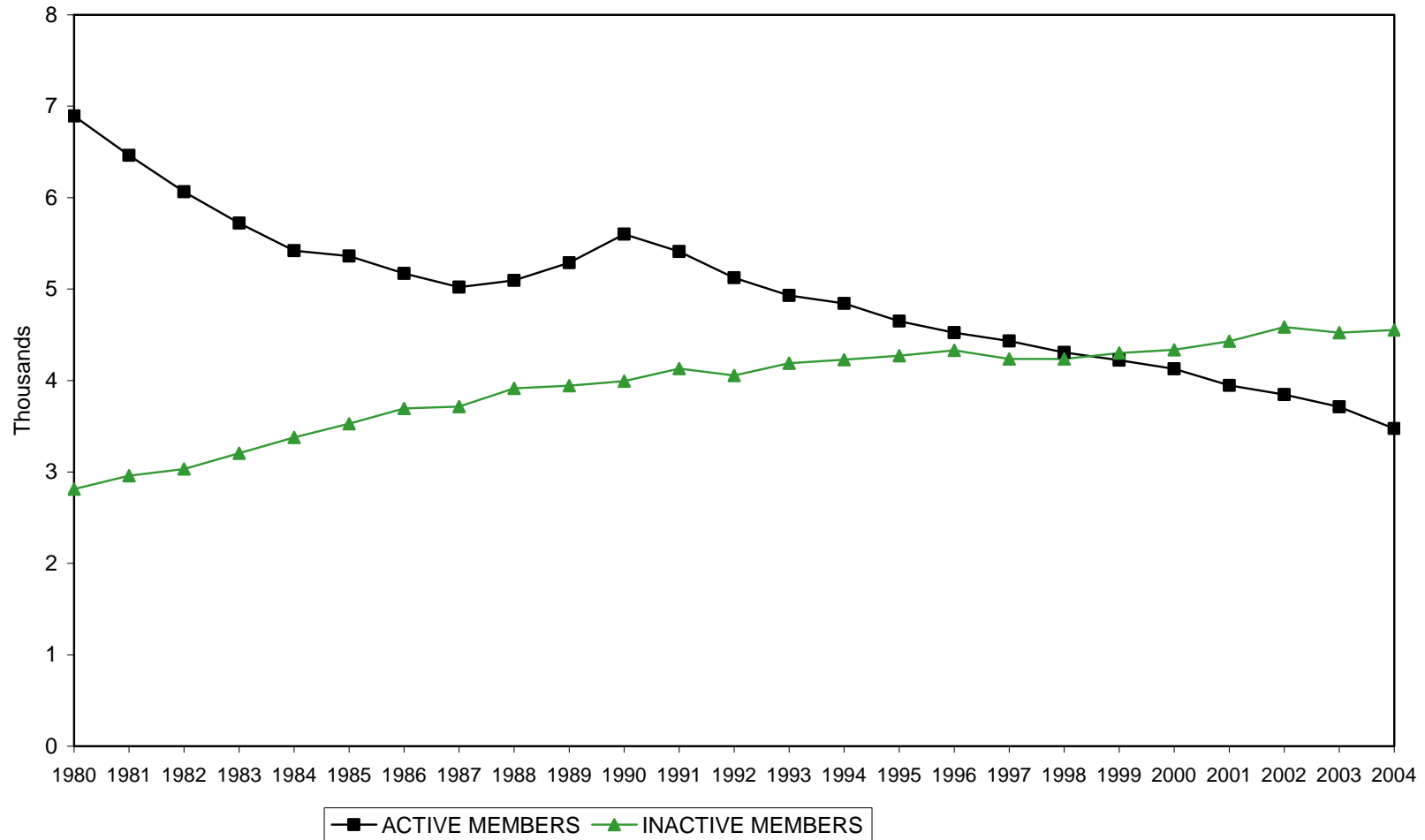
The number of active full-time participants has *decreased* during the 25-year period, beginning at 6,892 in 1980, and declining to 3,475 at December 31, 2004.

During the last 10 years the number of active full-time participants has decreased from 4,841 to 3,475. During this period, the closed group (Hamilton County, University Hospital and University of Cincinnati) decreased from 707 to 123. The City participants decreased from 4,134 to 3,352 during this time period.

The relationship of active to retired employees has changed markedly in 25 years, with 2.45 actives per retiree in 1980, but only .76 actives per retiree in 2004. A significant part of this decline is due to the impact of the closed groups. If City participants are reviewed separately, the ratio of active to retired employees is 1.16. The ratio for the plan as a whole is likely to remain low for the next 10 years or more, and could decrease as Hospital and University participation is gradually eliminated and the number of City participants remains unchanged. If all active participants in the closed groups were to immediately retire, the ratio would drop to .72 active participants per retiree.

While the plan is well funded, a ratio below 1.00 is not a concern, except in one aspect: increased volatility of “required” contributions as a percent of covered payroll. When asset returns exceed expectations or medical experience is better than assumed, the leveraging effect of the retirees produces greater decreases in plan costs. However, this same leveraging will have a negative impact on contribution rates if experience is not as good as assumed.

ACTIVE AND INACTIVE MEMBERS



25 YEAR HISTORY

Actuarial Summary (continued)**Active Members and Retirees****City of Cincinnati Retirement System**

Year	Full-Time Active Members	Retired and Deferred	Ratio of Active to Retired
1980	6,892	2,813	2.45
1981	6,463	2,960	2.18
1982	6,065	3,031	2.00
1983	5,721	3,206	1.78
1984	5,420	3,378	1.60
1985	5,360	3,527	1.52
1986	5,170	3,694	1.40
1987	5,022	3,715	1.35
1988	5,095	3,913	1.30
1989	5,287	3,944	1.34
1990	5,601	3,992	1.40
1991	5,410	4,131	1.31
1992	5,122	4,053	1.26
1993	4,930	4,189	1.18
1994	4,841	4,226	1.15
1995	4,650	4,270	1.09
1996	4,524	4,329	1.05
1997	4,433	4,236	1.05
1998	4,306	4,236	1.02
1999	4,221	4,300	0.98
2000	4,128	4,334	0.95
2001	3,946	4,430	0.89
2002	3,846	4,585	0.84
2003	3,710	4,522	0.82
2004	3,475	4,551	0.76

Actuarial Summary (continued)

Funding Progress

The funding progress of the plan is determined by comparing the entry age normal accrued liability with the actuarial value of assets. This ratio reflects the funding progress relative to the level anticipated by the funding method as required to pay for benefits attributable to the past. This method assumes that the normal cost remains a constant percent of pay for each individual, and assumes an ongoing plan with future employee contributions of 7% of pay. The current year aggregate normal cost rate is 21.69% of pay.

To the extent the funding progress is less than 100%, as is currently the case, contributions greater than normal cost are required in order to catch up to the anticipated level of funding. If the funding progress exceeds 100%, it indicates contributions less than normal cost are required since there is a cushion.

Funding Progress Based on Actuarial Value of Assets

	Pension	Medical	Total
December 31, 2000	113%	116%	114%
December 31, 2001	115%	92%	107%
December 31, 2002	102%	99%	101%
December 31, 2003	95%	93%	94%
December 31, 2004	95%	92%	94%

At December 31, 2004, the ratio of actuarial value of assets to the entry age accrued liability is 94%. This is the same as the previous year ratio. The ratio remained the same due primarily to a gain in the actuarial value of assets offset by a loss on the liability side and assumption change.

If these ratios are calculated using the market value of assets instead of the smoothed actuarial value, the historical funding progress has declined more rapidly until 2004.

Funding Progress Based on Market Value of Assets

	Pension	Medical	Total
December 31, 2000	122%	126%	124%
December 31, 2001	109%	87%	101%
December 31, 2002	85%	83%	84%
December 31, 2003	95%	93%	94%
December 31, 2004	96%	93%	95%

Current Issues

1. Actuarial Methods/Plan Changes/Actuarial Assumptions

There were no changes in actuarial methods or plan provisions. The only assumption changes were related to the trend rates regarding future medical cost increases.

Prescription drug coverage under Medicare will become available during 2006. Plan sponsors who provide drug coverage under their plans will be able to either receive a subsidy back from Medicare or make Medicare primary. In either case, sponsors will see a reduction in their own liabilities. We have reflected an estimated minimum reduction in the plan's liability for this valuation.

The City will need to determine how it will reflect this new benefit.

2. Medical Liability

Medical costs have continued to increase consistently over the recent years and are expected to continue to increase based on projected trends. The City should continue to review claims experience cost drivers, available retiree health plans/programs available and emerging in the market to continue to provide viable plan alternatives and control costs as needed to maintain a program. A strategy can be developed and changes implemented to accomplish the desired goals.

The effective date of Medicare Reform prescription drug legislation is approaching in 2006; the City should confirm its approach with regards to incorporating its plan in with the Medicare Reform legislation and take appropriate steps to prepare for implementation accordingly.

Medical benefits make up 32.7% of the plan's accrued liabilities. Assets allocated to the 401(h) account (the account which pays medical benefits) represent 31.9% of the actuarial value of assets. The funding progress ratio for medical alone is only 91.5%. IRS regulations allow only 25% of the total contribution to be added to this account. Therefore, the account will eventually become insufficient to pay benefits. The Board should consider whether or not other funding vehicles that have more flexibility for funding are appropriate. One such vehicle is a VEBA (Voluntary Employee Beneficiary Association) trust. This trust would not have the same funding restrictions that the 401(h) account has.

Current Issues (continued)

3. Participating Groups (Full-Time Participants)

	Number	Total Salary	Average Age	Average Service	Average Salary	Number Eligible to Retire	
						Unreduced Benefits	Reduced Benefits
City of Cincinnati	3,352	155,252,699	45.9	14.6	46,316	247	67
University Hospital*	27	1,423,100	54.9	29.7	52,707	7	5
University of Cincinnati*	89	4,693,578	54.5	30.5	52,737	34	12
Hamilton County*	7	383,279	52.4	29.3	54,754	3	0
Total	3,475	161,752,656	46.2	15.1	46,548	291	84

* Closed groups.

As of December 31, 2004, there are 123 active participants in the closed groups. They represent 3.5% of the total active population. In the last five years, the closed groups have declined 64% from 346 participants who represented 8.20% of the active population. The closed groups will continue to exert a smaller effect on the plan as their numbers dwindle.

For the City of Cincinnati, 314 participants are currently eligible for retirement—247 of them on an unreduced basis and 67 on a reduced basis. Over the next five years, 630 additional participants will become eligible for retirement—537 on an unreduced basis. (Plus the 67 now eligible to retire on a reduced basis will also be able to retire with an unreduced benefit in five years.) Thus about 25% of the current City participants will be eligible to retire with unreduced benefits prior to January 1, 2010.

4. Contribution Stability

Total “required” contributions have fluctuated in recent years. The most recent year has seen the following factors influence the contribution rate:

Positive Factors

- Actual Investment Return
- Salary Experience

Negative Factors

- Demographic Change
- Declining Active Participant Payroll Base

Current Issues *(continued)*

The City has stabilized actual contribution rates for some periods by choosing fixed contribution rates other than those actuarially determined. As long as contributions are actuarially balanced over the long term, this is an acceptable process.

Due primarily to the recognition of past asset losses in the 12/31/2003 valuation, the City contribution rate increased significantly to 23.00% of pay. This has now further increased to 24.87% of pay (assuming no plan changes or contribution policy changes). Assuming all future actuarial assumptions are met, this level of contributions would continue for 15 years until the unfunded actuarial accrued liability is fully funded. This contribution level is larger than current City budget levels for the pension plan. If contributions are less than the required contribution rate, the unfunded actuarial accrued liability will increase. In order to avoid the increase in the unfunded liability, either benefits must be reduced (medical or pension) or contribution amounts must be increased (employer and/or employee and/or retiree).

5. Investment Return Assumption

Most asset return outlooks continue to show returns below the plan's investment return assumption of 8.75% (before expenses). (The 8.75% before expenses return is approximately equivalent to an 8.4% after expenses return.) This continues to be an aggressive rate relative to current expected returns. It is also at the high end of rates being used by other public plans based on recent survey information.

The Board has undertaken an asset/liability modeling study to examine the appropriate allocation of assets for the funding of the pension and medical benefits of the plan. This study takes into account the long-term nature of the plan. Once this study is complete, the expected investment return assumption will be reviewed in light of those results and, if warranted, changed.

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