



City of Cincinnati Retirement System Board of Trustees Meeting

Agenda

October 6, 2022 / 2:00 P.M.
City Hall, Council Chambers and via Zoom

Members

Tom Gamel	John Juech
Bill Moller	Kathy Rahtz
Mark Menkhaus, Jr.	Jeff Cramerding

Administration

Mike Barnhill
Ann Schooley

Call to Order

Approval of Minutes

- Meeting Minutes – September 7, 2022

Report from Elections Committee

Administration of Oath of Office

Monica Morton
Tom West

Report from Benefits Committee

Executive Session

Informational - Executive Director's Report

- Marquette Monthly Report
- CRS Funded Ratio History
- CRS 2021 Financial Report
- Member Handbook and Retirement 101 Slides
- CRS Staffing Update

Unfinished Business

- Outstanding Opinions (Board Approved Motion, October 3, 2019)
 - Item 1. Explain why City's changes to retiree healthcare are permitted under the CSA without Court approval.
 - Item 2. Explain why the Board cannot retain outside counsel on matters which the Solicitor's Office will not give counsel.
- CY2021 Draft Annual Report

New Business

Adjournment

Next Meeting: Thursday, November 3, 2022, 2:00 P.M. City Hall Council Chambers and via Zoom



**City of Cincinnati Retirement System
Board of Trustees Meeting
Minutes
September 7, 2022/ 2:00 P.M.
City Hall – Council Chambers and remote**

Board Members Present

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

Administration

Mike Barnhill
Ann Schooley

CALL TO ORDER

Chair Moller called the meeting to order at 2:04 p.m. and a roll call of attendance was taken. Trustees Moller, Menkhaus, Gamel, Rahtz, Juech, and Cramerding were present.

APPROVAL OF MINUTES

Approval of the minutes of the Board meeting of August 4, 2022, was moved by Trustee Gamel and seconded by Trustee Rahtz. The minutes were approved by unanimous roll call vote.

Report from Performance Evaluation Committee

Trustee Rahtz provided the report from the Performance Evaluation Committee, which met on September 1. Trustee Menkhaus joined the committee, to fill the vacancy created by Trustee Stiens' departure. The Committee reviewed progress on the Board's 2022 goals and objectives:

Item#2: The Committee discussed the pros and cons of doing a fiduciary audit v. a benchmarking project. The Committee 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.

The Committee approved 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 Board approved the Committee's action by unanimous roll call vote.

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.

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. The Committee moved and approved this revised proposal. The Board approved the Committee's action by unanimous roll call vote.

Director Barnhill provided a summary of his discussion with Mr. Funston. Mr. Funston shared that he had just completed a fiduciary performance audit of the Ohio Police and Fire system at a cost of \$650,000. Mr. Funston advised that the CRS Board's previous RFP was essentially a cut and paste of the RFP issued by the Ohio Retirement Study Council for the large Ohio pension funds, and thus was a more costly approach. Mr. Funston suggested that CRS instead consider the approach recently used by Milwaukee County, which used a phased approach. Phase 1 cost Milwaukee County \$85,000 in 2018. Director Barnhill circulated the Phase 1 Milwaukee County report for Board consideration.

Informational – Executive Director's Report

Director Barnhill provided the following report:

- CRS staff went to a member's home to help the member complete a direct deposit form and get her retirement checks deposited in the bank. Chair Moller expressed thanks for the CRS staff effort.
- CRS continues to interview applicants for its staff vacancies.
- The Law Dept is working to complete the outstanding opinion requests that have been pending since 2019. The hope is to present them at the next board meeting.
- City Council will take up confirmation of the Mayor's appointment of Sheila Simmons tomorrow.
- All State Auditor management letters related to CRS have been posted on the CRS website. The City's responses to those letters have been requested and will be posted when they are received.
- A draft health funding policy has been circulated. Under the CMC, the Board has the opportunity to provide comment and input before it can be finalized. Trustee Moller suggested that it may be helpful to have the Law Dept comment on the process.
- A draft CRS member handbook has been prepared and is being circulated for comment. The plan is to get it finalized and issued by the end of the year.
- Cheiron has prepared a "Public Plan Tool" that provides statistics on public retirement plans.
- Director Barnhill proposed that the Benefits Committee meet at September 22 at noon. A majority of committee members indicated that they could meet then.
- Chair Moller discussed the Marquette monthly report.

UNFINISHED BUSINESS

Outstanding Opinions:

Board Approved Motion, October 3, 2019

- Item 1. Explain why City's changes to retiree healthcare are permitted under the CSA without Court approval.
- Item 2. Explain why the Board cannot retain outside counsel on matters which the Solicitor's Office will not give counsel.

Director Barnhill reported that the Chief Solicitor has agreed to finalize and issue these opinions.

CY2021 Draft Annual Report

Director Barnhill reported on the status of the draft. Cheiron has been requested to update its incremental employer contribution rate increase approach for inclusion in the report. Cheiron has advised that the 0.5% annual rate increase approach discussed earlier this year will no longer fully fund the pension trust by 2045, given the investment losses of 2022. Instead, the annual rate increase will need to be 0.75%.

Director Barnhill indicated that a financial report in the form of a "Popular Annual Financial Report" is being prepared by the CRS finance officer, Bev Nussman. Trustee Moller commented that financial reports in this form are written for ease of reading by the public. Mr. Barnhill noted that because the City is on a fiscal year calendar (July 1-June 30) and the CRS operates on a calendar year basis, the PAFR is using unaudited numbers. At some point, the Board may wish to consider getting this report audited, or shift to the City's fiscal year, so that the CRS financial report can use audited numbers.

DROP Actuarial Analysis Funding

Director Barnhill provided background on the DROP issue. The CSA requires an actuarial analysis to determine cost neutrality of the DROP program in its fifth year, which was 2020. A report was done by the CRS actuary in 2020, but it was objected to by employees' class counsel. In an effort to move this issue forward, Director Barnhill worked with the Law Dept to prepare and issue an RFP for an independent actuary to conduct the analysis. Representatives from the retiree class and employee class participated in the RFP process, and had the opportunity to review and comment on the proposals. The RFP committee selected Foster & Foster which submitted a bid of \$17,500 for the work. Director Barnhill explained that this was the low bid. Director Barnhill recommended that the Board agree to pay this cost in an effort to bring this issue to conclusion.

Trustee Moller asked who would monitor the work of the actuary. Director Barnhill explained that the Law Dept is responsible for issuing and supervising the actuary, but that he would probably have a substantial role in monitoring and working with the actuary. Trustee Moller asked how any differences between the Foster report and the Cheiron report would be reconciled. Director Barnhill responded that reconciling the two reports had not been discussed to date, and could be taken up if the issue arises.

Director Barnhill discussed the possibility that Foster could request different data than Cheiron requested. Director Barnhill further observed that the lack of health data consideration by Cheiron was no longer an objection of employee class counsel. Trustee Gamel asked why was there a need to do a second actuarial analysis if there was no longer a dispute related to health care data. Director Barnhill explained that the reason to perform a second analysis was to address the concerns related to actuarial independence and to get to done on the issue. Director Barnhill explained that the process to date included all parties, and that the original process did not. Director Barnhill expressed the view that the cost of this review was worth the investment to get the DROP issue resolved. Trustee Rahtz asked about the initial cost by Cheiron. Director

Barnhill stated he would gather that information and provide it to the Board.

No motion was made to fund the Foster actuarial analysis.

New Business

Consideration of North Sky III LBO Liquidation

Director Barnhill provided background on this matter. This is a private equity investment from 2007 that is in the process of liquidating and distributing its remaining investments. North Sky conducted a final auction and the highest bid amounted to 71.5% of the appraised value. Subsequent to the auction the bidder indicated that it would not be able to close the sale until January 2024. Rather than wait, a North Sky affiliate offered to purchase the assets at that price, so that the Fund could close and make its final distribution in 2022. Marquette provided a letter of recommendation supporting this approach, noting that the impact to the Fund's IRR would be minimal (from 11.07% to 10.97%).

Trustees Moller and Gamel noted that this will free up funds for reinvestment. Trustee Moller moved, and Trustee Gamel seconded, a motion to approve the North Sky liquidation proposal. The motion passed on unanimous roll call vote.

Trustee Gamel asked when will the funds be distributed. Director Barnhill responded that the funds would be distributed by the end of the year.

Amendment to Election Timeline

Director Barnhill explained that the active trustee ballots got into the mail five days late, and so recommended that the remainder of the timeline be extended by five days. Trustee Menkhaus moved, and Trustee Gamel seconded, a motion to extend the remainder of the active trustee election timeline by five days. The motion passed on unanimous roll call vote.

Adjournment

Following a motion to adjourn by Trustee Gamel and seconded by Trustee Cramerding, the Board approved the motion by unanimous roll call vote. The meeting adjourned at 2:51 P.M.

Meeting video link: <https://archive.org/details/crs-board-9-7-22>

Next Meeting: October 6, 2022 at 2:00 p.m.

Secretary

SPRAUL & DOAN, LLC

—ATTORNEYS AT LAW—

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September 22, 2022

(Hand Delivered)

City of Cincinnati Retirement System Benefits Committee
801 Plum Street, Suite 328
Cincinnati, Ohio 45202

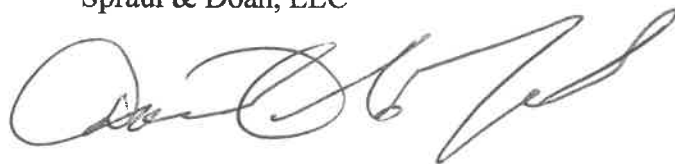
Re: MacKenzie McCarthy's Healthcare Benefits

Dear Board Members and Staff:

Attached is a transcript of the comments I intend to deliver at today's meeting. I am providing it for your further review, or in case I am not given the opportunity to speak.

I look forward to hearing from you by Friday of next week.

Sincerely,
Spraul & Doan, LLC



Daniel G. Spraul, Attorney
Voice/text: 513-520-8059
danspraul@aol.com

encls

Comments of Daniel G. Spraul
City of Cincinnati Retirement System Benefits Committee Meeting
September 22, 2022

As you know I'm Dan Spraul an attorney with Spraul & Doan, representing the McCarthy family. We hope to resolve the coverage issues for MacKenzie, your Retiree Christopher McCarthy's permanently disabled adult daughter, short of litigation.

Because your body's decisions are so important to Mackenzie's wellbeing, her parents are both here today, Chris you know, and Geri McCarthy, and most importantly MacKenzie is here so that you have the opportunity to meet the person whose coverage you are debating.

We understand that you now require a Social Security Administration determination of disability to continue MacKenzie's coverage. While we disagree with your interpretation and the propriety of that requirement, we would like to have the opportunity to meet it before filing suit.

And we would like to have the opportunity to go through the City benefits appeal process before filing suit. However, we are unclear whether an appeal process even exists---so please let us know.

As your own expert Horan explained to you, Social Security determinations take approximately 5 months AFTER application. You may not realize that in an extensive lifelong disability case like MacKenzie's it will take months to assemble the records and experts for that application, to say nothing of the expense to the family involved with that.

Accordingly, we would request a continuation of MacKenzie's benefits until we have had the opportunity to make Social Security application and go through the City's appeals process. We would request a minimum of 9 months to pursue the Social Security Administration process, and then if need be, additional time to pursue the City's appeal process.

MacKenzie's 27 months of COBRA coverage, which was granted pending resolution of her coverage under the Plan, is set to expire this October. Notably, she was given 9 months less than the full COBRA timeframe of 36 months. We are asking for a commitment to extend coverage under the Plan, or the COBRA coverage, until at least July 2023 in order to complete the Social Security Administration process. If you are unwilling to continue MacKenzie's benefits for these purposes, then we obviously will request injunctive relief from the court.

I would like to point out here, the McCarthys have exhibited extreme patience through the moving targets the City has presented during the 2 year this process has taken so far, and they are willing to continue what feels unnecessary and unreasonable in pursuing the Social Security Administration process you have prescribed. It feels this way especially because it really is unnecessary busy-work in MacKenzie's case, and it is an unnecessary burden of time and expense for her family to engage me and pay for the voluminous medical records and time of medical experts. She very obviously is permanently disabled as the City's CRS Administrator,

Mike Barnhill, stated at your meeting in July. She also lives with her parents and is unable to work, and therefore meets the City's threshold for benefits. Further as you know, she clearly will not qualify for SSDI and Medicare because her father has worked essentially his whole career for the City and did not pay in the requisite 40 quarters for Social Security. And most frustrating, as your expert Horan explained to you, even if MacKenzie on her own qualifies for SSI/Medicaid benefits, the City STILL would be the primary healthcare payor, so that the Social Security Administration determination you require would in practice have NO ULTIMATE EFFECT on your financial obligations. Rather the only practical effect of this requirement is to wear down this family with bureaucratic hoop-jumping and expense.

Please know that this family and MacKenzie have been champions of healthcare rights and coverage for children since her injury in 1993. Ironically, her injury was caused in large part by the City's insurance Plan with Anthem (then Community Mutual) that allowed only a 1-day hospital stay for vaginal deliveries—known in the media coverage of the time as a “drive-through delivery.” The 1-day stay did not allow time for MacKenzie's dangerous condition to be diagnosed. She had a blood type incompatibility with her mother that would have been known and treated with simple medical observation, blood typing and putting the baby under special sunlamps called bili-lights, had she been in the hospital. Consequently, within the first week of life MacKenzie suffered permanent brain damage, resulting in Quadriplegic Choreoathetoid Cerebral Palsy.

The McCarthy's wanted to make sure no other family suffered what they did by reason of the dangerous 1-day coverage the City's Plan imposed, so they sued the insurance company along with the medical providers. The McCarthys gave testimony to the State Legislature and the US Congress about the perils of drive-through deliveries, and MacKenzie was invited to both the State House and the White House for the signing of the law stopping insurance companies from imposing this dangerous practice. We are not permitted to discuss the terms of MacKenzie's settlement with the City's insurance company, other than to say that it was entered into with the understanding that she would have lifelong coverage so long as Chris was under the City's Plan. It is very frustrating that she again has to do battle for coverage that initially caused her injury, but then was promised going forward as long as Chris remained under the City's Plan. It is frustrating that Chris spent his career time from her birth and injury in 1993 onward in great part knowing that his employment insured his daughter's lifelong healthcare coverage. Now you want her to qualify to Social Security, which she easily could have done had Chris worked elsewhere.

Nonetheless, even though we obviously disagree with the propriety of your current requirements, our sole purpose here today is NOT to argue with you about your requirements, but only to get a commitment of coverage for a period of time that would allow us to complete your process and hopefully avoid further litigation.

I also want to make clear that nothing in our request constitutes a forbearance agreement. Our preliminary foray into the Social Security Administration process suggests that you are requiring determinations that Social Security does not make; for instance, it is our understanding that

they will not determine the date when MacKenzie's lifelong disability commenced. MacKenzie suffered a blood type incompatibility injury within the first days of life, but the Social Security Administration does not make determinations of the timing of commencement of disability. We understand, they will only determine that she has been disabled and will continue to be so for at least 12 months. So even if we get an SSI determination of disability, we are skeptical whether you will agree it meets your requirement. In plain language, you seem to be requiring something that can't be done.

Time is of the essence, so we need to hear from you by the close of business Friday next week whether you will extend MacKenzie's current Cobra coverage through July 2023, or as we submit you should, extend MacKenzie's coverage under the plan as promised to her family.

Thank you.

**Proposal re Disabled Adult Children Cases
Amendment to CMC 203-48(a)(iii)**

(iii) Coverage shall be extended if the Retiree's child is permanently and totally disabled in accordance with Social Security Disability Definition, 42 U.S.C. 416i(1), prior to the limiting age specified in Section (a)(ii) herein [AND MAINTAINS HIS OR HER RESIDENCE WITHIN THE HOUSEHOLD OF THE RETIREE]. For purposes of this section, the term "disability" means the inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment, which can be expected to result in death or has lasted or can be expected to last for a continuous period of not less than 12 months. Evidence of the incapacity shall be required to be provided to the Board[, SUCH AS A CERTIFICATE OF DISABILITY OR OTHER ADEQUATE PROOF FROM THE UNITED STATES SOCIAL SECURITY ADMINISTRATION], and shall be subject to approval by the Board.

Effective Date: Immediate.

Motion by Trustee Menkhaus.

Approved by CRS Benefits Committee, 9/22/2022.



Cincinnati Retirement System

City of Cincinnati
Retirement System
Executive Summary
August 31, 2022

Summary of Cash Flows

	Last Month
Beginning Market Value	\$2,322,224,462
Net Cash Flow	-\$11,036,893
Net Investment Change	-\$50,596,057
Ending Market Value	\$2,260,591,512

Market Value

	Market Value (\$)	% of Portfolio	Policy %	Policy Difference (\$)
Total Fund Composite	2,260,591,512	100.0	100.0	0
Fixed Income Composite	302,151,009	13.4	14.0	-14,331,803
Private Debt Composite	27,053,715	1.2	3.0	-40,764,030
U.S. Equity Composite	661,033,791	29.2	30.5	-28,446,620
Non-U.S. Equity Composite	415,367,481	18.4	20.0	-36,750,821
Risk Parity Composite	52,058,004	2.3	2.5	-4,456,784
Volatility Risk Premium Composite	55,818,966	2.5	2.5	-695,821
Real Estate Composite	221,747,973	9.8	7.5	52,203,610
Infrastructure Composite	262,799,756	11.6	10.0	36,740,605
Private Equity Composite	254,009,093	11.2	10.0	27,949,942

Performance

	1 Mo	3 Mo	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception	Inception Date
Total Fund Composite	-2.2%	-2.9%	-8.9%	-5.9%	8.3%	6.8%	7.9%	8.8%	May-85
Target Benchmark	-2.2%	-3.1%	-9.9%	-7.6%	8.2%	7.1%	8.1%	--	May-85
Fixed Income Composite	-2.1%	-1.7%	-10.1%	-10.7%	0.1%	1.8%	2.6%	5.1%	Nov-95
Bloomberg US Aggregate TR	-2.8%	-2.0%	-10.8%	-11.5%	-2.0%	0.5%	1.4%	4.4%	Nov-95
Private Debt Composite	0.0%	-3.6%	-3.8%	-0.5%	--	--	--	-2.1%	Sep-20
Bloomberg US Aggregate TR	-2.8%	-2.0%	-10.8%	-11.5%	-2.0%	0.5%	1.4%	-6.2%	Sep-20
U.S. Equity Composite	-3.5%	-4.0%	-14.7%	-11.2%	11.8%	9.8%	11.6%	9.3%	Feb-89
Russell 3000	-3.7%	-3.5%	-16.9%	-13.3%	11.9%	11.3%	12.8%	10.4%	Feb-89
Non-U.S. Equity Composite	-3.7%	-8.7%	-18.0%	-19.2%	3.1%	0.7%	4.6%	5.4%	May-93
MSCI ACWI ex USA	-3.2%	-8.5%	-18.3%	-19.5%	2.9%	1.7%	4.5%	--	May-93
Risk Parity Composite	-4.3%	-4.9%	-13.1%	-13.4%	1.6%	3.9%	3.2%	3.4%	Jul-12
60% Wilshire 5000/40% BarCap Aggregate	-3.4%	-2.7%	-14.1%	-11.9%	6.8%	7.4%	8.4%	8.5%	Jul-12
Volatility Risk Premium Composite	-2.9%	-3.1%	--	--	--	--	--	-7.0%	Jan-22
CBOE Put Write Index	-4.3%	-4.1%	-8.2%	-3.0%	6.4%	4.7%	6.4%	-5.9%	Jan-22
Real Estate Composite	0.2%	2.5%	11.0%	27.1%	12.8%	10.3%	11.2%	6.8%	Aug-07
NFI-ODCE	0.0%	1.5%	12.0%	23.2%	11.4%	9.3%	10.0%	5.8%	Aug-07
NPI	0.0%	1.1%	8.7%	17.4%	9.9%	8.6%	9.5%	7.1%	Aug-07
Infrastructure Composite	0.0%	1.5%	3.3%	10.2%	9.6%	7.5%	7.2%	8.3%	Aug-08
3 Month T-Bill +4%	0.5%	1.2%	3.0%	4.4%	4.5%	5.1%	4.6%	4.5%	Aug-08
Private Equity Composite	0.0%	-0.5%	1.0%	11.4%	19.4%	17.8%	15.0%	9.0%	Jul-93
Cambridge Associates All PE	0.0%	0.0%	-2.0%	5.0%	24.1%	20.3%	17.3%	16.4%	Jul-93

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CRS Pension Funded Ratio History

	Accrued Liability	Actuarial Assets	Market Value Assets	Funded Ratio (Actuarial)	Funding Ratio (MV)	Unfunded Liab. (Actuarial)	Unfunded Liab. (MV)
2012	\$2,229,818,162	\$1,367,695,506	\$1,409,032,000	61.34%	63.19%	\$862,122,656	\$820,786,162
2013	\$2,254,121,113	\$1,424,933,036	\$1,537,511,000	63.21%	68.21%	\$829,188,077	\$716,610,113
2014	\$2,259,822,411	\$1,453,922,202	\$1,522,851,000	64.34%	67.39%	\$805,900,209	\$736,971,411
2015	\$2,207,483,779	\$1,703,002,075	\$1,670,524,000	77.15%	75.68%	\$504,481,704	\$536,959,779
2016	\$2,252,875,060	\$1,732,053,076	\$1,708,843,000	76.88%	75.85%	\$520,821,984	\$544,032,060
2017	\$2,346,905,865	\$1,772,494,062	\$1,834,979,000	75.52%	78.19%	\$574,411,803	\$511,926,865
2018	\$2,417,514,740	\$1,755,860,803	\$1,651,317,000	72.63%	68.31%	\$661,653,937	\$766,197,740
2019	\$2,466,348,546	\$1,756,533,401	\$1,799,975,000	71.22%	72.98%	\$709,815,145	\$666,373,546
2020	\$2,533,246,815	\$1,786,649,816	\$1,820,915,000	70.53%	71.88%	\$746,596,999	\$712,331,815
2021	\$2,560,258,522	\$1,831,954,857	\$2,001,579,000	71.55%	78.18%	\$728,303,665	\$558,679,522
9/30/22 est.	\$2,599,872,701	\$1,797,762,755	\$1,661,249,504	69.15%	63.90%	\$802,109,946	\$938,623,197

CRS OPEB Funded Ratio History

	Accrued Liability	Actuarial Assets	Market Value Assets	Funded Ratio (Actuarial)	Funding Ratio (MV)	Unfunded Liab. (Actuarial)	Unfunded Liab. (MV)
2012	\$641,875,768	\$634,173,128	\$652,864,000	98.80%	101.71%	\$7,702,640	-\$10,988,232
2013	\$618,508,194	\$674,708,866	\$726,098,000	109.09%	117.40%	-\$56,200,672	-\$107,589,806
2014	\$590,901,825	\$706,958,599	\$737,722,000	119.64%	124.85%	-\$116,056,774	-\$146,820,175
2015	\$484,832,951	\$474,746,152	\$456,918,000	97.92%	94.24%	\$10,086,799	\$27,914,951
2016	\$450,025,680	\$485,844,648	\$468,973,000	107.96%	104.21%	-\$35,818,968	-\$18,947,320
2017	\$496,188,145	\$497,232,733	\$504,394,000	100.21%	101.65%	-\$1,044,588	-\$8,205,855
2018	\$504,756,819	\$490,886,745	\$457,249,000	97.25%	90.59%	\$13,870,074	\$47,507,819
2019	\$376,560,845	\$488,000,142	\$500,123,000	129.59%	132.81%	-\$111,439,297	-\$123,562,155
2020	\$397,835,569	\$502,357,775	\$511,981,000	126.27%	128.69%	-\$104,522,206	-\$114,145,431
2021	\$362,353,468	\$525,773,721	\$573,939,000	145.10%	158.39%	-\$163,420,253	-\$211,585,532
9/30/22 est.	\$373,224,072	\$525,156,076	\$476,351,860	140.71%	127.63%	-\$151,932,004	-\$103,127,788

Financial Report (Unaudited)

In the form of the Popular Annual
Financial Report

City of Cincinnati Retirement System



For the calendar year ended December 31, 2021

Pension and Healthcare Trust Funds of the City of Cincinnati, Ohio

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**City of Cincinnati Retirement System
Board of Trustees**

Elected by Retired Members

Chair – Bill Moller

Vice Chair – Tom Gamel

Kathy Rahtz

Appointed by Mayor

Jeff Cramerding

John Juech

Erica Winstead

One appointed position is unfilled

Elected by Employee Members

Don Stiens

Mark Menkhaus Jr.

Dear Reader:

I am pleased to present the 2021 Annual Report for the City of Cincinnati Retirement System (CRS) for the calendar year ended December 31, 2021.

The information presented here is a summary financial report in the form of a Popular Annual Financial Report. A more detailed report for CRS has been prepared as of June 30, 2021 and included in the City of Cincinnati's fiscal year 2021 Annual Comprehensive Financial Report (ACFR) which is prepared and presented in conformity with Generally Accepted Accounting Principles (GAAP).

This report is not intended to replace the ACFR but to summarize the financial health and the investment performance of CRS for the 2021 calendar year. I encourage you to review the ACFR in its entirety online at <https://cincinnati-oh.gov/finance/financial-reports/>. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Cincinnati for its ACFR for the fiscal year ended June 30, 2020. To be awarded a Certificate of Achievement, an organization must conform to the highest standards of fiduciary reporting and full disclosure. This is the 41st year City of Cincinnati has received this award.

The Cincinnati Retirement System (CRS) was established in 1931 as the first Ohio pension plan for general city employees. It pre-dates Social Security and the Ohio Public Employees Retirement System. CRS is a single employer defined benefit pension plan, established and governed by Chapter 203 of the Cincinnati Municipal Code and is a qualified governmental plan for tax purposes pursuant to 26 USC § 414(d). The System has a 9-member Board of Trustees: two members elected by active members; three members elected by retirees; and four members appointed by the Mayor and City Council.

The net asset value of CRS as of December 31, 2021 was \$2.576 billion. On a market value basis, the investment rate of return for this fiscal year was 18.06 percent compared to 8.03 percent in calendar year 2020.

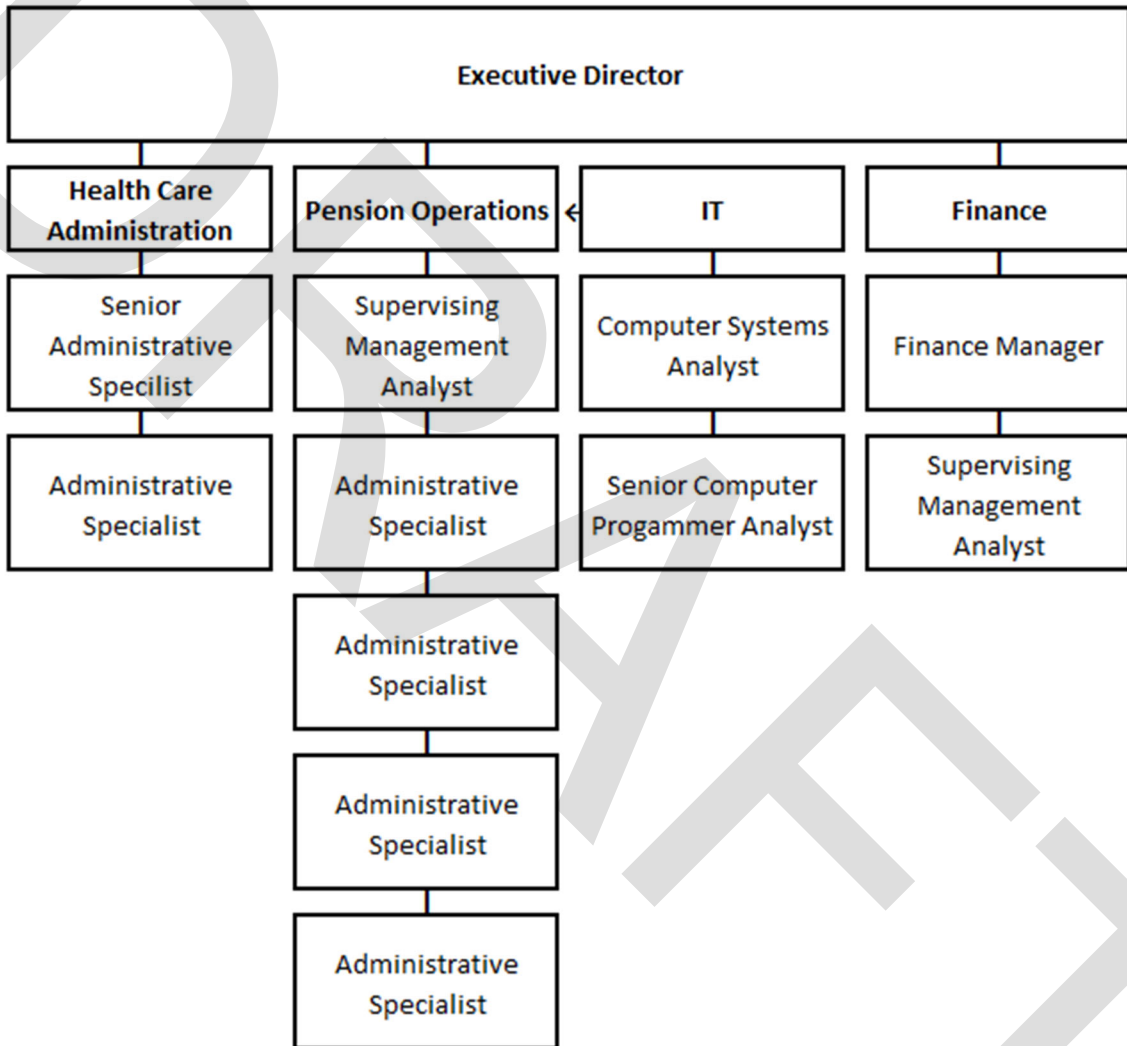
I would like to acknowledge Board of Trustees for their knowledge and commitment to the system. Also, the preparation of this report and the CRS disclosures in the ACFR would not be possible without the dedicated CRS Finance staff.

This report is intended to provide important information crucial to the understanding of the pension plan.

Respectfully,

Michael Barnhill
Executive Director

City of Cincinnati Retirement System Organizational Chart



ACTUARIAL SUMMARY

Description of Plan

CRS is a single-employer plan providing a defined retirement benefit and disability benefits, death benefits, and retiree health care benefits to plan members and beneficiaries. Members are employees or retirees of the city of the Cincinnati with the exception of sworn police and fire personnel and council members.

A Collaborative Settlement Agreement (CSA) was executed on May 7, 2015 and approved by the United States District Court on October 5, 2015. The Settlement Agreement impacts members who were retired on or before July 1, 2011 and employees who were in service on July 1, 2011 and who were vested (had 5 years' service credit) on that date. Members of the Cincinnati Retirement System who did not meet these criteria may have different benefits depending on their group designation, date of hire or length of service.

The CSA implemented a number of changes to the Retirement System, including but not limited to:

- Normal retirement eligibility;
- Early retirement eligibility;
- Retiree healthcare eligibility;
- Retirement benefit calculations;
- Cost of living adjustments payable to retirees;
- Establishment of a Deferred Retirement Option Program (DROP);
- Member contributions set at 9%;
- Employer contributions are to be at least 16.25%;
- Creation of an irrevocable 115 Trust exclusively for retiree healthcare benefits;
- Changes to the composition of the Board of Trustees;
- Transfer of \$238 million from the prior healthcare trust to the Pension trust;
- Payoff of the 2007 Early Retirement Incentive Program (ERIP) liability;
- Assumed investment earnings of 7.5%; and
- Achievement of 100% funding for the Pension Trust by 2045.

Membership Data

The following summarizes the membership of the Cincinnati Retirement System as of December 31, 2021:

	<u>Pension</u>	<u>Health Care</u>
Retirees and Beneficiaries (Optionees) receiving benefits	4,206	4,909
Terminated plan members and Beneficiaries (Optionees) entitled to future benefits	247	371
Deferred Retirement Option Plan (DROP) participants	185	185
Active Plan Members		
Full time	2,580	1,673
Part time	1,238	210
Total	8,456	7,348

Retirement Benefits

Groups C & D	Group E	Group F	Group G
C is eligible to retire on or after July 1, 2011; D by December 31, 2013	Eligible to retire on or after December 31, 2013	Hired before January 1, 2010 and not eligible for other groups	Hired on or after January 1, 2010
Normal Retirement: Age 60 with 5 years of service, or any age with 30 years of service	Normal Retirement: Age 60 with 5 years of service, or any age with 30 years of service	Normal Retirement: Age 60 with 5 years of service, or any age with 30 years of service	Normal Retirement: Age 67 with 5 years of service, or age 62 with 30 years of service
Early Retirement: Age 55 with 25 years of service	Early Retirement: Age 55 with 25 years of service	Early Retirement: Age 55 with 25 years of service	Early Retirement: Age 57 with 15 years of service
Benefit Formula: 2.5% of AHC times years of service	Benefit Formula: 2.5% of AHC times years of service up to greater of 20 years or years of service as of July 1, 2011, and 2.2% thereafter	Benefit Formula: 2.5% of AHC times years of service up to greater of 20 years or years of service as of July 1, 2011, and 2.2% thereafter	Benefit Formula: 2.2% of AHC times years of service up to 30 years; 2.0% over 30 years

* Less than 35 active members are subject to a 2.22% multiplier and an average highest compensation (AHC) definition that includes compensation for overtime.

Average Highest Compensation (AHC) represents the average of the highest three consecutive years of earnings for Groups C and D. Group E will have a benefit with up to a three step formula. The first step is the AHC based upon three consecutive years of earnings for service through December 31, 2013. The second step is the AHC based upon five consecutive years of earnings for service on and after January 1, 2014. The third step is for service in excess of 20 years and is based on the AHC for three consecutive years of earnings. Similarly, Group F will have a benefit with up to a three step formula. The first step is the AHC based upon three consecutive years of earnings for service through June 30, 2011. The second step is the AHC based upon five consecutive years of earnings for service on and after July 1, 2011. The third step is for service in excess of 20 years and is based on the AHC for three consecutive years of earnings. The AHC for Group G is based on the average of the highest five consecutive years of earnings.

Deferred Retirement Option Plan (DROP)

Under the Collaborative Settlement Agreement, the Active Employee Class Members who have a minimum of 30 years' service credit may be eligible to participate in the DROP. Active Employee Class Members are employee members who had 5 years of service on July 1, 2011.

Upon entry into DROP, the member's monthly pension benefit is calculated as if they retired on that date. DROP participants continue to work as a city employee and if eligible, may continue to be enrolled in a city sponsored active employee healthcare plan. Maximum participation in the DROP is five (5) years. Members who participate in DROP continue to contribute 9% of their pensionable earnings to CRS of which seventy-five percent is deposited into the DROP account and the remaining twenty-five percent is a fee for the management of the DROP account.

Other Post-Employment Benefits (OPEB)

The System provides other post-employment benefits (OPEB). The OPEB consists of health care coverage to eligible retirees, their eligible spouse, and eligible dependent children. Active members in Group C who have earned fifteen years of membership service at the time of termination are eligible upon retirement. Other active members are eligible for retiree health care upon their retirement after reaching age 60 with 20 years of membership service, or any age with 30 years of service of which 20 years must be earned with CRS. Active members whose most recent membership enrollment date is on or after January 1, 2016, are not eligible for retiree health care benefits upon retirement.

Dental and Vision Benefits are available to members. If members elect to participate in the dental and/or vision group plans, the member pays the full cost of coverage.

Actuarial Methods

Funding retirement and OPEB programs is a long-term commitment, and it requires the use of assumptions. CRS hires an independent actuary to conduct annual valuations of pension and OPEB assets and expected expenses. The CRS Board works with the actuary to adopt reasonable assumptions including the following:

- Life Expectancy of retirees receiving benefits
- Future salary increases for active employees
- Inflation
- Amortization period

Another important assumption utilized by the actuary is the rate of return on investments. The rate of return was established by the CSA at 7.5%.

Every five years, the Board directs the system's actuary to conduct an experience study to review the continued reasonableness of the system's actuarial assumptions. The next experience study will examine data from CY2017-CY2021 and is expected to be completed in early 2023.

The annual actuarial reports and their contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices and the actuary's understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. The valuation provides the actuarial or smoothed fair value of plan assets, the actuarial accrued liability, the unfunded actuarial liability, and the funded ratio. The smoothed fair value of assets spreads the difference between the actual rate of return on investment and the expected rate of return on investments over five years. Using the smoothed fair value of assets minimizes the effect of market volatility.

The unfunded actuarial liability (UAL) is the difference between the actuarial liability and the actuarial value of assets, it measures the extent to which promised benefits outweigh the current assets. Changes in UAL indicate whether a plan is successfully moving towards being fully funded.

The following chart provides pension plan key actuarial values for ten years (amounts in thousands):

<u>Year End December 31</u>	<u>Smoothed Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Liability</u>	<u>Funded Ratio</u>
2021	\$ 1,831,955	\$ 2,560,259	\$ 728,304	71.6%
2020	1,786,650	2,533,247	746,597	70.5%
2019	1,756,533	2,466,349	709,816	71.2%
2018	1,755,861	2,417,515	661,654	72.6%
2017	1,772,494	2,346,906	574,412	75.5%
2016	1,732,053	2,252,875	520,822	76.9%
2015	1,703,002	2,207,484	504,482	77.1%
2014	1,453,922	2,259,822	805,900	64.3%
2013	1,424,933	2,254,121	829,188	63.2%
2012	1,367,695	2,229,818	862,123	61.3%

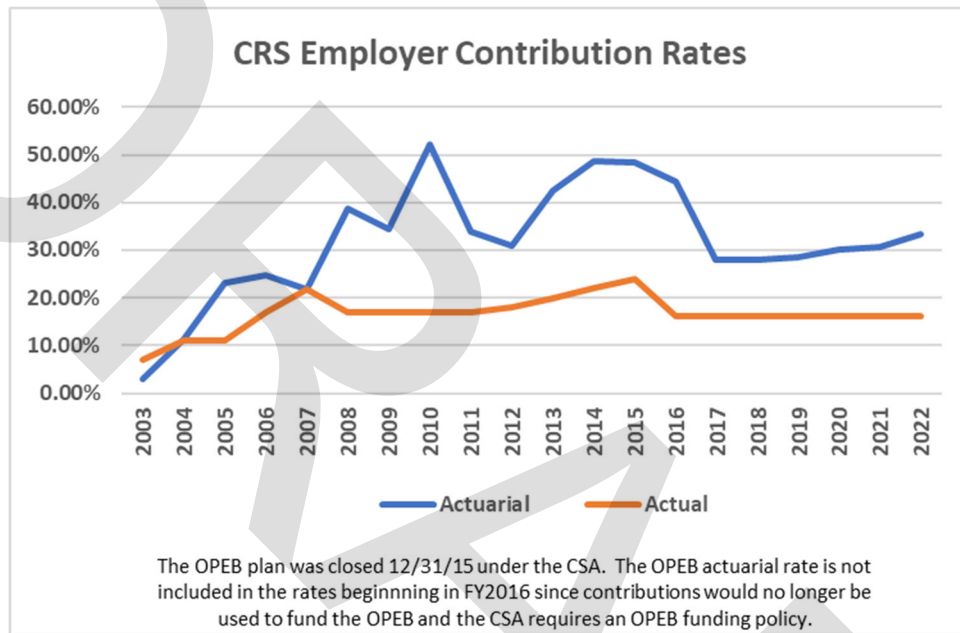
The following chart provides OPEB plan key actuarial values for ten years (amounts in thousands):

<u>Year End December 31</u>	<u>Smoothed Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Liability</u>	<u>Funded Ratio</u>
2021	\$ 525,774	\$ 362,353	\$ (163,421)	145.1%
2020	502,358	397,836	(104,522)	126.3%
2019	488,000	376,561	(111,439)	129.6%
2018	490,887	504,757	13,870	97.3%
2017	497,233	496,188	(1,045)	100.2%
2016	485,845	450,026	(35,819)	108.0%
2015	474,746	484,833	10,087	97.9%
2014	706,959	590,902	(116,057)	119.6%
2013	674,709	618,508	(56,201)	109.1%
2012	634,173	641,876	7,703	98.8%

The foregoing actuarial assumptions and disclosures are based on the presumption that CRS will continue as presently organized. If the CSA is amended or municipal code changes, or if different actuarial assumptions are approved by the CRS Board, the above actuarial results would be calculated differently and produce different results.

Employer Contribution Rate

The annual reports prepared by the actuary include an actuarially determined contribution rate. The city of Cincinnati as part of the annual budget process determines the actual employer contribution rate. The following chart compares the actuarial employer contribution rate and the actual employer contribution rate over the last twenty years.



Schedule of Funded Ratios

The Collaborative Settlement Agreement substantially reformed the benefits provided by the CRS. One of terms of the CSA was to establish the objective of achieving full funding by 2045.

The CSA sets out a means by which progress is to be measured towards this goal through a Schedule of Funded Ratios. See CSA sec. 35(iii). Every five years, the CRS actuary is to create a schedule with target funding ratios set out for each year. Ten percent tolerance bands are set on either side of each year's target funded ratio. If the actual funded ratio is above or below the 10% target bands for a period of 5 years, the parties may seek a re-opener of the CSA. If however, the CRS five year annual return is less than the five year return of a portfolio consisting of 75% S&P500 index, and 25% Barclays US Bond returns, no re-opener may be requested.

For the first five-year period of the CSA (CY2016-CY2020), the CRS 5yr annual return was 8.61%, and the 75/25 portfolio index return was 12.39%. Thus, no re-opener could be requested.

We have now entered the second five-year period of the CSA. The CRS actuary (Cheiron) has prepared a Schedule of Funded Ratios using 12/31/2020 as the baseline. The CRS actuary has determined the annual target funded ratios that should be achieved in order to achieve full funding by 2045 are as follows:

Schedule of Funded Ratios	Earnings Assumption = 7.5%			
	Flat E'r Rate of 16.25%		Increase E'r Rate by 0.75%	
	E'r Contr Rate	Target Funded Ratio	E'r Contr Rate	Target Funded Ratio
12/31/2021	16.25%	70.15%	16.25%	70.15%
12/31/2022	16.25%	69.01%	17.00%	69.07%
12/31/2023	16.25%	69.44%	17.75%	69.65%
12/31/2024	16.25%	68.76%	18.50%	69.20%
12/31/2025	16.25%	68.02%	19.25%	68.78%
12/31/2026	16.25%	67.28%	20.00%	68.47%
12/31/2027	16.25%	66.52%	20.75%	68.26%
12/31/2028	16.25%	65.74%	21.50%	68.16%
12/31/2029	16.25%	64.94%	22.25%	68.18%
12/31/2030	16.25%	64.11%	23.00%	68.35%
12/31/2031	16.25%	63.26%	23.75%	68.67%
12/31/2032	16.25%	62.39%	24.50%	69.18%
12/31/2033	16.25%	61.50%	25.25%	69.89%
12/31/2034	16.25%	60.59%	26.00%	70.85%
12/31/2035	16.25%	59.67%	26.75%	72.06%
12/31/2036	16.25%	58.76%	27.50%	73.59%
12/31/2037	16.25%	57.75%	28.25%	75.34%
12/31/2038	16.25%	56.76%	28.25%	77.37%
12/31/2039	16.25%	55.80%	28.25%	79.69%
12/31/2040	16.25%	54.87%	28.25%	82.33%
12/31/2041	16.25%	54.03%	28.25%	85.31%
12/31/2042	16.25%	53.27%	28.25%	88.65%
12/31/2043	16.25%	52.61%	28.25%	92.37%
12/31/2044	16.25%	52.07%	28.25%	96.47%
12/31/2045	16.25%	51.66%	28.25%	100.96%

Cheiron Projection, September 2022

The actual funded ratio on 12/31/2021 of 71.6% is within 10% of the 2021 Target Funded Ratio of 70.15%. Cheiron notes that if the earnings assumption was decreased from 7.5% to 7.0%, which is the current median assumption of U.S. public retirement plans, the employer contribution rate would need to be increased by 1.25% each year for the next 14 years, in order to reach full funding by the end of 2045.

FINANCIAL SUMMARY

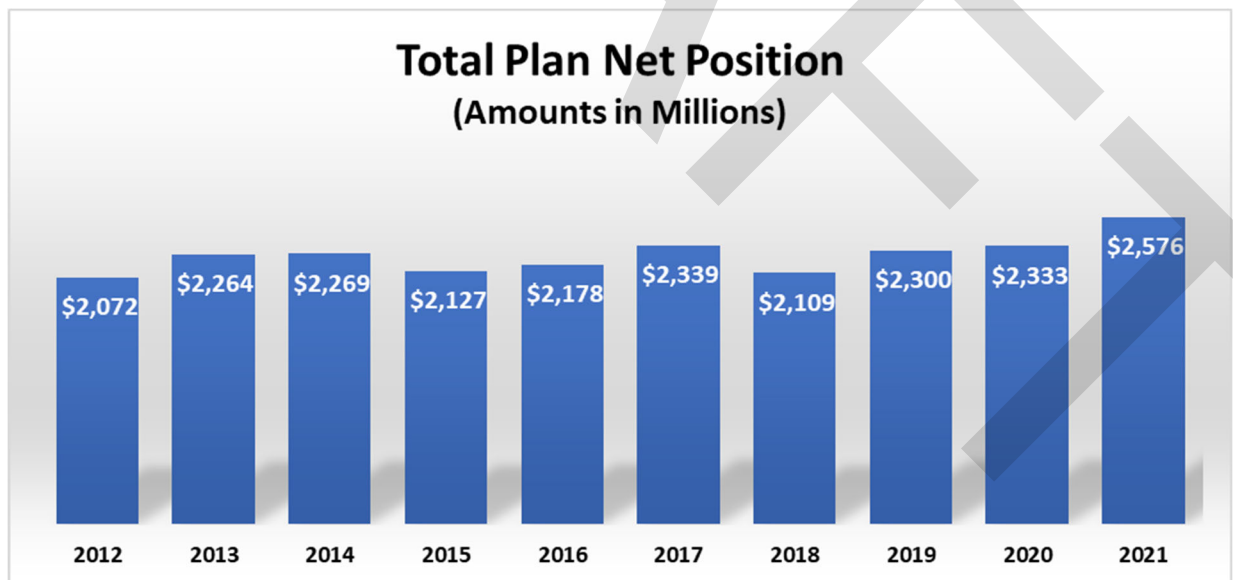
Statement of Fiduciary Net Position

The Statement of Fiduciary Net Position presents information on all of the assets and liabilities of the Plan with the difference reported as Net Position Held in Trust for Pension and OPEB Benefits. Net position is what is available to make pension payments to retirees and survivors and to pay for OPEB Benefits.

The overall increase in net position is primarily a result of strong investment performance. A current and prior year summary of CRS' net position held for benefits is shown below to assist the reader in assessing the progress of the Plan.

Fiduciary Net Position (Unaudited) for Benefits for December 31, 2021 and 2020 (amounts in thousands):

	2021	2020	Change	% Change
Cash & Cash Equivalents	\$ 107,635	\$ 56,981	\$ 50,654	88.9%
Total Receivables	9,003	6,834	2,169	31.7%
Total Investments	<u>2,478,947</u>	<u>2,282,517</u>	<u>196,430</u>	8.6%
Total Assets	2,595,585	2,346,332	249,253	10.6%
Total Liabilities	<u>20,066</u>	<u>13,437</u>	<u>6,629</u>	49.3%
CRS' Net Position	<u>\$ 2,575,519</u>	<u>\$ 2,332,895</u>	<u>\$ 242,624</u>	10.4%



How Pensions and OPEB Are Funded

CRS is funded through a combination of revenue from employee contributions, employer contributions and investment earnings. Historically, the largest portion of funding has come from net investment earnings. As expected, the proportion of net investment income fluctuates with the market.

Revenues for the last ten years are as follows (amounts in thousands):

Year Ending December 31	City Contributions	Employee Contributions	Investment and Other Income
2021	\$ 37,605	\$ 20,189	\$ 406,578
2020	34,517	19,973	178,855
2019	34,223	19,814	334,250
2018	33,127	19,172	(89,217)
2017	32,043	18,557	305,678
2016	37,741	16,785	190,725
2015 *	56,736	16,018	(661)
2014	33,977	15,691	153,930
2013	37,192	14,671	331,348
2012	33,608	14,819	232,744

* The 2015 City Contributions include \$32,900 Early Retirement Incentive Program (ERIP) payoff.

Expenses of the Plan

Plan assets can only be used to make benefit payments to retirees and beneficiaries, contribution refunds to terminated employees, to pay for health care expenses, and to pay the costs of administering the system.

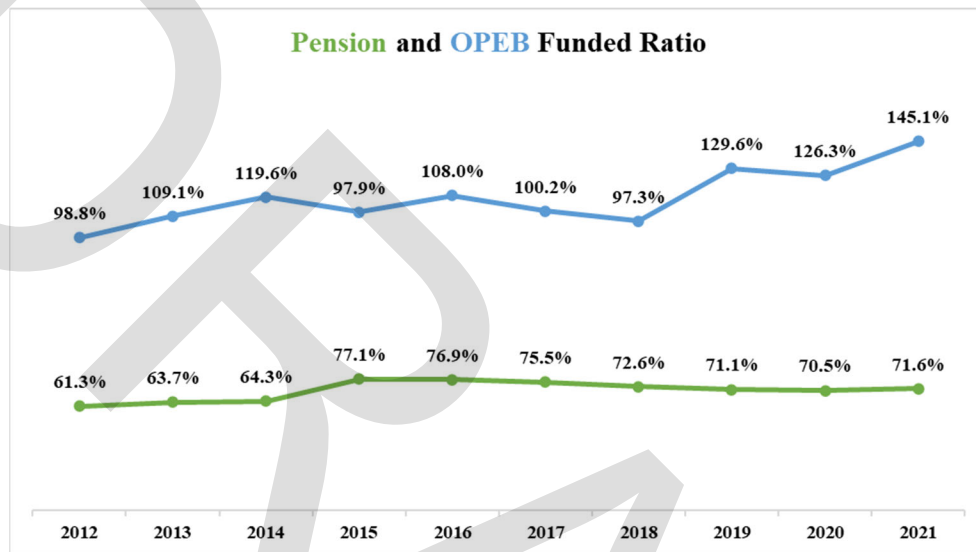
Expenses for the last ten years are as follows (amounts in thousands):

Year End December 31	Benefit Payments	Refunds	Administrative and Other Expenses
2021	\$ 216,848	\$ 2,790	\$ 2,110
2020	196,859	1,501	2,187
2019	192,366	2,349	2,041
2018	190,387	1,657	1,846
2017	190,973	1,909	1,839
2016	191,162	1,640	2,075
2015	205,090	1,669	7,244
2014	193,750	2,279	1,826
2013	188,175	1,557	1,720
2012	186,163	1,510	1,888

* In 2015, there was a one time expense for Professional Services of \$5.1M.

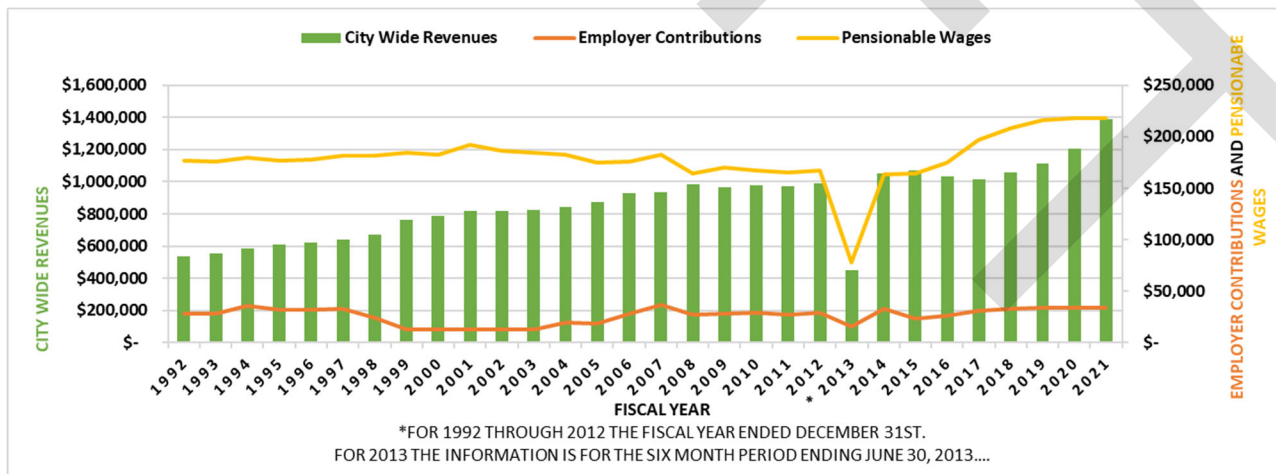
Funded Ratio

Every year an independent actuary conducts a study to calculate the funded status of the Plan (Funded Ratio), measure the Plan's funding progress and recommend contribution rates. The Funded Ratio compares the obligations of the Plan to the assets that the Plan holds. High funding ratios indicate a well-funded plan with sufficient assets to cover the plan's obligations. For the December 31, 2021 valuation, the actuary determined CRS' Pension plan funded ratio was 71.6% and the OPEB plan funded ratio was 145.1%. The goal of the CSA is to achieve 100% funding by 2045.



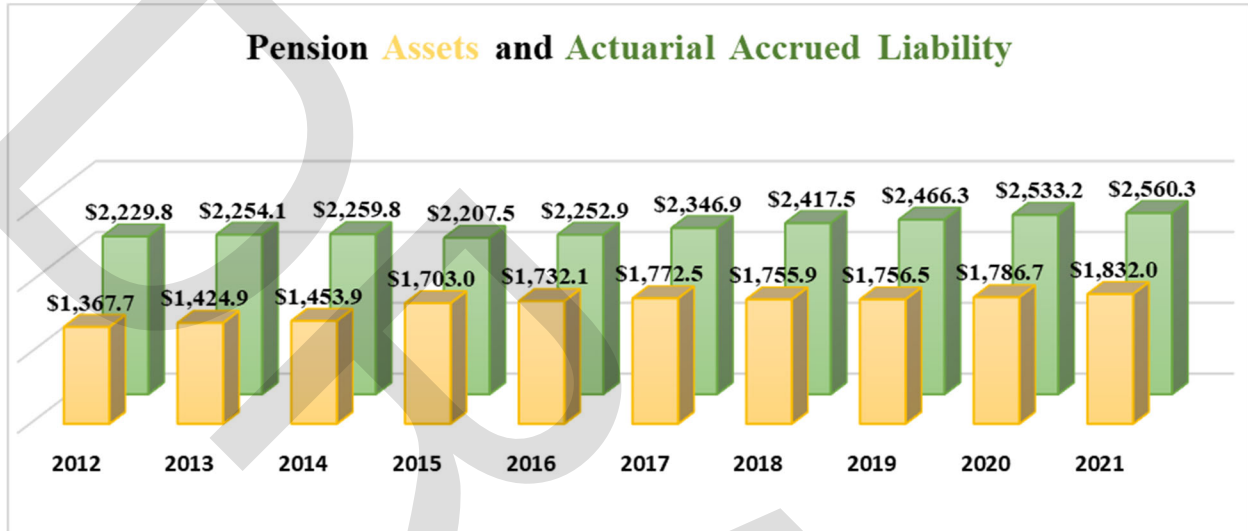
Employer Contributions, Pensionable Wages, and Revenues

The following chart provides Employer Contributions and Pensionable Wages as lines with the amounts identified on the right. Revenues for the City of Cincinnati appear as bars with the amounts identified on the left. Revenues include taxes, fees, fines, utilities and grants. The Metropolitan Sewer District's (MSD) revenues are not included. The chart compares the changes in contributions, wages, and revenues over thirty years (amounts in thousands).

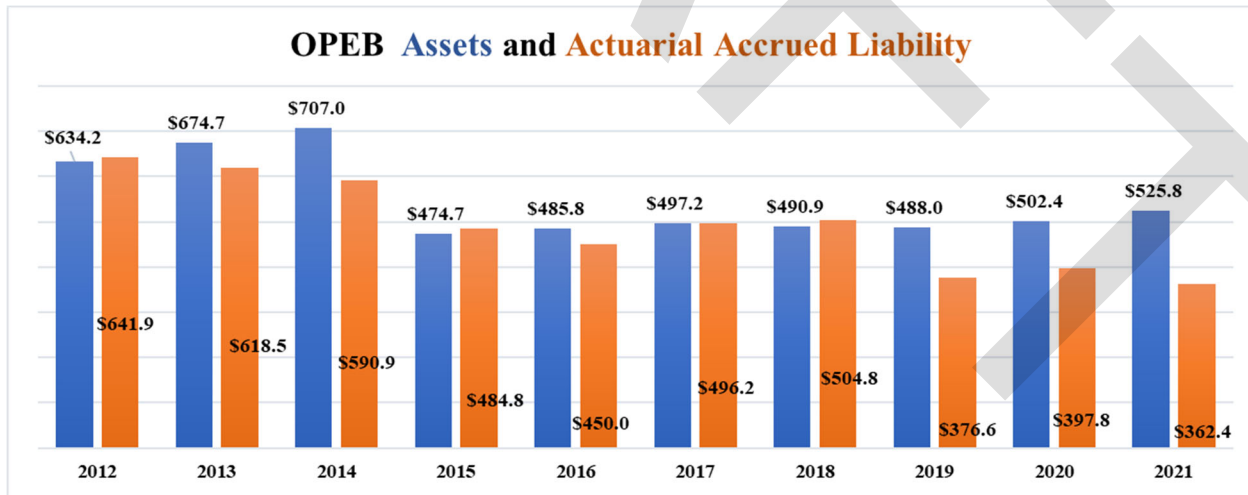


Assets and Actuarial Accrued Liability

The following chart provides the Actuarial Value of Assets and Actuarial Accrued Liability for the Pension Plan (amounts in millions).



The following chart provides the Actuarial Value of Assets and the Actuarial Accrued Liability for the OPEB Plan (amounts in millions).



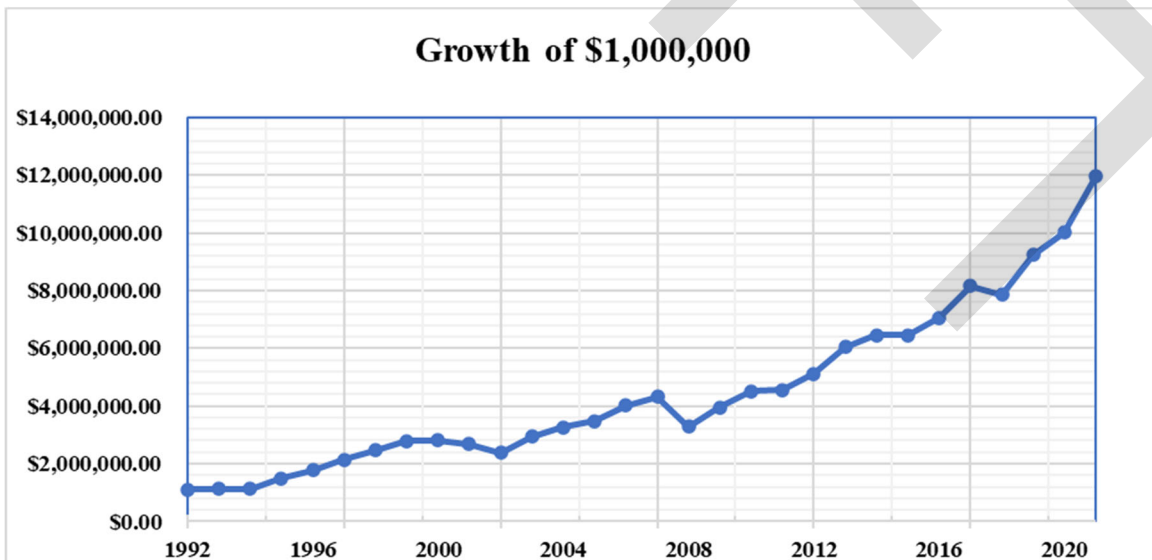
INVESTMENTS SUMMARY

Investment Summary and Asset Allocation

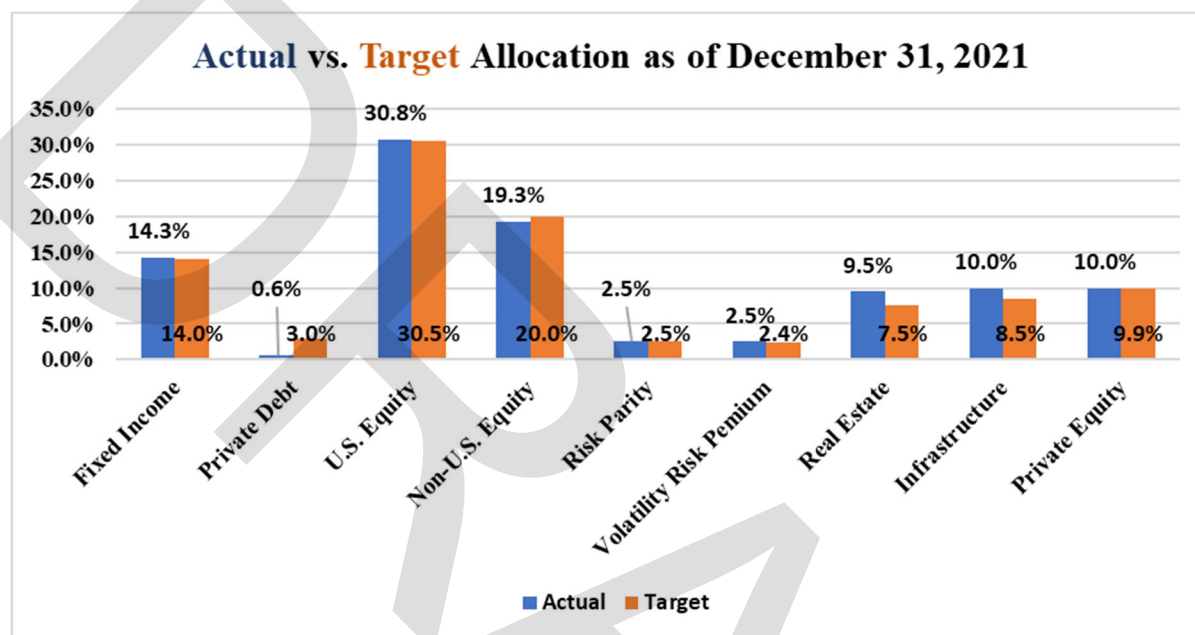
For the calendar year ended December 31, 2021, the Plan’s investment portfolio produced a net return of 18.06%. CRS 5 and 10 year returns are as follows:

Annual CRS Rates of Investment Return		
<u>Plan Year</u>	Investment Return	
	<u>Assumption</u>	<u>Market Return</u>
2011	7.50%	0.88%
2012	7.50%	12.06%
2013	7.50%	16.99%
2014	7.50%	6.46%
2015	7.50%	-0.11%
2016	7.50%	9.24%
2017	7.50%	14.51%
2018	7.50%	-3.93%
2019	7.50%	16.40%
2020	7.50%	8.03%
2021	7.50%	18.06%
10-Year compound Average		9.54%
5-Year Compound Average		10.31%

CRS’ asset allocation has provided consistent overall returns over time, as illustrated in the graph below that shows the growth of \$1,000,000 at CRS’ investment return rates. The performance of CRS’s investments are detailed in full in the [CY2021 Marquette investment report](#).



Asset allocation represents how the System’s investments are spread amongst various asset classes and is used to mitigate risk. In an effort to attain the total portfolio return goal, each asset class has a benchmark return. Actual and target allocations are depicted in the chart below.



The CRS Board with information from the Investment Consultant has implemented an Investment Policy. This investment policy is set forth by the Board of Trustees in order to:

- Define and assign the responsibilities of all involved parties.
- Establish a clear understanding of all involved parties of the investment goals and objectives of System.
- Establish the relevant investment horizon for which the System assets will be managed.
- Establish a target asset allocation and re-balancing procedures.
- Establish a methodology and criteria for hiring and firing investment professionals.
- Offer guidance and limitations to all investment managers regarding the investment of System.
- Establish a basis of evaluating investment results.

Portfolio Restructuring

In 2020, the Board approved substantial changes to the exposures in the Domestic Equity, International Equity and Fixed Income asset classes. The overall target weights of these classes remained the same at 27.5% for Domestic Equity, 23% for International Equity, and 14% for Fixed Income. Taken together, these changes substantially simplified the portfolio, while maintaining meaningful exposure to Value equities. These changes were implemented in 1Q of 2021.

Domestic Equity

The value exposure in the Domestic Equity portfolio was reduced from 18.5% to 9%. The remaining exposures were transferred to broad market exposure (Russell 3000). The Marquette quarterly reports reflect the changes:

12/31/2020 Domestic Equity (before)

U.S. Equity Composite		690,541,672	-17,274,556	29.7	27.5	51,000,769
NTGI Russell 1000 Value	Large-Cap Value	171,837,289	-7,390	7.4	7.0	9,045,059
NTGI Russell 1000 Growth	Large-Cap Growth	129,127,798	-5,797	5.6	5.0	12,847,634
NTGI S&P 400	Mid-Cap Core	100,572,713	-11,504,525	4.3	4.0	7,548,582
Vanguard Mid Cap Value	Mid-Cap Value	100,107,835	0	4.3	4.0	7,083,703
NTGI Russell 2000 Value	Small-Cap Value	178,572,611	-5,756,844	7.7	7.5	4,152,364
Clifton Group	Cash Overlay	10,323,427	0	0.4		

3/31/2021 Domestic Equity (after)

U.S. Equity Composite		764,252,750	-12,038,566	31.9	27.5	105,429,723
NTGI Russell 3000	All-Cap Core	481,458,675	465,249,035	20.1	18.5	38,250,456
NTGI Russell 1000 Value	Large-Cap Value	97,356,803	-90,006,444	4.1	3.5	13,506,600
Vanguard Mid Cap Value	Mid-Cap Value	58,145,971	-54,000,000	2.4	2.0	10,231,569
NTGI Russell 2000 Value	Small-Cap Value	116,651,293	-97,004,464	4.9	3.5	32,801,089
Clifton Group	Cash Overlay	10,640,009	0	0.4		

International Equity

Four international exposures (Europe/Australasia/Far East (EAFE), Small Cap Value, Emerging Market Value, and Emerging Market Core) with an aggregate target weight of 20% were combined into a Global ex US exposure with a target weight of 20% of the portfolio. The 3% target weight to Emerging Markets Small Cap (DFA) remained unchanged.

12/31/2020 International Equity (before)

Non-U.S. Equity Composite		561,873,450	-7,761,030	24.2	23.0	26,984,695
NTGI MSCI EAFE	Non-U.S. Large-Cap Core	244,550,575	-11,511,030	10.5	10.0	11,990,247
DFA International Small Value	Non-U.S. Small-Cap Value	115,284,374	2,000,000	5.0	5.0	-995,790
DFA Emerging Markets Value	Emerging Markets	57,554,778	1,750,000	2.5	2.5	-585,304
DFA Emerging Markets Core	Emerging Markets	62,677,899	0	2.7	2.5	4,537,817
DFA Emerging Markets Small Cap	EM Small-Cap	80,047,934	0	3.4	3.0	10,279,835

3/31/2021 International Equity (after)

Non-U.S. Equity Composite		570,519,553	-21,257,965	23.8	23.0	19,503,930
NTGI ACWI Ex-US	Non-U.S. All-Cap Core	497,535,713	496,516,083	20.8	20.0	18,391,692
DFA Emerging Markets Small Cap	EM Small-Cap	71,301,928	-14,000,000	3.0	3.0	-569,675

Fixed Income

The Board terminated the Blackrock Strategic Income unconstrained fixed income exposure (6% target weight) and transferred the assets to Bloomberg Barclays Aggregate Bond fund managed by Northern Trust.

Investment Attribution

Marquette prepares an attribution summary chart in its [report](#) at p. 9. This chart attributes excess returns to security selection, asset allocation and asset class interaction. The purpose of attribution is to isolate what has been most impactful to investment returns. The following chart reflects that manager selection of securities has been most impactful to investment returns over the past five years.

Note that the Board has transitioned its domestic and international equity portfolios to passive indexes, which will likely eliminate any selection effect in those asset classes over time.

	Attribution Summary						
	5 Years Ending December 31, 2021						
	Wtd. Actual Return	Wtd. Index Return	Excess Return	Selection Effect	Allocation Effect	Interaction Effects	Total Effects
Fixed Income Composite	4.96%	3.57%	1.39%	0.21%	-0.20%	0.04%	0.05%
Private Debt Composite	--	--	--	0.03%	0.15%	-0.03%	0.16%
U.S. Equity Composite	15.08%	17.97%	-2.88%	-0.70%	0.03%	-0.03%	-0.69%
Non-U.S. Equity Composite	8.66%	9.61%	-0.95%	-0.18%	0.01%	0.01%	-0.17%
Hedge Fund Composite	--	--	--	0.00%	-0.03%	-0.06%	-0.09%
Risk Parity Composite	8.37%	12.43%	-4.06%	-0.21%	0.00%	0.02%	-0.20%
Volatility Risk Premium Composite	--	--	--	--	--	--	--
Real Estate Composite	10.13%	7.75%	2.38%	0.22%	-0.07%	0.02%	0.17%
Infrastructure Composite	7.50%	5.12%	2.38%	0.23%	0.12%	-0.05%	0.30%
Private Equity Composite	18.22%	21.18%	-2.95%	-0.26%	-0.14%	0.02%	-0.37%
Total Cash Equivalents	1.69%	1.08%	0.61%	--	--	--	--
Total	10.82%	11.75%	-0.94%	-0.66%	-0.12%	-0.07%	-0.84%

Investment Management Fees

Investment management fees for 2021 totaled \$8.35mm, which equates to 36 basis points or 0.36% of system assets. The majority of investment fees are generated by illiquid asset classes (private equity, real estate and infrastructure).

CRS also pays “carried interest” on certain infrastructure and private equity investments. Carried interest (also called performance incentives) is a common feature of private equity contracts, in which the manager is entitled to a percentage of the return after a specified hurdle rate of return has been achieved. The return on private equity investments is always computed net of management fees and carried interest. Carried interest for 2021 totaled \$4.95mm, which equates to 21 basis points or 0.21% of system assets.

Manager	Asset Class	Mgmt Fees	Carried Interest	Total
IFM	Infrastructure	\$1,485,307	\$1,695,858	\$3,181,165
North Sky	Private Equity	\$102,500	\$1,623,345	\$1,725,845
JP Morgan	Private Equity, Infrastructure, RE	\$1,122,533	\$518,943	\$1,641,476
Fort Washington	Private Equity	\$632,646	\$712,925	\$1,345,571
PRISA	Real Estate	\$905,648		\$905,648
Northern Trust Global	Equities, Fixed Income	\$680,152		\$680,152
Dimensional Fund Advisors	Int'l Equity	\$640,221		\$640,221
Principal Enhanced	Real Estate	\$572,874		\$572,874
HIG Bayside	Private Debt	\$264,739	\$288,201	\$552,940
Loomis Sayles	Fixed Income	\$451,820		\$451,820
Shenkman	Fixed Income	\$405,827		\$405,827
AQR	Risk Parity	\$399,970		\$399,970
MacQuarie	Infrastructure	\$129,741	\$114,544	\$244,285
Alinda	Infrastructure	\$191,357		\$191,357
Blackstone	Fixed Income	\$158,001		\$158,001
Mesirow	Real Estate	\$121,664		\$121,664
Vanguard	Equities	\$41,648		\$41,648
Portfolio Advisors	Private Equity	\$39,263		\$39,263
Blue Chip	Private Equity	\$8,984		\$8,984
Total		\$8,354,895	\$4,953,816	\$13,308,710
CRS Balance, 1/1/2021		\$2,325,603,283	0.36%	0.21%

DRAFT

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Visit CRS at:

www.cincinnati-oh.gov/retirement/

Cincinnati Retirement System
801 Plum Street, Suite #328
Cincinnati, Ohio 45202

Phone: (513)352-3227

Fax: (513)352-1520

Email: Retirement@Cincinnati-OH.Gov

This Unaudited Financial Report is prepared in the form of a Popular Annual Financial Report (PAFR). The city of Cincinnati prepares an Annual Comprehensive Finance Report ACFR in accordance with Generally Accepted Accounting Principles (GAAP) which is audited. The ACFR provides in-depth information about the financial, investments, actuarial and statistical aspects of the pension plan. The ACFR is available at <https://www.cincinnati-oh.gov/finance/financial-reports/>. The PAFR is available at [XXXXXXXXXXXXXXXXXX](#).

DRAMA

city of
CINCINNATI
RETIREMENT





Cincinnati Retirement System: Your Retirement Benefits 101

September 2022

CINCINNATI RETIREMENT SYSTEM

→Welcome to CRS!

- Our Mission: *Help members retire successfully*
- Established in 1931; pre-dates Social Security
 - Public employees in OH do not participate in Social Security
 - CRS members can be eligible for Social Security through a previous employer
- CRS covers only certain City of Cincinnati employees. Excludes:
 - Sworn Police and Fire (OP&F), Members of Ohio systems (OPERS), Elected Officials

CINCINNATI RETIREMENT SYSTEM

→ CRS Benefits

- Different types of retirement benefits:
 - Monthly Pension Benefit
 - Retiree Healthcare
 - Deferred Retirement Option Plan
 - Disability Retirement Benefits
 - Survivor Benefits
 - Deferred Compensation (457 Plan)
- Eligibility for each type of benefit differs
 - It can be complicated—call us with questions!

CINCINNATI RETIREMENT SYSTEM

→ CRS Operations

- What We Do:
 - Process retirement applications
 - Enroll new members
 - Process Return of Contributions
 - Process Death Benefits
 - Process 457 Plan enrollments
 - Process Retiree Healthcare Open Enrollment and Medicare Transitions
 - Process Service Purchases
 - Member Education and Customer Service

CINCINNATI RETIREMENT SYSTEM

→ CRS Funding

- CRS Benefits are Funded by Contributions + Investment Earnings
 - City contributes at least 16.25% of payroll
 - You contribute 9%
- CRS Board of Trustees invest the contributions and earn an investment return
- Current CRS Assets = \$2.3 billion
- Annual CRS benefit payments = \$219.4mm
- Funded ratio (pension) = 71.6%
- Funded ratio (health) = 145.1%

CINCINNATI RETIREMENT SYSTEM

→ CRS Benefits: Why?

Long-term
Public
Service

Retirement
Security

CINCINNATI RETIREMENT SYSTEM

→ Monthly Pension Benefit

- CRS provides a “Defined Benefit” pension
 - “Defined Benefit” means a formula-based monthly payment for the rest of your life



- Different than “Defined Contribution” which provides a lump sum at retirement



CINCINNATI RETIREMENT SYSTEM

→ Monthly Pension Benefit

- Eligibility
 - Group F:
 - Age 60, 5yrs. svc.
 - Any age, 30yrs. svc.
 - Group G:
 - Age 67, 5yrs. svc.
 - Age 62, 30yrs. svc.
- *Groups?* Almost all CoC employees are either Group F or Group G
 - Group F: hired before 1/1/2010
 - Group G: hired on or after 1/1/2010

CINCINNATI RETIREMENT SYSTEM

→ Monthly Pension Benefit

- Basic Formula:

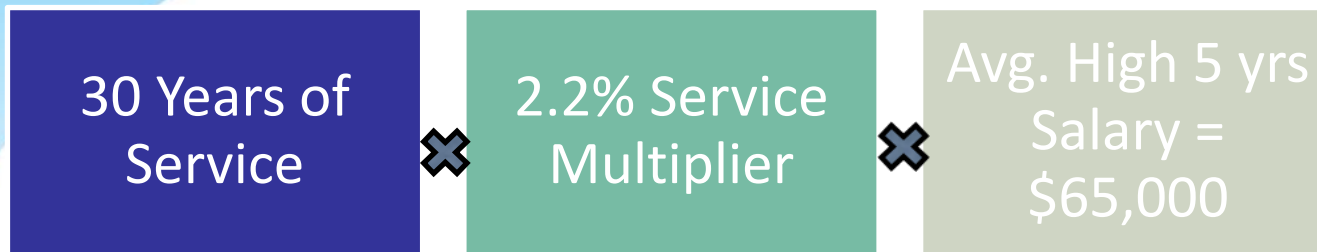


- Yrs of Svc: Credit for every non-OT hr worked
- Service Multiplier (1yr = 2080 hrs)
 - Group F: Blended 2.5%/2.2%
 - Group G: 2.2% (after 30yrs, 2%)
- Average Highest Salary
 - Group F: Blended High 3/High 5
 - Group G: High 5

CINCINNATI RETIREMENT SYSTEM

→ Monthly Pension Benefit

- Example (Group G):



- Base annual benefit = \$42,900
- Replaces 66% of average high salary
- 3% simple interest COLA added at start of 4th year of retirement

CINCINNATI RETIREMENT SYSTEM

→ Monthly Pension Benefit

- Purchasing Service Credit
 - Members can add to the service credit they earn as a City employee by purchasing service credit
 - Prior Military service credit
 - Members can purchase up to three years of active-duty military service
 - Service with another public employer with a defined benefit plan
 - Submit an application to CRS (out of state service requires payment of a processing fee). The sooner you purchase, the less it will cost you.

CINCINNATI RETIREMENT SYSTEM

→ Monthly Pension Benefit

- *What happens when I die?*
 - No Optionee selection: Monthly Pension Benefit ends
 - Optionee selection: Monthly Pension Benefit continues until Optionee dies, unless Optionee has already passed

CINCINNATI RETIREMENT SYSTEM

→ Monthly Pension Benefit

- *Who Can Be My Optionee?* Usually spouse, but can be anyone
- **Select Optionee and Option at retirement:**
 - Option 1 (100%): Same reduced benefit for life of retiree and optionee
 - Option 2 (50%): Benefit reduced to 50% if retiree dies first
 - Option 3 (66 2/3%): Benefit reduced to 66 2/3% upon death of retiree or optionee
 - Option 4 (80%): Benefit reduced to 80% upon death of retiree or optionee
- **All options are actuarially reduced from the base benefit**

CINCINNATI RETIREMENT SYSTEM

→ Monthly Pension Benefit

- Early Retirement
 - Early retirement is available for a reduced benefit
 - Group F: Age 55, with 25 years of service
 - Group G: Age 57, with 15 years of service
 - No retiree healthcare eligibility if Early Retirement selected

CINCINNATI RETIREMENT SYSTEM

→ Retiree Healthcare

- Model Healthcare Plan
 - Only available to employees hired before 1/1/2016
 - At age 60, with 20 years of service
 - At any age, with 30 years of service
 - *For members who hired after 1/9/97 and who leave City employment and defer, eligibility age is pushed to Medicare age or normal retirement age, whichever is later*
 - Cost structure:

Deductible (Individual/Family)	\$500/\$1000
Out of Pocket Max (Individual/Family)	\$2000/\$4000
Rx Co-Pay (generic/brand/non-formulary)	\$10/\$20/\$30
Patient Co-Insurance (pre-65)	20%
Patient Co-Insurance (65+)	4%

CINCINNATI RETIREMENT SYSTEM

→ Retiree Healthcare

- Premium Share

- Hired before 1/9/97: 10%
- Hired on or after 1/9/97: Varies (points grid)



Your Total Points	Your Percentage of Total Premium Cost
90 points	5%
80-89 points	25%
70-79 points	50%
60-69 points	75%

- Premiums drop substantially once a member is eligible for Medicare(65)

CINCINNATI RETIREMENT SYSTEM

→ Retiree Healthcare

- Pre-65 Model Healthcare Plan
 - Very similar to CoC Active E'ee Healthcare Plan
- 65 + Model Medicare Advantage Plan
 - Members enroll in Medicare Part A (Hospital Insurance) and Medicare Part B (Medical Insurance)
 - Members pay monthly Medicare Part B premium
 - Medicare Advantage covers medical and prescription costs
- Dental and Vision coverage available separately

CINCINNATI RETIREMENT SYSTEM

→ Retiree Healthcare

- Options for Employees Hired After 1/1/2016
 - City's High Deductible Health Plan w Health Savings Account
 - City contributes \$500/\$1,000 (ind./family)
 - Employees can contribute \$3,650/\$7,300
 - Funds that you and City contribute can be used tax-free for retiree healthcare expenses
 - Balances over \$2,000 can be invested
 - Retire before Medicare age
 - Federal healthcare exchange insurance
 - Use HSA funds to pay premiums, out of pocket expenses

CINCINNATI RETIREMENT SYSTEM

→ Deferred Retirement Option Plan

- DROP
 - Defer retirement for up to 5 years
 - Continue to work as City employee
 - Monthly pension benefit saved
 - 75% of employee's CRS contribution saved
 - DROP account earns interest
 - DROP account paid out as lump sum at retirement
 - Eligibility:
 - 30 years service
 - CSA Current Employee Class Member
 - Active employee on 7/1/2011
 - 5 years svc on 7/1/2011

CINCINNATI RETIREMENT SYSTEM

→ Disability Retirement

- Disability
 - Requires mental or physical incapacitation that prevents performance of duty and is likely permanent
 - 90% of monthly pension benefit
 - Disability determination made by CRS Medical Director
 - Minimum 5 yrs of service credit to apply
 - Retiree healthcare only available if member is eligible for retiree healthcare at time of disability

CINCINNATI RETIREMENT SYSTEM

→ Survivor Benefits

- Eligibility: Active employee with minimum 18 months svc.
- Monthly dependent benefit (2022): \$407.29
 - Employee w 15 yrs svc & un-remarried spouse eligible at age 50
 - Employee w less than 15 yrs svc & un-remarried spouse eligible at age 62
 - Dependent children (younger than 18)

CINCINNATI RETIREMENT SYSTEM

→ Survivor Benefits

- Employee w 20 yrs svc: spouse eligible for Option 1 monthly pension benefit on date employee would have been eligible
 - ***Legally married Spouse must be designated as sole primary beneficiary***
- Refund of Contributions
 - Employee CRS contributions refunded to beneficiary
- Please keep your beneficiaries current!

CINCINNATI RETIREMENT SYSTEM

→ Deferred Compensation (457 Plan)

- Allows members to save additional amounts pre-tax for retirement
- Used to supplement Monthly Pension Benefit
- Get a CRS Benefit Estimate
 - Ask yourself if your Monthly Pension Benefit will be enough
 - Consider increasing contribution to 457 Plan
- City provides a match to most employees
 - AFSCME: \$300; CODE & Non-Rep: \$750. This is free money!
- 457 Plans: Ohio457, MissionSquare

CINCINNATI RETIREMENT SYSTEM

→Retirement Process

- At least 5 yrs before planned retirement date
 - Get a CRS benefit estimate
 - Make an estimated retirement budget
 - Ask questions about your eligibility for CRS benefits
- Retirement application process
 - Notify your department's HR Liaison
 - Complete an application at least 9 weeks before your planned retirement date
 - Attend a CRS Retirement Session

CINCINNATI RETIREMENT SYSTEM

→ Social Security

- You may be eligible for Social Security from working for a different employer; City of Cincinnati is not a Social Security employer
- If you are eligible for Social Security benefits, they may be reduced under the *Windfall Elimination Provision*
- Social Security survivor benefits from an eligible spouse may be eliminated also under the *Government Pension Offset provision*
- Check out www.SSA.gov and set up an account to see where you stand.

CINCINNATI RETIREMENT SYSTEM

→ Leaving City Employment

- Options if you leave City employment prior to becoming eligible for retirement benefits:
 - Leave your contributions in CRS
 - Ideal option for members who have earned the number of service years required for benefit eligibility, but haven't reached the required age.
 - Refund your contributions
 - Ideal option for members who have not earned the number of service years for benefit eligibility and do not intend to return to the City

CINCINNATI RETIREMENT SYSTEM

→Resources

- CRS: www.cincinnati-oh.gov/retirement/
- Ohio457: www.ohio457.org/resources
- MissionSquare: www.missionsq.org
- Social Security: www.ssa.gov
- Medicare: www.medicare.gov
- MemberDirect: www.crsmemberdirect.org
 - MemberDirect is a CRS portal that allows you to see your retirement account information. Set up an account today with a personal email address today!

CINCINNATI RETIREMENT SYSTEM

→ Questions?

- Please visit the CRS Website:
<https://cincinnati-oh.gov/retirement/>
- Email: retirement@cincinnati-oh.gov
- Office:
City Hall, Room 328
801 Plum Street
Cincinnati, OH 45202
(513) 352-3227



- ***Please keep CRS updated on your contact info!***

To: Mayor and Members of City Council
From: Cincinnati Retirement System Board of Trustees
Copy: Sheryl Long, City Manager
Date: September 30, 2022
Subject: Cincinnati Retirement System CY2021 Annual Report

This report is from the Cincinnati Retirement System (CRS) Board of Trustees (Board) and provides the City Council with the state of the CRS Pension Trust and Healthcare Trust. This summary report, together with the CRS Financial Report, is intended to provide a comprehensive summary of the status of the Cincinnati Retirement System, in compliance with the CRS Board's reporting requirements as set out in the City's Administrative Code and Board Rules. The report is as of December 31, 2021. For additional information, please see the City's Annual Comprehensive Financial Report, Actuarial Valuations, and Investment Results on the CRS website.

The CRS is governed by the Collaborative Settlement Agreement (CSA). Under the CSA, the CRS Pension Trust is to be 100% funded by 2045. Under the CSA, the Healthcare Trust is to be 100% funded through 2045.

Given the current and projected funding positions of the Pension Trust, we recommend that the City Council continue to take action to increase the funding of the Pension Trust. In addition, we recommend that the City Manager continue to work with class counsel to finalize a funding policy for the Healthcare Trust. The City's municipal code requires that the City obtain input and recommendations from the CRS Board.

Background

The purposes of the CRS Pension Trust and Healthcare Trust are to provide promised retirement benefits and healthcare benefits to eligible retired city employees. CRS is a defined benefit plan that was established in 1931. The Collaborative Settlement Agreement (CSA) was approved in 2015 to settle litigation and provide a comprehensive strategy to stabilize CRS while securing sustainable and competitive retirement benefits for both current and future retirees.

As of December 31, 2021, there were 2,580 full-time active members, 4,390 pensioners receiving pension payments (which includes 184 members in the DROP plan who are still working), and 4,909 pensioners and spouses receiving healthcare benefits.

The CRS Board serves as an independent fiduciary on behalf of active and retired members of the retirement system. The Board retains Marquette Associates, an independent investment consulting firm, and Cheiron, a pension and healthcare actuarial consulting firm, both of which specialize in public sector retirement plans. Marquette and the Board have developed and follow a disciplined investment policy that can be found on the CRS website. Cheiron calculates the actuarial value of assets and liabilities and projects the funded status of the Trusts in future years based on professional actuarial standards and practices.

The assumed investment rate of return and discount rate for calculating liabilities is 7.5% per year as prescribed in the CSA. The annualized capital market rates of return for the past 5 and 10 years as of December 31, 2021, were 10.31% and 9.54%, respectively. CRS investment performance is at or above the median of peer public defined benefit retirement plans.

The table below highlights the actuarial value of assets, liabilities, and funded ratios.

	<u>Assets</u>	<u>Liabilities</u>	<u>Funded Ratio</u>
Pension			
Actuarial Value	\$1,831,955	\$2,560,259	71.6%
Market Value	\$2,001,579	\$2,560,259	78.2%
Health			
Actuarial Value	\$525,774	\$362,352	145.1%
Market Value	\$573,939	\$362,352	158.4%

Pension Trust

A goal of the CSA is to establish a projected 100% funding ratio in 30 years (i.e., by 12/31/2045). The assumptions used in finalizing the CSA projected that the Pension Trust would be fully funded in 30 years if all of the assumptions played out exactly. The status of the annual contributions and distributions is described below:

- The active employees contribute 9% of covered payroll to the Pension Trust as required by the CSA;
- The City contributes the minimum rate per the CSA of 16.25% of full-time covered payroll to the Pension Trust. (The General Fund represents 35% of covered payroll and other non-general funds represent 65% of covered payroll.);
- In CY2021, the City began contributing a payment to amortize the cost of the 2020 Early Retirement Incentive Plan (ERIP) over 15 years. Cheiron estimates that payment at 1.34% of payroll for this additional benefit, bringing the City’s contribution rate for the year to 17.59%;
- The Actuarially Determined Contribution (ADC) for the Pension Trust, as calculated by the actuary, is the annual employer contribution amount required to bring the Pension to a fully funded status in 30 years. **The ADC for FY2021 was 30.67% of covered payroll (as set by the CY2019 actuarial valuation). The actual contribution of 17.59% means the City contributed 57.4% of the actuarial recommendation;**

- Benefit payments and expenses have significantly exceeded employer and employee contributions for over a decade placing CRS in the bottom quartile among other public pension funds with negative cashflows. This means that CRS continues to liquidate a relatively large amount of assets to pay for benefits and expenses. This also means that CRS is much more dependent on investment returns than most public pension plans.

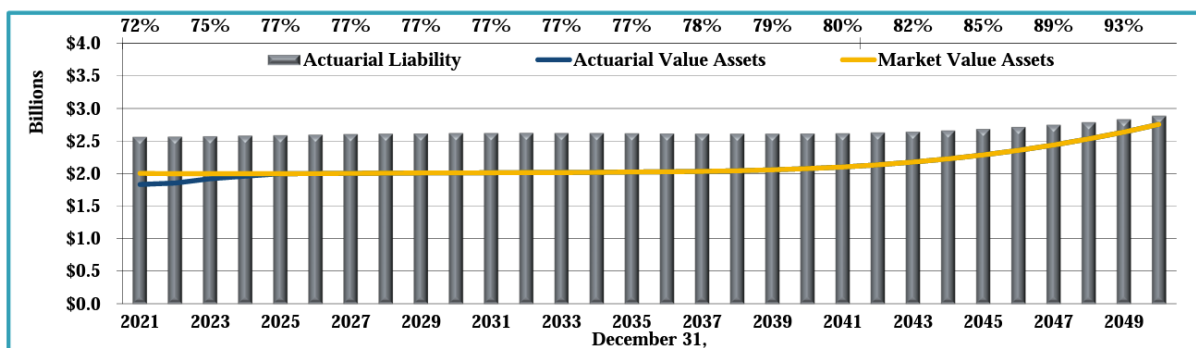
The following events occurred after the CSA was finalized:

- Ordinance 336, which reflects changes made in finalizing the CSA that increased liabilities, was approved by City Council in 2016;
- Revisions to actuarial assumptions (e.g., longer life span of retirees) occurred as recommended by the actuary and approved by the CRS Board;
- Annualized 5-year investment returns (2017 – 2021) were 10.31% as of December 31, 2021 vs. the assumed 7.5%. However, CRS is especially sensitive to the timing of capital market swings because it continues to liquidate assets to pay benefits when the capital market drops. This requires more time for the remaining assets to recover from capital market volatility;
- The City offered the ERIP in 2020 that provided two (2) additional years of service to eligible participants resulting in earlier retirements, additional benefits, and an increase in liabilities;
- The Deferred Retirement Option Plan (DROP) established in the CSA is required to be cost neutral, but it has increased the liabilities of the Pension Trust by \$11.6mm according to the initial review by the actuary.

The actuary’s latest revised funding progress for the Pension Trust, which includes the impact of the DROP and the ERIP, projects the funded ratio will reach nearly 100% by 2050 which is five years beyond the term of the CSA. However, if 2022 is a year in which returns are 0% (currently negative as of the date of this report), the actuary projects that 100% funding will not be achieved until 2073. As noted, CRS funding is highly dependent on investment returns.

The graph below reflects the City’s minimum required contributions of 16.25% of covered payroll for 30 years. It also includes the recommended budget’s \$2.7 million contribution per year for the next 15 years to pay for the ERIP liabilities and assumes the CSA benchmark return of 7.5% investment return for all future years.

Pension Trust

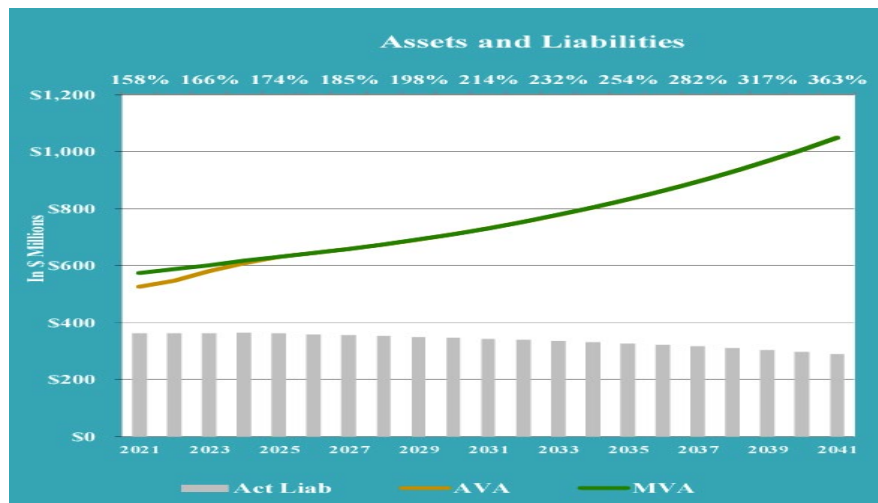


Healthcare Trust

At the time of the CSA signing, the Healthcare Trust was fully funded, and the City was required per the CSA to develop and present a proper funding policy to fully fund the healthcare trust at actuarially appropriate levels. The funding policy would keep the Trust fully funded over the lifetimes of current and future retirees and their beneficiaries covered by the CSA. Implementation of a full funding policy will assure that the Healthcare Trust remains fully funded to provide promised benefits. The Healthcare Trust is irrevocable and its assets must be used exclusively for healthcare benefits for CRS retirees and their beneficiaries. The City has yet to adopt a Healthcare Trust funding policy as required by the CSA and there have been no City contributions to the Trust since the CSA was signed.

In the graph below, the bars represent liabilities and the lines represent the actuarial value of assets (AVA) and the market value of assets (MVA) assets. The graph reflects that the Healthcare Trust is fully funded in 2021 and beyond. This is based on current assumptions being fully met. A funding policy would safeguard the trust for retirees and their beneficiaries in the future should the assumptions not be achieved.

Healthcare Trust



Investment Performance

While the simple conclusion may be to achieve higher returns or “invest our way out of this,” CRS’ investment performance has been solid relative to what the capital markets have provided. The 7.5% annualized return assumption remains a high hurdle as well as optimistic given persistent capital market volatility and the outlook of many investment consultants. The median investment return assumption of U.S. public retirement systems has steadily decreased over the past several years and is currently 7.0%. Our investment policy and portfolio allocation are

already among the more aggressive pension systems in our effort to achieve the 7.5% target with an acceptable level of risk, given the high negative cash flow.

The following chart reflects the annual rates of return and 10-year compound return. CRS has achieved the 7.5% CSA assumption. The poor capital market performance this year is likely to have a negative impact on CRS investment performance in 2022 and negatively affect the 10-year compound return.

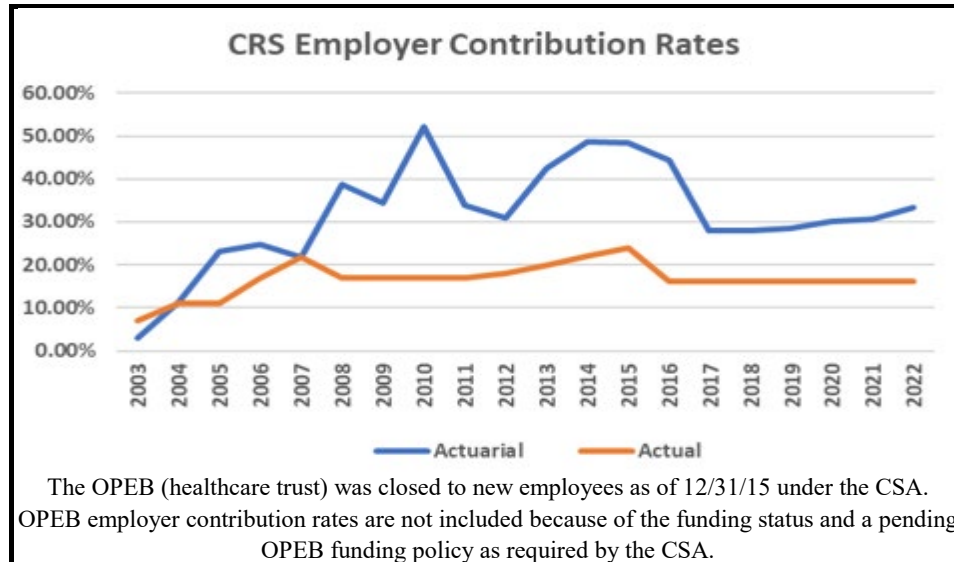
Annual CRS Rates of Investment Return		
<u>Plan Year</u>	Investment Return	
	<u>Assumption</u>	<u>Market Return</u>
2011	7.50%	0.88%
2012	7.50%	12.06%
2013	7.50%	16.99%
2014	7.50%	6.46%
2015	7.50%	-0.11%
2016	7.50%	9.24%
2017	7.50%	14.51%
2018	7.50%	-3.93%
2019	7.50%	16.40%
2020	7.50%	8.03%
2021	7.50%	18.06%
10-Year compound Average		9.54%
5-Year Compound Average		10.31%

The Board’s Investment Policy provides for a well-diversified portfolio across asset class, sector, investment managers and securities. The chart below is designed to achieve the 7.5% return with an acceptable level of risk.

<u>Asset Class</u>	<u>Policy %</u>
Fixed Income	17.00%
U.S. Equity	27.50%
Non-U.S. Equity	23.00%
Risk Parity	5.00%
Real Estate	7.50%
Infrastructure	10.00%
Private Equity	10.00%
Total	100.00%

Employer Contributions

In a defined benefit retirement plan such as CRS, the employer is responsible for providing benefits (as opposed to a defined contribution plan) and the employer generally accepts the financial risk. The Actuarially Determined Contribution (ADC) is the actuary recommended employer contribution to achieve full funding in 30 years. The chart below reflects the Pension Trust ADC and the City employer contribution for the last 20 years. By not contributing the ADC the unfunded liability increases over time meaning that the actuarial liability exceeds the value of assets.



Conclusion

The CRS Pension Trust and Healthcare Trust are undoubtedly challenged in providing promised retirement benefits. When the Collaborative Settlement Agreement was implemented, the Pension Trust and Healthcare Trust were projected to be fully funded in 30 years by 2045. For the Pension Trust this is no longer the case.

At the close of 2021, the Pension Trust has recovered somewhat as a result of extraordinary returns. By mid-2022, however, much of those excess returns are gone as a result of capital market losses. Funding vigilance therefore remains a priority for the Board. The future of the Health Care Trust is also uncertain due to the lack of a funding policy as required by the CSA. The following are possible solutions:

1. Increase City contributions to the Pension Trust above the minimum required amount of 16.25%, as provided for in the CSA. The Board has formally recommended an increase in rates by 0.5% each year until the actuarial projections reflect anticipated full funding by 2045. However, given the poor investment experience in 2022, the CRS actuary advises that an incremental approach will require annual rate increases of 0.75%

(includes DROP and ERIP). The Board acknowledges and appreciates the use of variable General Fund carryover to reduce unfunded pension obligations. Nonetheless, a more stable and predictable path to full funding is necessary. Failure to increase the City’s annual contribution rate will result in the CRS Pension Funded Ratio steadily decreasing until it reaches 52% in 2045; alternatively, incremental increases in the rate are required to achieve 100% funding by 2045:

Schedule of Funded Ratios	Earnings Assumption = 7.5%			
	Flat E'r Rate of 16.25%		Increase E'r Rate by 0.75%	
	E'r Contr Rate	Funded Ratio	E'r Contr Rate	Target Funded Ratio
12/31/2021	16.25%	70.15%	16.25%	70.15%
12/31/2022	16.25%	69.01%	17.00%	69.07%
12/31/2023	16.25%	69.44%	17.75%	69.65%
12/31/2024	16.25%	68.76%	18.50%	69.20%
12/31/2025	16.25%	68.02%	19.25%	68.78%
12/31/2026	16.25%	67.28%	20.00%	68.47%
12/31/2027	16.25%	66.52%	20.75%	68.26%
12/31/2028	16.25%	65.74%	21.50%	68.16%
12/31/2029	16.25%	64.94%	22.25%	68.18%
12/31/2030	16.25%	64.11%	23.00%	68.35%
12/31/2031	16.25%	63.26%	23.75%	68.67%
12/31/2032	16.25%	62.39%	24.50%	69.18%
12/31/2033	16.25%	61.50%	25.25%	69.89%
12/31/2034	16.25%	60.59%	26.00%	70.85%
12/31/2035	16.25%	59.67%	26.75%	72.06%
12/31/2036	16.25%	58.76%	27.50%	73.59%
12/31/2037	16.25%	57.75%	28.25%	75.34%
12/31/2038	16.25%	56.76%	28.25%	77.37%
12/31/2039	16.25%	55.80%	28.25%	79.69%
12/31/2040	16.25%	54.87%	28.25%	82.33%
12/31/2041	16.25%	54.03%	28.25%	85.31%
12/31/2042	16.25%	53.27%	28.25%	88.65%
12/31/2043	16.25%	52.61%	28.25%	92.37%
12/31/2044	16.25%	52.07%	28.25%	96.47%
12/31/2045	16.25%	51.66%	28.25%	100.96%

Cheiron Projection, September 2022

- Increase investment performance by increasing risk. Generally, there are several strategies affecting increased investment return. These include using different investment managers, making a riskier asset allocation, and attempting to lower fees. There is little we can do regarding these factors because we believe we have the appropriate managers, the appropriate asset allocation, and fees are already on the low end. With regard to asset allocation, the only way to increase expected returns in the future is to lower the fixed income allocation and add more to equities or other “riskier”

assets. Investment performance has been solid over time and the risk level of the portfolio is already aggressive relative to our peers. The Board and the investment consultant believe that taking any more risk would be imprudent. Conversely, taking less risk would decrease our chances of achieving the 7.5% target;

3. Reduce benefits. While unpopular and considered the last resort, reducing benefits would require re-opening the CSA; and
4. As the City has done before, explore issuing judgment bonds to reduce the unfunded actuarial liability. As of 12/31/2021, the unfunded actuarial liability for the Pension Trust was \$728.3mm (actuarial value) and \$558.7mm (market value).

Recommendation

At this time, we recommend the following:

1. That City Council increase the City's employer contributions to the Pension Trust by 0.75% for FY2024 and adjust the contribution periodically as necessary to assure full funding in 2045;
2. That the City Manager develop, and the City Council approve, a plan to consistently increase the Pension Trust ADC in the future. The ADC for FYE 2023 is \$68.4mm for the Pension Trust compared to \$40mm based on the minimum 16.25% currently budgeted.
3. That the City Manager continue to negotiate the Health Funding Policy with class counsels, consider the input and recommendations from the CRS Board, and that the City Council approve the funding policy for the Healthcare Trust to ensure that the promises to CRS members will be met well into the future. The Healthcare Trust was well funded as of the December 31, 2021, valuation and does not now require an ADC amount but may in the future;
4. That the City comply with the CSA to assure that the DROP program is cost neutral to the CRS Pension Trust and does not negatively impact the CRS Funding Ratio;

Immediate action is requested. Further delays will result in higher contributions in future years.