



Cincinnati Retirement System: 2022 Update

March 2022

CINCINNATI RETIREMENT SYSTEM

→ Basic Facts

- Established in 1931
- Provides retirement, disability, death, and retiree health benefits to certain retired employees of the City of Cincinnati
- Excludes:
 - Police and Fire (OP&F), Members of Ohio systems (OPERS), Elected Officials
- Ohio (including City) public employees are not in Social Security

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→ Basic Facts

- As of 12/31/2021:
 - Retirees: 4,216
 - Actives: 2,931 FT; 585 PT
 - DROP: 194
 - Total assets = \$2.58B
 - Unfunded Actuarial Liability = \$723.7mm
- As of 12/31/2020:
 - Funded ratio (pension) = 70.5%
 - Funded ratio (health) = 126.3%

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→ Basic Facts: Governance

- Board of Trustees (4yr terms)
 - 4 appointed by Mayor
 - 3 elected by retirees
 - 2 elected by active employees
 - Board has exclusive authority over trusts
- Governed by:
 - Collaborative Settlement Agreement-2016
 - CMC Ch. 203; Admin Code Art. XV
 - Board Rules and Policies

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→2016 Collaborative Settlement Agmt.

- Resolves litigation related to changes to CRS pension and health benefits
- Federal District Court retains continuing jurisdiction through Consent Decree
- CSA Changes:
 - Normal and early retirement eligibility
 - Retiree healthcare eligibility
 - Cost of Living Adjustment (COLA): Simple int./3yr delay
 - Created Deferred Retirement Option Program (DROP)
 - Created 115 Trust for healthcare
 - Board composition
 - Payoff of 2007 ERIP liability

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→ Staffing

- CRS Staff (13)
 - Executive Director
 - reports to City Manager
 - Pension Operations (5)
 - Member Counselor (1)
 - Health (2)
 - Finance (2)
 - IT (2)

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→ Defined Benefits: How They Work

- Defined Benefit =
 - Fixed benefit amount from date of retirement to death
- Sustainable Defined Benefits System:
Contributions + Investment Earnings = Benefits + Expenses
 - IF all actuarial assumptions are accurate
 - IF NOT → Unfunded Liability
- Employer at risk for investment loss, has duty to maintain system finances

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→ Defined Contribution Benefits

- Defined Contribution (DC) Benefits are cash contributions made to an investment account managed by the participant
 - Employee contributions are primary source
 - Employer match can be made at various levels
- Employee has the risk of investment loss
- Public sector: DC complements DB
- Private sector: DC is primary plan

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→ Defined Benefits: Assumptions



- Actuarial assumptions include:
 - Rate of investment return, retirement age, years of service, salary increases, mortality, administrative cost, inflation, healthcare cost increases
 - Actuaries make good faith professional estimates
 - But no one has a crystal ball!

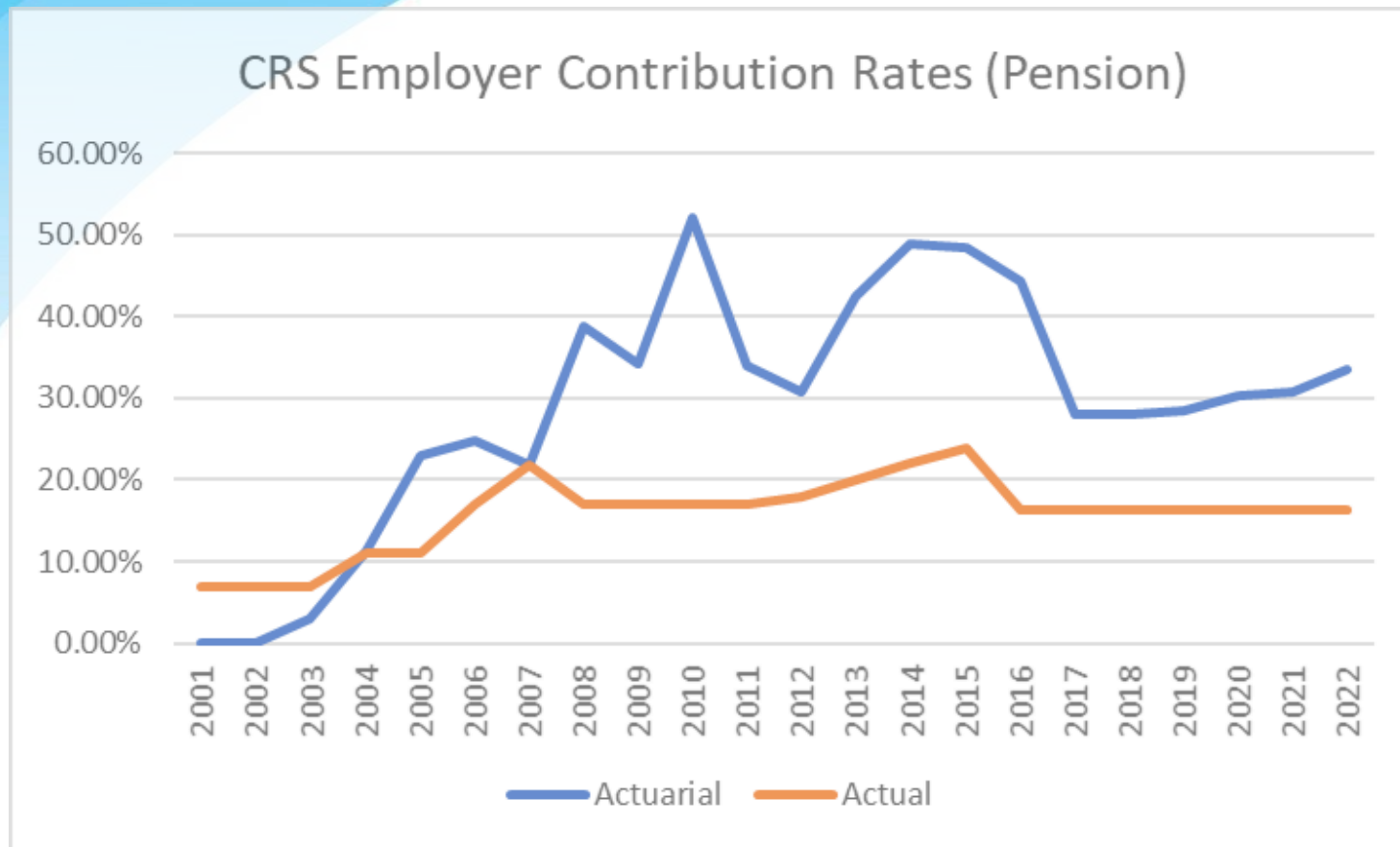
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→ Contributions: Current Rates

- FT Employee Contribution Rate: 9%
- City Employer Contribution Rate: no less than 16.25%
- Actuarially Determined Employer Contribution Rate (ADEC): 33.46%
- “Treadwater Rate” = Employer contribution rate needed to avoid an Unfunded Liability increase
- City pays full ADEC for employees in OPERS and OP&F

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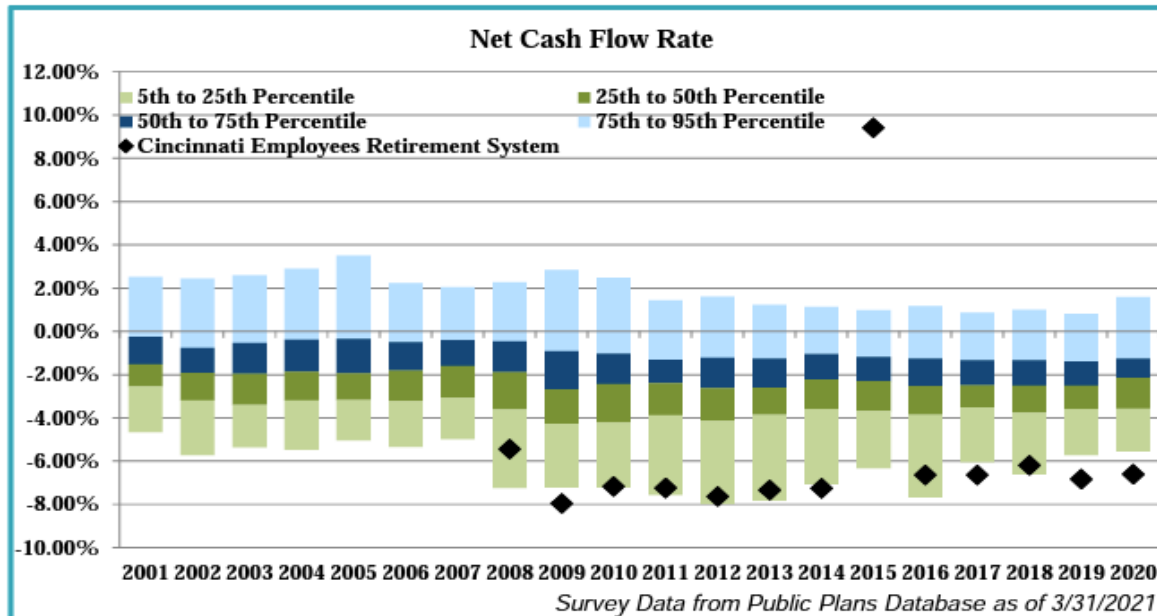
→ Contributions: Past Rates



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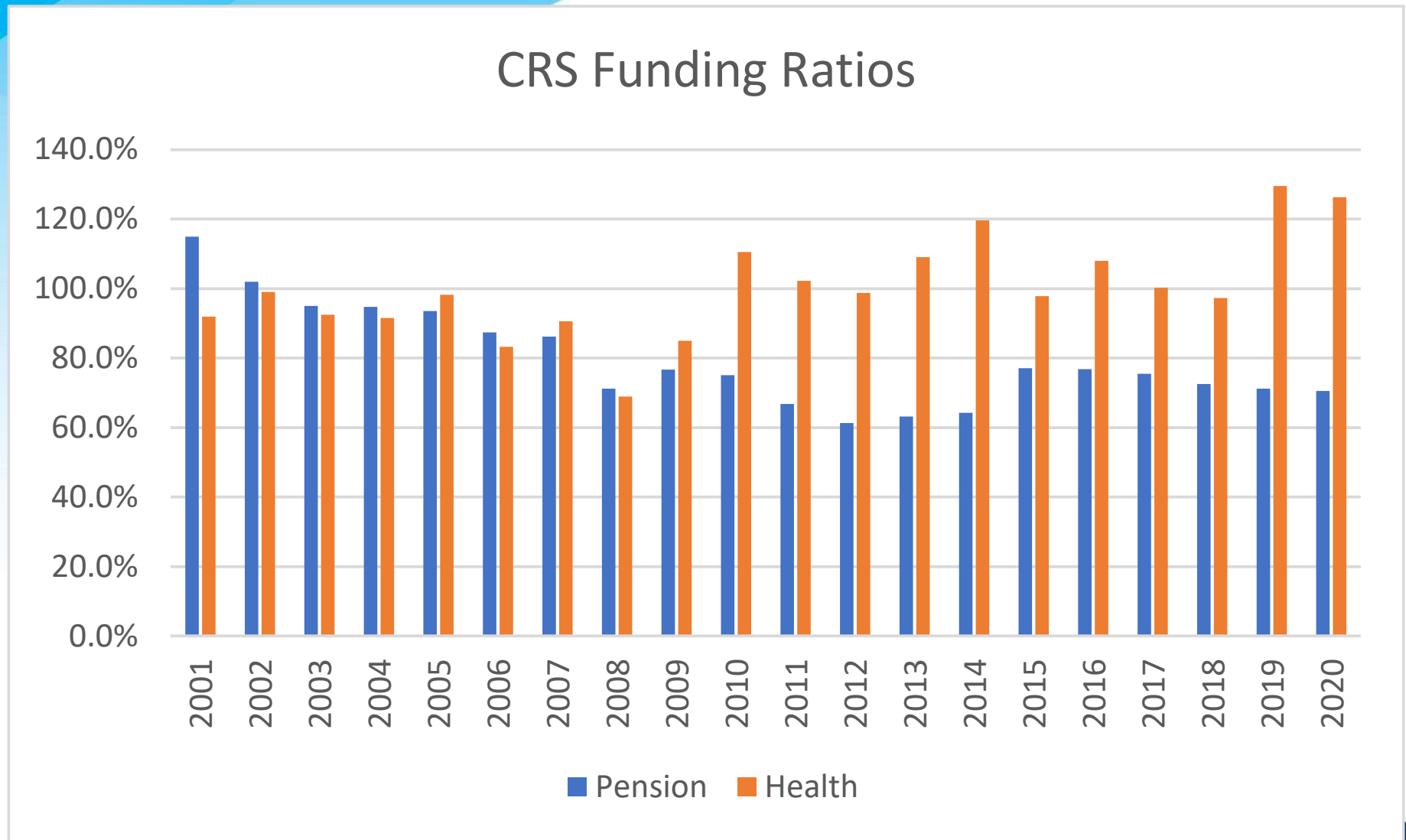
→ Contributions v. Benefits

- Cost of benefits > Contributions
 - Produces negative cashflow
 - CRS negative cashflow (-7.5%)
 - Relatively high v. peers



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→ Contributions: Funding Ratios



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→ Investments: CRS Board

- Board has exclusive authority over investments of trust assets
- Board Fiduciary Duty
 - “The fiduciary responsibility shall be solely to the active and retired members of CRS.”
CSA, para. 30(iv)

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→ Investments: CRS Board

- Board has adopted an Investment Policy Statement (revised, 2022)
 - Preserve safety of principal
 - Adopts prudent investor rule
 - Diversify investments in different asset classes with strategic asset allocation
 - Board Inv. Consultant: Marquette Assocs.
 - Selects and manages investments according to Board asset allocation

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→ Investments: Asset Allocation

Fixed Income:	17.0%
Domestic Equity:	30.5%
Non-US Equity:	20.0%
Real Estate:	7.5%
Infrastructure:	10.0%
Risk Parity:	2.5%
Volatility Risk Premia	2.5%
<u>Private Equity</u>	<u>10.0%</u>
Total	100.0%

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→ Investments: Active v Passive

- Active Investing
 - Manager seeks to beat benchmark through proprietary analysis and selection of investments
 - Can be costly; results vary—can beat the benchmark some of the time; difficult to do all the time
- Passive Investing
 - Use index funds to track the benchmark
 - Very inexpensive compared to active investment
- CRS Board has strategically adopted a more passive approach
- Recent results: among the best v. other pension systems

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→ Investments: Returns

Annual CRS Rates of Investment Return

<u>Plan Year</u>	<u>Investment Return 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%	17.00%

10-Year compound Average

9.44%

5-Year Compound Average

10.11%

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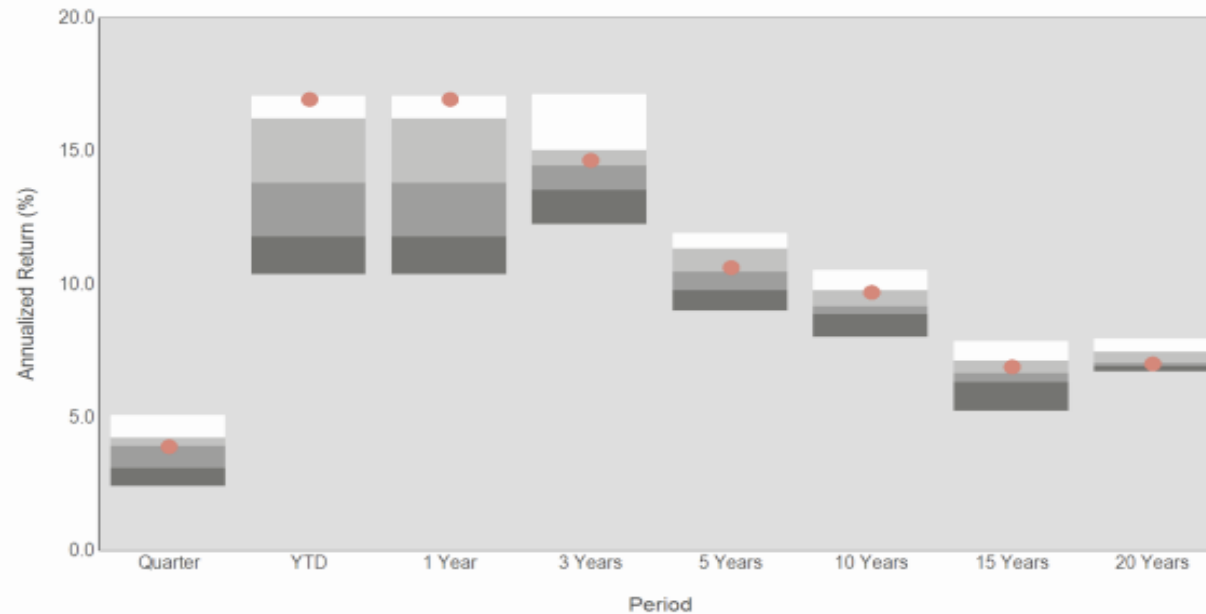
→ Investments: Peer Returns

Total Fund Composite

Annualized Performance (Net of Fees)

Market Value: \$2,580.8 Million and 100.0% of Fund

InvMetrics Public DB > \$1B Net Return Comparison



	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
5th Percentile	5.1	17.1	17.1	17.1	11.9	10.5	7.9	8.0
25th Percentile	4.2	16.2	16.2	15.0	11.3	9.8	7.1	7.5
Median	3.9	13.8	13.8	14.4	10.5	9.2	6.7	7.0
75th Percentile	3.1	11.8	11.8	13.5	9.8	8.9	6.3	6.9
95th Percentile	2.4	10.4	10.4	12.3	9.0	8.0	5.3	6.7
# of Portfolios	26	26	26	26	26	24	22	21
● Total Fund Composite	3.9	16.9	16.9	14.7	10.6	9.7	6.9	7.0

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→ Investments: Return Assumptions

- Collaborative Settlement Agreement (CSA), implemented 2016
 - Fixes the assumed rate of return at 7.5%
- US public defined benefit plans
 - Median return assumption = 7%

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→ Expenses

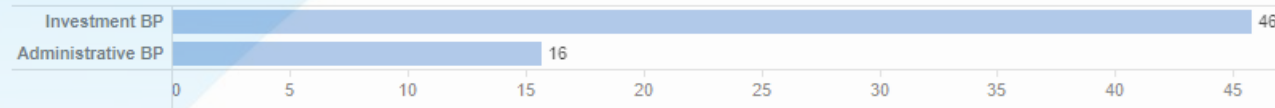
- CRS Board of Trustees is fiduciary of CRS assets and has budget authority per the CSA
- Board adopts annual calendar year budget
- CRS Budget provided to Council and CMO for information
- FY20 Operating Costs = \$2.4mm (0.11%)
- FY20 Inv. Fees = \$8.35mm (0.38%)
- All-in costs = 0.49% of assets under mgmt.

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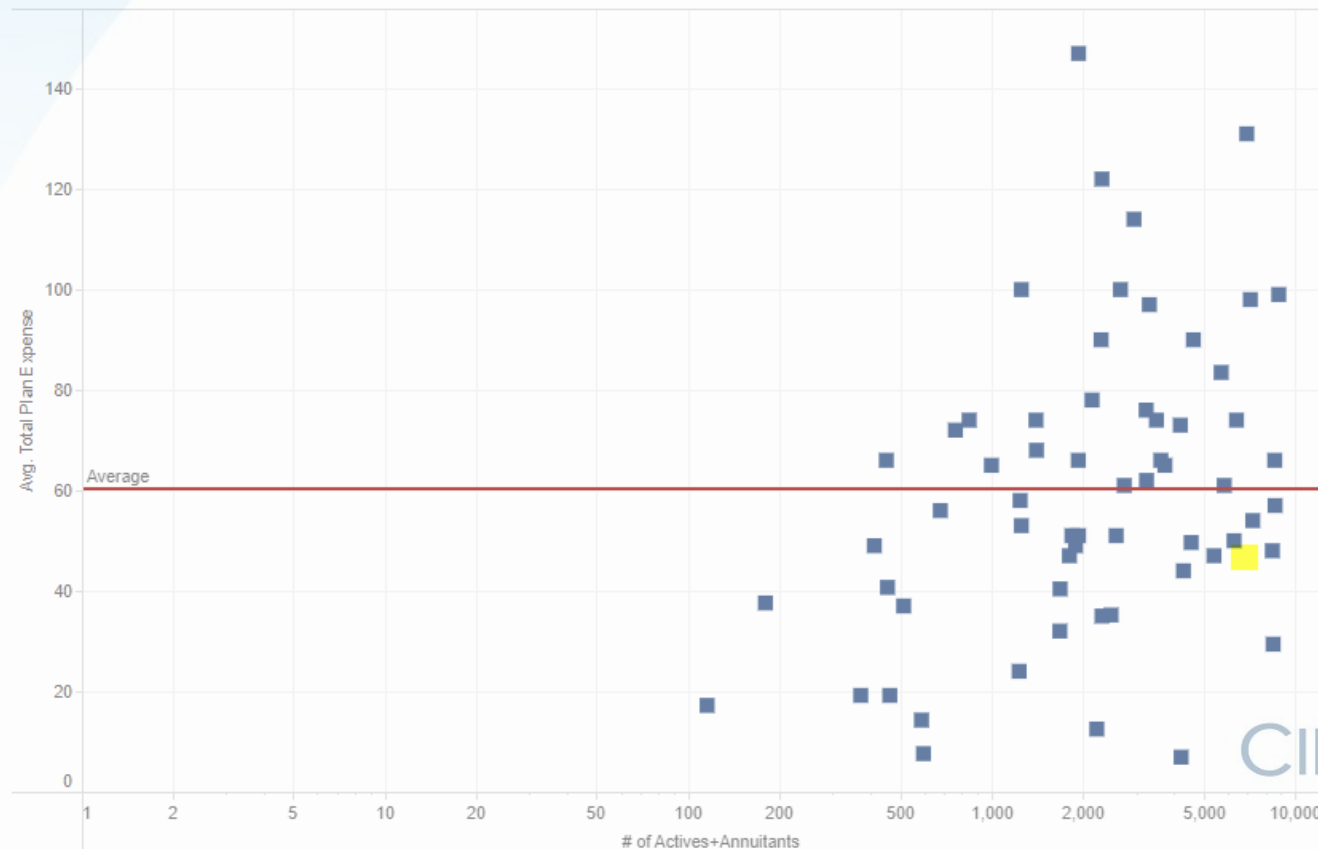
→ Expenses: Comparison

Expenses

Study Plan Expenses



Plan Expense by Fund Size



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Select the filters on each page to explore the data. Filter each page separately. Reset your filters or click the back arrow to undo. Hover your mouse over any data

Prior Year Participant

- No
- Yes

Response Year:

- 2020
- 2021

SS Eligibility

- No Response
- Eligible for SS
- Not eligible for SS

Total Participants

- Null
- 10k-100k
- 100k+
- <10k

Fiscal year end (Month):

- (All)

Type of Employee/Beneficiary

- Local: No, Local (tow... (partially visible)
- County: No, County

Public safety

- State: No, State
- Public safety

Educational

- Other: No, Other
- Educational

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→ Pending Issues

- Adequate employer contributions to ensure sustainability of system. Carefully reconsider:
 - Contribution rate of 16.25%
 - Earnings assumption of 7.5%
 - Use of rolling 30y amortization
 - Continued negative cashflow
- Continued funding for ERIP
- Health funding policy
- Resolution of health points (grid) system
- Upcoming trustee elections
- 1 vacancy in Mayor appt trustee

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→ Scenario to Fully Fund by 2045

