June 26, 2026

To: Mayor and Members of City Council

From: Cincinnati Retirement System Board of Trustees

Copy: Sheryl Long, City Manager

Subject: Cincinnati Retirement System CY2025 Annual Report

Summary

This report is from the Cincinnati Retirement System (CRS) Board of Trustees (Board) and provides the Mayor and City Council with the state of the CRS Pension Trust and Healthcare Trust. It 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, 2025. For additional status information, please see the City's Annual Comprehensive Financial Report, Actuarial Valuations of the Pension and Healthcare Trusts, and Investment Results on the CRS website. (https://www.cincinnati-oh.gov/retirement/crs-financial-information/)

The CRS is governed by the Collaborative Settlement Agreement (CSA) and CMC chapter 203. 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 by 2045. Amendments to the CSA in 2026 establish the goal to fund the Pension Trust at 100% by 2049. Annual employer and employee contributions will increase beginning in 2026, a one-time employer contribution of $50 million will be made and an additional $50 million will be made in $1.5 million annual increments. (see the attached Judicial Order). An actuarial analysis supports 100% funding by 2049.

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 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, 2025, there were 3,023 full-time active members (which includes 71 members in the DROP plan who are still working), 4,200 pensioners receiving pension payments, and 4,528 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 developed and followed a disciplined Investment Policy Statement 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 (for both Pension and Healthcare Trust). The CRS annualized rate of return for the past 1, 3, 5 and 10 years as of December 31, 2025, were 14.2%, 12.0%, 8.4% and 8.7%, respectively, which rank above the median investment returns relative to peers of public defined benefit retirement plans over each period.

The table below highlights the actuarial and market value of assets, liabilities, and funded ratios as of 12/31/25:

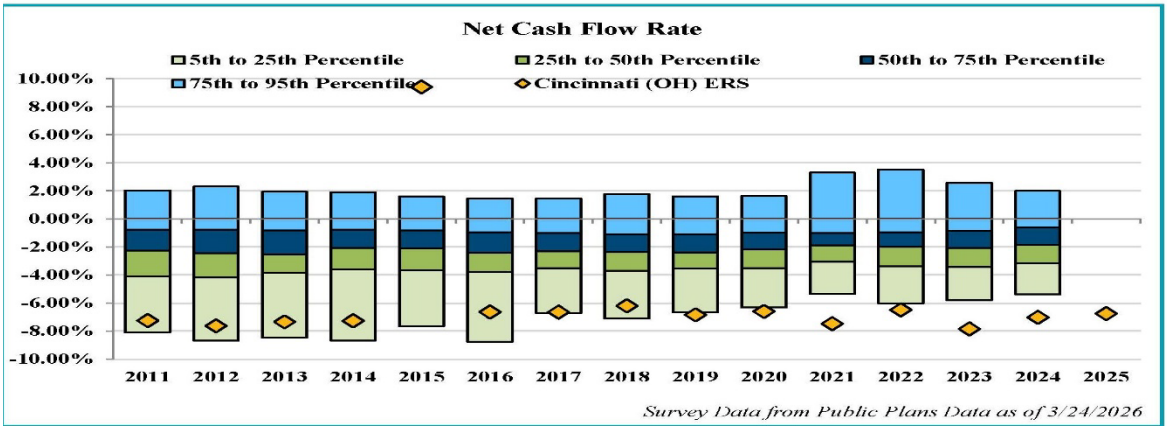
	Assets	Liabilities	Funded Ratio
Pension			
Actuarial Value	$ 1,840,584,626	$ 2,703,925,725	68.1%
Market Value	$ 1,919,080,000	$ 2,703,925,725	71.0%
Health			
Actuarial Value	$ 592,590,404	$ 295,107,102	200.8%
Market Value	$ 618,361,000	$ 295,107,102	209.5%

Pension Trust – As of 12/31/25

One goal of the CSA was to establish a projected 100% funding ratio 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 the assumptions played out exactly. The status of the annual contributions and distributions is described below:

- The active employees contribute 9% of the covered payroll to the Pension Trust as required by the CSA and CMC 203.
- The City in CY2025 increased its percent of payroll contribution from the CSA minimum rate of 16.25% by another 0.75% to 18.50% of full-time covered payroll to the Pension Trust. The General Fund represents approximately 65% of covered payroll and other non-general funds represent approximately 35% of covered payroll.
- In CY2025, the City contributed an additional payment of $2.7 million toward the cost of the 2020 Early Retirement Incentive Plan (ERIP). There are now 10 annual payments remaining. Cheiron estimates that payment at 1.02% of payroll for this additional benefit, bringing the City's annual contribution rate for CY2025 to 19.52%.
- In FY2025, the City also contributed a one-time lump sum payment of $2.0 million dollars from the General Fund fiscal year-end surplus. Cheiron estimates that the $2.0 million payments equate to 0.76% of payroll bringing the City's annual and one-time contribution rate for CY2025 to 20.27%.
- The Actuarially Determined Contribution (ADC) for the Pension Trust, as calculated by the actuary as of 12/31/25, is the annual employer contribution amount required to bring the Pension to a fully funded status by 2045. The ADC for CY2026 is 29.58% of covered payroll (as set by the CY2025 actuarial valuation). The contribution rate of 20.27% means the City would contribute 68.5% of the actuarial recommendation for CY2026.

- While contribution rates have improved recently, the benefit payments and expenses have significantly exceeded employer and employee contributions for over a decade. This dynamic put strain on the system and relative to peers CRS ranks in the bottom quartile of net cashflows as the graph below shows. This means that CRS continues to liquidate a relatively large amount of assets to pay for benefits and expenses monthly (regardless of market conditions) because contributions to the Pension Trust are relatively low. This also means that CRS is much more dependent on investment returns than most public pension plans and lacks some flexibility to take advantage of dislocations in the market when outsized return opportunities are present.



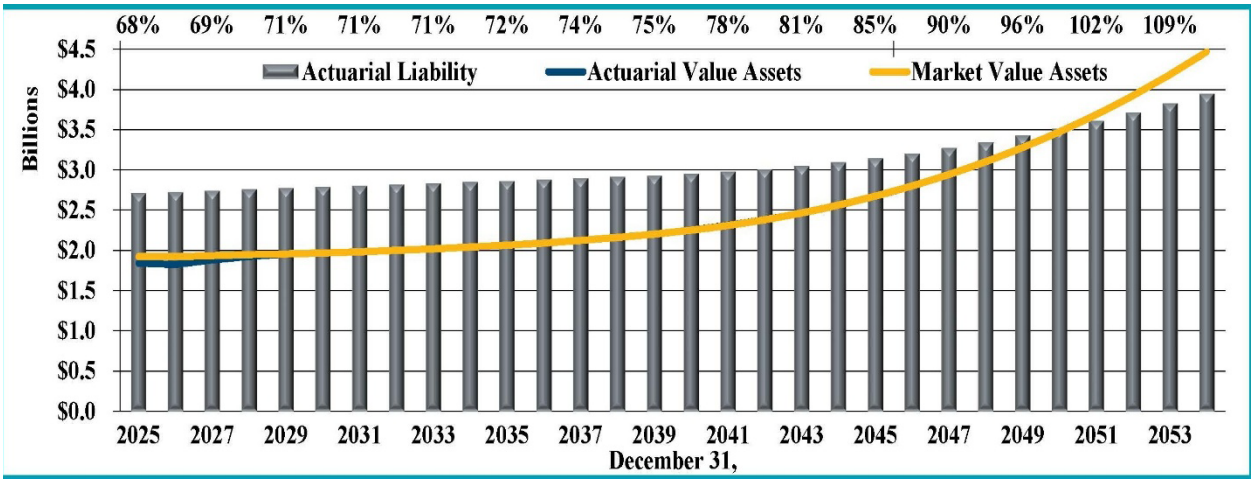
Adding strain to the system, the following events occurred after the CSA was finalized:

- Ordinance 336 - 2016, 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.
- CRS is especially sensitive to the timing of capital market swings because it continues to liquidate assets to pay benefits even during capital market declines. This requires more time and a significantly higher rate of return for the remaining assets to recover from capital market volatility.
- The City offered the ERIP in 2020 that provided two 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; however, DROP has had a net increase in liabilities to the Pension Trust of $16.9 million.

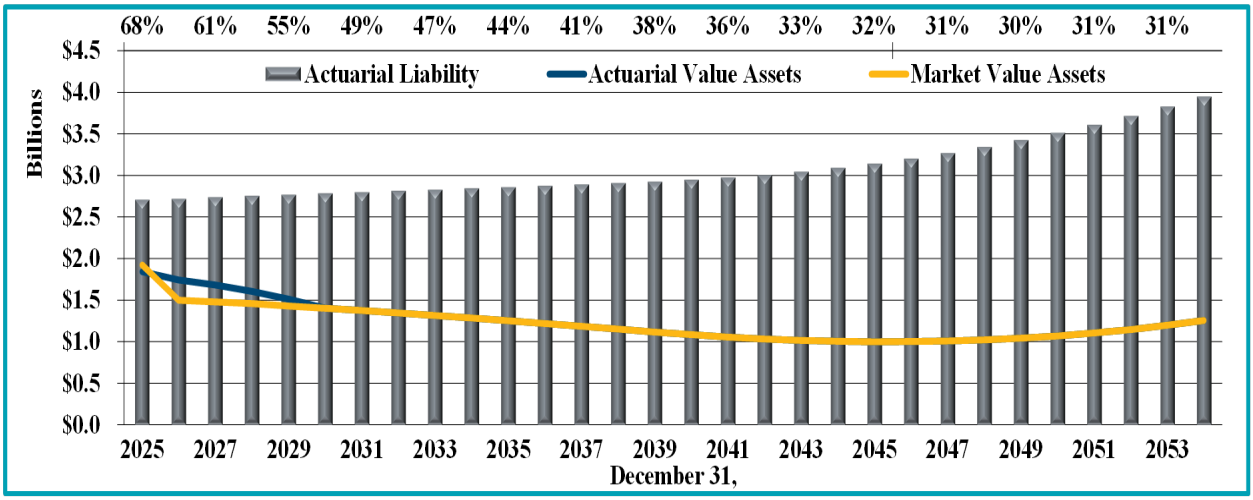
The actuary's latest revised funding progress for the Pension Trust, which includes the impact of the DROP and the ERIP, projects the funded ratio on an Actuarial Value of Assets (AVA) basis is projected to gradually rise over the next 20 years but will not reach 100% by 2045 in accordance with the CSA, and remains volatile given investment return variability.

The graph below reflects the City's status quo scenario where contributions of 18.50% of covered payroll continue for 30 years. It also includes the recommended budget's $2.7 million contribution per year for the next 10 years to pay for the ERIP liabilities and assumes the CSA benchmark return of 7.5% investment return for all future years. The funding ratio on an AVA basis is expected to be 85% by 2045.

Pension Trust – Actuarial Projections



The following graph demonstrates the elevated funding volatility of CRS and the system's sensitivity to deviations from the assumed rate of return. For example, the graph uses the same assumptions as the prior analysis, except it assumes a -15.0% investment return in 2026 instead of the expected 7.5% return. The results demonstrate the plan's vulnerability to market downturns, which often coincide with fiscally challenging periods for the City. Under this scenario, a single year return of -15.0% in 2026 reduces the projected funded ratio in 2045 to 32%, compared to 85% under the baseline assumption, underscoring the significant funding volatility of the plan.

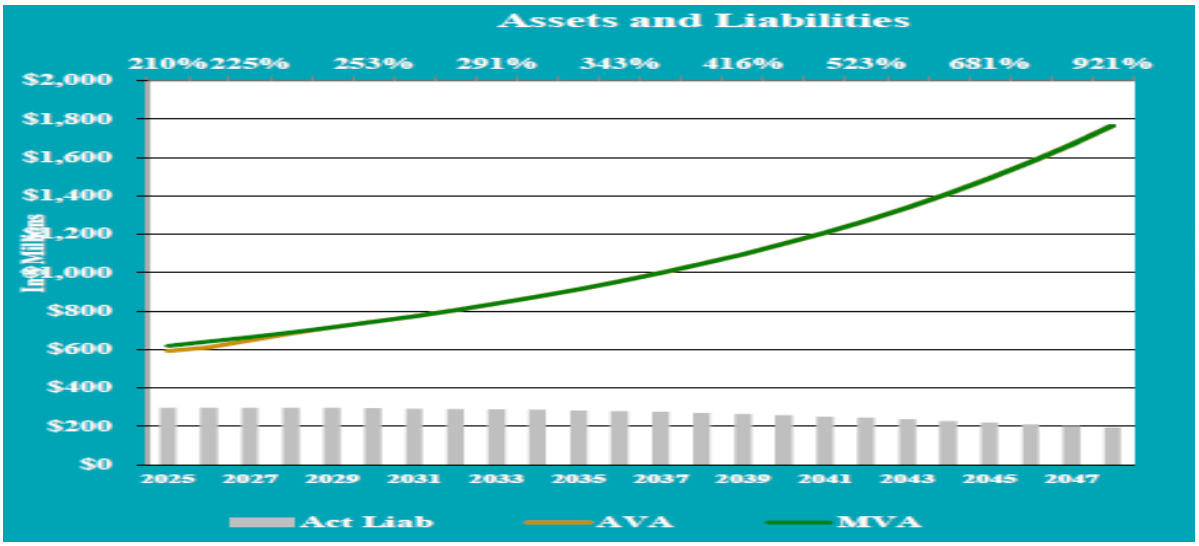


Healthcare Trust – As of 12/31/25

In 2023, the City adopted a Healthcare Trust funding policy as required by the CSA. At the time of the CSA signing in 2015, the Healthcare Trust was fully funded, and the City was required to develop and present a formal funding policy to maintain the fully funded 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. The Healthcare Trust is irrevocable, and its assets must be used exclusively for healthcare benefits for CRS retirees and their beneficiaries. The funding policy was approved by the Federal Court on March 28, 2024, nine years after the CSA signing. A key aspect of the funding policy provides for an employer contribution trigger at a 90% funding ratio.

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 shows that the Healthcare Trust is fully funded in 2026 and beyond. This is based on current assumptions being fully met.

Healthcare Trust



While the Healthcare Trust is projected to remain fully funded throughout the forecast period, several emerging healthcare cost trends could create future funding volatility. These include the growing utilization and high cost of GLP-1 and other weight loss drugs, ongoing volatility in Medicare Part D pricing and subsidy structures, including the financial impacts associated with the 2025 EGWP (Employer Group Waiver Plan) market variability. Overall, the federal redesign of Medicare Part D benefits — including enhanced participant coverage and revised cost-sharing among manufacturers, plan sponsors, and the federal government — may increase plan costs and add uncertainty to long-term healthcare projections. At the latest actuarial valuation presentation, our actuary stated this market will continue to evolve until 2030, with actual healthcare expenditures potentially exceeding current assumptions This increases the likelihood that the Healthcare Trust's future funded status could be negatively affected.

Investment Performance – As of 12/31/25

CRS investment performance has been solid relative to return opportunity in the market, the assumed risk, and our peer group. That said, the 7.5% annualized return assumption remains a high hurdle. The median investment return assumption of U.S. public retirement systems has steadily decreased over the past decade and is currently 6.9% (NCPERS 2024 report). CRS will be challenged to achieve the 7.5% rate of return with an acceptable level of risk. As noted, CRS has a high asset liquidation rate (approximately 6.5%) each year to pay benefits while not taking in enough funds through employee and employer contributions. Coupling the high return assumption and large net cash outflow creates a more difficult environment to manage liquidity.

The following chart reflects the annual rates of return including 1-year, 3-year, 5-year & 10-year annualized returns. Each period's returns exceeded the 7.5% CSA assumption and exceeded median peer returns. Over the last ten years there were two years that underperformed the 7.5% assumed rate of return and 8 years that outperformed the 7.5% assumed rate of return.

Annual CRS Rates of Investment Return & Funded Status

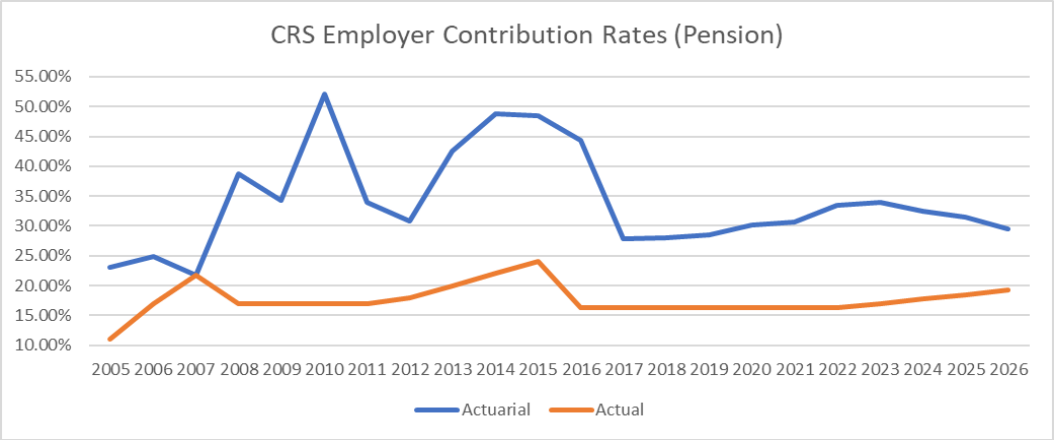
Plan Year	Actuarial Rate of Return	CRS Return	Funded Status
2016	7.5%	8.9%	76.9%
2017	7.5%	14.9%	75.5%
2018	7.5%	-4.3%	72.6%
2019	7.5%	16.8%	71.2%
2020	7.5%	10.3%	70.5%
2021	7.5%	17.4%	71.6%
2022	7.5%	-9.3%	69.3%
2023	7.5%	12.1%	68.8%
2024	7.5%	9.6%	68.3%
2025	7.5%	14.2%	68.1%
*Marquette Associates			**Median Public Plan Return***
10-Year Compound Return		**8.7%**	**8.2%**
5-Year Compound Return		**8.4%**	**7.1%**
3-Year Compound Return		**12.0%**	**11.2%**
1-Year Compound Return		**14.2%**	**13.4%**

The Board's newly adopted Investment Policy (Dec'25) provides for a well-diversified portfolio across asset class, sector, and regions. The CRS asset allocation below is designed to achieve the 7.5% return over time with an acceptable level of risk.

CRS Asset Allocation	
US Equity	24.0%
Non-US Equity	15.0%
Private Equity	13.5%
Fixed Income	19.5%
Opportunistic Credit	3.0%
Private Credit	8.0%
Infrastructure	7.0%
Real Estate	6.0%
Hedged Funds	4.0%
Total	100.0%

Employer Contributions

In a defined benefit retirement plan such as CRS, the employer (plan sponsor) is responsible for providing benefits (as opposed to a defined contribution plan). The 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 21 years. By not contributing the fully recommended ADC amount each year the unfunded liability increases over time, meaning that the actuarial liability exceeds the value of assets.



Board Accomplishments

Each year, the CRS Board establishes strategic objectives to strengthen governance, improve investment manager oversight, and enhance operational effectiveness. Recent accomplishments include:

- Revised Investment Policy to improve risk-adjusted return objectives,
- Completed Trustee Manual,
- Completed Governance Manual,
- Conducted CRS orientation sessions for new City Council Members,
- Created inaugural Popular Annual Financial Report (PAFR),
- Completed CEM Benchmarking Survey identifying operational improvement opportunities,
- Achieved 95% completion or initiation rate on Funston governance recommendations,
- Strengthened investment manager due diligence and monitoring procedures,
- Advancement of board education and trustee development initiatives,
- Increased focus on cost efficiency and operational effectiveness.

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 by 2045. For the Pension Trust this is no longer the case.

At the close of 2025, the Pension Trust experienced a return of 14.2%, nearly doubling the assumed rate of return of 7.5%. The demographics improved from an actuarial perspective in that the City had a material increase in number of active employees and total payroll (i.e. more employee contribution) during the year. Despite strong performance and improved demographics, the funded ratio of the plan still decreased, albeit marginally, from 68.3% to 68.1%. Funding vigilance therefore remains a priority for the Board.

CRS Pension Funded Ratio

2015*	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
77.1%	76.9%	75.5%	72.6%	71.2%	70.5%	71.6%	69.3%	68.8%	68.3%	68.1%

* CSA

Recommendation: CSA Pension Trust Amendments

The recent amendments to the CSA have an actuarially based projection of 100% Pension Trust funding by 2049. The negotiations among the parties that resulted in the CSA amendments took over a year to complete and began when the funding ratio declined to 68.3%. To avoid future prolonged negotiations and potential major contribution and benefit changes, the Board recommends that action for full funding be considered when the projected 2049 funding level is 85% or less.