May 2006

Retirement System for Employees of The City of Cincinnati

Actuarial Valuation Report as of December 31, 2005

The City of Cincinnati

MERCER
Human Resource Consulting

Highlights

This report has been prepared by Mercer Human Resource Consulting for the City of Cincinnati to:

- Present the results of a valuation of the Retirement System for Employees of the City of Cincinnati as of December 31, 2005;
- Review experience under the Plan for the year ended December 31, 2005;
- Provide to the plan sponsor the recommended level of contributions under the Plan for the year ending December 31, 2007; and
- Provide reporting and disclosure information for financial statements, governmental agencies and other interested parties.

Comments

The funding method is the Individual Entry Age Normal method. This method spreads the total cost of benefits over each individual's working career as a level percent of pay. The current year's cost, or normal cost, is that level percentage times the expected pay for the year. The accrued liability for an active participant is the accumulated value of their past normal costs. The actuarial accrued liability for an inactive participant is just the present value of benefits payable to them.

The recommended employer contribution is calculated as follows:

	Cost	Percentage of Pay
▪ *Amortization of the Unfunded Actuarial Accrued Liability:*	$13,598,180	8.27%
▪ *Normal Cost:* This is the cost of benefits accruing this year plus estimated expenses:	$34,253,971	20.83%
▪ *Less Expected Employee Contributions this year:*	$12,045,511	7.32%
▪ *Net Employer Contribution:*	$35,806,640	21.77%

This method shows both the long-term cost of the plan as well as the short-term cost. The long-term cost is the normal cost rate, which is 13.50% of pay for the employer. The short-term cost is the normal cost rate reduced or increased by the amortization of any surplus or shortfall in the funded status. As of December 31, 2005, a shortfall exists that increases the employer cost to 21.77%. Under the policy adopted by the Board, the net employer contribution rate is applied to the second following year, or 2007 in this case.

Highlights *(continued)*

Gain/Loss and Other Change Information

The gain/loss analysis is done using the Individual Entry Age Normal funding method which was in effect for both 2004 and 2005. Under this method, we compare actual plan liabilities at December 31, 2005 to the expected liability had all assumptions been exactly realized. The plan experienced a net gain of $27,913,000 last year, due primarily to medical claims experience and assumptions.

- *Assets experience*: The market value of assets at December 31, 2005 was $45 million less than the expected value of assets assuming the 8.75% expected return. However, because of the smoothing technique used for the actuarial value of assets, $36 million of this loss will be deferred and recognized in future years. So a loss of $9 million is being recognized in this valuation. However, this loss is offset by a portion of last year's gain. The net effect for this valuation is a loss of $0.7 million.

- *Salary increases:* Overall, this year's salary increases for participants who were active last year and this year was less than expected. This generated a gain of $9 million for the plan.

- *New entrants:* Each year's valuation is based solely on the current participants of the plan, with no provision made for new participants in the future. As a result, every year the accrued liability differs from the prior year since there are, in fact, new participants every year. This year, the new participants generated a loss of approximately $2 million.

- *Demographic considerations:* When participants retire later or earlier than expected or terminate at rates more or less than expected, they generate gains and losses in the liabilities. The net changes in status generated a loss of approximately $30 million for the year.

- *Post-retirement health benefits:* Medical claims for the 2005 calendar year were less than expected. Dental and vision claims were above what was expected. As a result, a gain of approximately $65 million was generated for the year. However, the use of better information regarding retiree and beneficiary participation generated a loss of $16 million. This resulted in a net gain of $49 million.

- *Other Changes:* Assumptions regarding the future rates of increase in health costs were changed resulting in decrease in liabilities of $19 million.

SUMMARY OF VALUATION RESULTS

The summary presented on the following page provides a comparison of the principal valuation results for each of the last five plan years. Its purpose is to provide the Board with a concise summary of past plan operations which - when combined with estimates regarding future economic, legislative and financial factors affecting the plan - can give insight into anticipated future contribution requirements under the plan.

RETIREMENT SYSTEM OF THE CITY OF CINCINNATI

SUMMARY OF VALUATION RESULTS

	12/31/2001	12/31/2002	12/31/2003	12/31/2004	12/31/2005	Percentage (Decrease) Increase 2004/2005
Participants						
Active	3,946	3,846	3,710	3,475	3,374	(2.9)%
Inactive	4,430	4,585	4,522	4,551	4,567	0.4%
Total Payroll	$ 169,757,733	$ 168,297,856	$ 166,037,875	$ 161,752,655	$ 164,479,762	1.7%
Employer Normal Cost Contribution as a Percent of Payroll	13.4%	13.1%	13.5%	14.4%	20.83%	
Employer Contribution as a Percent of Payroll	3.0%	11.25%	23.00%	24.87%	29.09%	
Actual Contribution						
Employer	$ 13,374,661	$ 12,755,764	$ 12,619,671	$ 19,336,221	$ 19,062,028	(1.4)%
Members	13,571,803	14,664,620	13,311,001	13,153,510	12,792,674	(2.7)%
Assets						
Market Value	$ 2,352,508,062	$ 1,976,125,182	$ 2,279,721,027	$ 2,384,920,618	$ ~~2,412,211,828~~	1.1%
Actuarial Value	2,475,933,148	2,371,350,218	2,279,721,027	2,360,549,572	2,429,695,503	2.9%
Return (MV)	(4.7)%	(12.1)%	21.8%	10.1%	6.8%	
Present Value of Benefits	$ 2,524,215,831	$ 2,542,172,918	$ 2,615,230,743	$ 2,704,181,858	$ ~~2,734,779,585~~	1.1%
Actuarial Accrued Liability	$ 2,318,801,723	$ 2,343,748,367	$ 2,419,503,174	$ 2,519,582,204	$ 2,557,099,044	1.5%
Value of Accrued Benefits						
Vested	$ 2,065,643,564	$ 2,102,288,315	$ 2,183,365,541	$ 2,305,848,283	$ 2,346,062,722	1.7%
Non-Vested	59,841,623	47,802,603	67,802,198	57,741,942	44,883,651	(22.3)%
Total	2,125,485,187	2,150,090,918	2,251,167,739	2,363,590,225	2,390,946,373	1.2%
Funding Progress (Actuarial Value of Assets/Actuarial Accrued Liability)	106.8%	101.2%	94.2%	93.7%	95.0%	1.4%

Note: Percent of payroll numbers are based upon the expected payroll for the following year.

Summary of Principal Valuation Results

A summary of principal valuation results from the current valuation and the prior valuation follows. Changes in plan provisions, assumptions, and actuarial funding methods between the two valuations are described on the following page.

Summary of Costs	Actuarial Valuation as of	
	December 31, 2005	**December 31, 2004**
Employer Normal Cost *(Beginning of Year)*	$ 21,227,738	$ 22,310,493
Employer Normal Cost *(Payable throughout the year)*	$ 22,208,460	$ 23,341,237
As a percentage of expected payroll	13.50%	14.43%
Employer Contribution *(Payable throughout the year)*	$ 35,806,640	$ 40,221,698
As a percentage of expected payroll	21.77%	24.87%

Assets and Actuarial Present Values		
Market Value of Assets	$ 2,412,211,828	$ 2,384,920,618
Actuarial Value of Assets	$ 2,429,695,503	$ 2,360,549,572
Entry Age Actuarial Accrued Liability	$ 2,557,099,044	$ 2,519,582,204
Unfunded Actuarial Accrued Liability	$ 127,403,541	$ 159,032,632
Actuarial Present Value of Accumulated Plan Benefits	$ 2,390,946,373	$ 2,363,590,225
Vested Present Value of Accumulated Plan Benefits	$ 2,346,062,722	$ 2,305,848,283

Summary of Data		
Number of Participants in Valuation		
Active Participants - Full Time	3,374	3,475
Active Participants - Part Time	1,639	1,576
Participants with Deferred Benefits	159	160
Participants Receiving Benefits	4,408	4,391
Total	**9,580**	**9,602**

Active Participant Statistics		
Total Expected 2006 Compensation	$ 164,479,762	$ 161,752,655
Average Compensation (limited) *	$ 48,749	$ 46,548
Average Age	46.3	46.2

* Full-time employees

Certification

We have prepared an actuarial valuation of the Retirement System for Employees of the City of Cincinnati as of December 31, 2005. The results of the valuation are set forth in this report, which reflects the provisions of the Plan as amended through 2005.

The following changes to assumptions were made since the last valuation of the plan as of December 31, 2004.

Assumptions

- The medical trend rates were updated based on current market assessments and surveys and actual City retiree historical experience, resulting in slightly lower initial rates of increase than anticipated in last year's valuation. The vision and dental trend rates and medical aging factors were updated as well.

The valuation is based on employee and financial data which were provided by the System and which are summarized in this report.

All costs, liabilities and other factors under the Plan were determined in accordance with generally accepted actuarial principles and procedures, in accordance with the provisions of current federal statutes and regulations issued thereunder, using an actuarial cost method which we believe is appropriate. The assumptions are selected or approved by the Retirement Board. In our opinion, the actuarial assumptions are reasonable. This report fully and fairly discloses the actuarial position of the Plan on an ongoing basis.

The information contained in this document (including any attachments) is not intended by Mercer to be used, and it cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code that may be imposed on the taxpayer.

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

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Section 1.1

Present Value of Benefits and Actuarial Accrued Liability

The Present Value of Benefits is the present value of all benefits current employees are expected to receive. The Actuarial Accrued Liability is the portion of those benefits that have already been earned by virtue of past service. The normal cost is the portion of those benefits that is expected to be earned during the current year. The remaining benefits are expected to be earned by virtue of future service that current employees will provide. For inactive members, all benefits are already earned, so the Present Value of Benefits and the Actuarial Accrued Liability are equal.

Present Value of Benefits - Inactive Members	**December 31, 2005**	**December 31, 2004**
Retirees and Beneficiaries	$1,187,387,961	$1,124,019,302
Deferred Vested Participants and Survivors	16,302,581	15,469,085
Survivor Benefits	8,835,464	8,880,281
Total Non-medical Care Benefits 1	**$1,212,526,006**	**$1,148,368,668**
Medical Care Benefits	$515,723,575	$523,191,323
Dental Benefits	15,355,685	13,491,810
Vision Benefits	1,476,732	1,184,705
Total Medical Care Benefits 2	**$532,555,992**	**$537,867,838**
Total for Inactive Members	**$1,745,081,998**	**$1,686,236,506**
Present Value of Benefits - Active Members		
Retirement Benefits	$584,504,538	$579,084,603
Vesting Benefits	10,264,133	9,947,420
Survivor's Benefits	7,289,312	7,021,175
Disability Benefits	33,504,068	33,145,419
Return of Contributions	39,163,019	38,276,984
Total Non-medical Care Benefits 3	**$674,725,070**	**$667,475,601**
Medical Care Benefits	$306,943,396	$342,720,405
Dental Benefits	7,375,965	7,277,901
Vision Benefits	653,156	471,445
Total Medical Care Benefits 4	**$314,972,517**	**$350,469,751**
Total for Active Members	**$989,697,587**	**$1,017,945,352**
Total for All Members 1-4	**$2,734,779,585**	**$2,704,181,858**

991 90
30,009 76
69.

Section 1.1

Present Value of Benefits and Actuarial Accrued Liability

Actuarial Accrued Liability - Inactive Members	December 31, 2005	December 31, 2004
Retirees and Beneficiaries	$1,187,387,961	$1,124,019,302
Deferred Vested Participants and Survivors	16,302,581	15,469,085
Survivor Benefits	8,835,464	8,880,281
Total Non-medical Care Benefits 1	**$1,212,526,006**	**$1,148,368,668**
Medical Care Benefits	$515,723,575	$523,191,323
Dental Benefits	15,355,685	13,491,810
Vision Benefits	1,476,732	1,184,705
Total Medical Care Benefits 2	**$532,555,992**	**$537,867,838**
Total for Inactive Members	**$1,745,081,998**	**$1,686,236,506**
Actuarial Accrued Liability - Active Members		
Retirement Benefits	$501,524,366	$496,494,744
Vesting Benefits	7,320,354	7,034,696
Survivor's Benefits	5,274,866	5,017,881
Disability Benefits	22,180,873	21,903,035
Return of Contributions	18,532,833	17,825,594
Total Non-medical Care Benefits 3	**$554,833,292**	**$548,275,950**
Medical Care Benefits	$250,536,825	$278,867,906
Dental Benefits	6,106,206	5,813,068
Vision Benefits	540,723	388,774
Total Medical Care Benefits 4	**$257,183,754**	**$285,069,748**
Total for Active Members	**$812,017,046**	**$833,345,698**
Total for All Members (1-4)	**$2,557,099,044**	**$2,519,582,204**

Medical 30.884
Pension 69.116

Section 1.2

Normal Cost

The normal cost is annual cost assigned, under the Individual Entry Age Normal Cost Method, to benefits earned during the current year. The components are shown below as of the beginning of the year:

Normal Cost (Individual Entry Age Normal)	December 31, 2005	December 31, 2004
Retirement Benefits	$11,499,460	$11,367,086
Vesting Benefits	378,770	372,242
Survivor's Benefits	278,974	275,323
Disability Benefits	1,492,671	1,469,240
Return of Contributions	2,724,304	2,689,801
Total Non-medical Care Benefits	**$16,373,879**	**$16,173,692**
Medical Care Benefits	$7,769,741	$8,650,237
Dental Benefits	181,454	196,835
Vision Benefits	16,248	12,415
Total Medical Care Benefits	**$7,967,443**	**$8,859,487**
Expected Expenses	**8,400,000**	**8,600,000**
Total Normal Cost	**$32,741,322**	**$33,633,179**
Expected Employee Contributions	**11,513,583**	**11,322,686**
Employer Normal Cost	**$21,227,739**	**$22,310,493**

Section 1.3

Determination of Contribution

	December 31, 2005	December 31, 2004
1. Present Value of Projected Benefits:		
(a.) Active Participants	$ 989,697,587	$ 1,017,945,352
(b.) Participants with Deferred Benefits	26,632,513	31,665,030
(c.) Participants Receiving Benefits	1,718,449,485	1,654,571,476
(d.) Total	$ 2,734,779,585	$ 2,704,181,858
2. Present Value of Future Employee Contributions	85,829,257	85,078,393
3. Present Value of Future Normal Costs	$ 91,851,284	$ 99,521,261
4. Entry Age Accrued Liability (1)(d) – (2) – (3)	2,557,099,044	2,519,582,204
5. Actuarial Value of Assets	2,429,695,503	2,360,549,572
6. Unfunded/(Surplus) (4) – (5)	127,403,541	159,032,632
7. Amortization of Unfunded/(Surplus) Over 15 Years (at the beginning of the year)	12,997,687	16,135,023
8. Amortization of Unfunded/(Surplus) Over 15 Years (assuming monthly payments)	13,598,180	16,880,461
9. Total Normal Cost, including Expenses (at the beginning of the year)	32,741,322	33,633,179
10. Total Normal Cost, including Expenses (assuming monthly payments)	$ 34,253,971	$ 35,187,031
11. Employees' Expected Contributions to Normal Cost (assuming monthly payments)	12,045,511	11,845,794
12. Employer Normal Cost (10) – (11)	22,208,460	23,341,237
13. Employer Total Cost (8) + (12)	35,806,640	40,221,698

Section 1.4

Actuarial (Gain) / Loss and Other Changes

The actuarial (gain)/loss is the amount by which the surplus exceeds or falls short of expectations. It is developed below.

1. Unfunded Actuarial Accrued Liability as of December 31, 2004	**$159,032,632**
2. Normal Cost for 2005, including expenses (at beginning of year)	33,633,179
3. Contributions	(31,854,702)
4. Interest	15,628,168
5. Contribution Variance for 2005	(21,123,220)
6. Expected Unfunded Actuarial Accrued Liability as of December 31, 2005 (1) + (2) + (3) + (4) + (5)	**155,316,057**
7. Assumption, Method, and Plan Changes	(19,081,657)
8. (Gain)/Loss	(8,830,859)
9. Actual Unfunded Actuarial Accrued Liability as of December 31, 2005 (6) + (7) + (8)	**127,403,541**

The actuarial (gain)/loss affects the plan shortfall, which, amortized over 15 years, increases the contribution rate. Contribution rates are shown before taking into account expected employee contributions.
The actuarial (gain)/loss and other changes are broken down into their component parts below.

Component	Reduction in Surplus	Change in Normal Cost Rate	Change in Contribution Rate
Asset experience	$44,702,000	N/A	3.20%
Effect of asset smoothing	(43,987,000)	N/A	(3.14)%
Total asset impact	715,000	N/A	0.05%
Salary experience	(9,067,000)	(0.88)%	(1.53)%
New entrants	1,853,000	(0.09)%	0.04%
Participant demographics*	29,626,000	0.63%	2.58%
Medical claims experience	(64,853,000)	(0.38)%	(5.02)%
Medical assumptions	(19,082,000)	(0.20)%	(1.57)%
Medical participation data	16,224,000	0.00%	1.16%
Total medical impact	(67,711,000)	(0.58)%	(5.43)%
Plan Change	0	0.00%	0.00%
Employer Contributions	16,671,000	0.00%	1.19%
Total Change	**(27,913,000)**	**(0.92)%**	**(3.09)%**

* Includes impact of expense amount change and decrease in payroll base.
Gains are shown as negative numbers and losses are shown as positive numbers.
The following exhibit illustrates the changes in the contribution rate.

Section 1.5

Amortization Schedule

Charges

Date Created	Original Amount	Years Remaining	Outstanding Balance	Beginning of Year Payment	Mid-Year Payment
12/31/2003	$139,782,147	13	$129,646,988	$15,711,360	$16,437,225
12/31/2004	3,769,278	14	3,638,356	423,663	443,236
Total	**$143,551,425**		**$133,285,344**	**$16,135,023**	**$16,880,461**

Credits

Date Created	Original Amount	Years Remaining	Outstanding Balance	Beginning of Year Payment	Mid-Year Payment
12/31/2005	(27,912,515)	15	(27,912,515)	(3,137,336)	(3,282,281)
Total	**$ (27,912,515)**		**$ (27,912,515)**	**$ (3,137,336)**	**$ (3,282,281)**

	Outstanding Balance	Beginning of Year Payment	Mid-Year Payment
Net Outstanding Balance	$ 105,372,829	$ 12,997,687	$ 13,598,180
Contribution Lag Account	$ 22,030,712		
Unfunded Actuarial Accrued Liability	$ 127,403,541		

Note: The City's funding policy uses the valuation contribution results to set the contribution rate for the second succeeding year. (E.g., the 12/31/2005 valuation sets the calendar 2007 rate.) The Contribution Lag Account prevents the recognition of contribution differences (if any) as gains or losses as a result of this policy until the end of the applicable calendar year.

Section 2

Accounting Information

A. Actuarial Present Value of Accumulated Plan Benefits

The actuarial present value of vested and nonvested accumulated plan benefits was computed on an ongoing plan basis in order to provide required accounting information. In this calculation, a determination is made of all benefits earned by current participants as of the valuation date, and the actuarial present value is then computed using demographic assumptions and an assumed interest rate. Assumptions with respect to future salary increases and accrual of future benefit service are not necessary for this purpose.

Accumulated Benefits	December 31, 2005	Number of Vested Participants
Vested Benefits		
Participants Currently Receiving Payments	$ 1,718,449,485	4,408
Participants with Deferred Benefits	26,632,513	159
Active Participants	600,980,724	2,743
Nonvested Benefits *	$ 44,883,651	2,270
Total Actuarial Present Value of Accumulated Plan Benefits	**$ 2,390,946,373**	
Market Value of Assets	$ 2,412,211,828	

* Includes 1,639 part-time employees, and medical benefits for participants with between 5 and 15 years of service.

We reserve the right to review any materials in which the actuarial calculations shown above are reproduced and credited to Mercer Human Resource Consulting.

Section 2

B. Statement of Changes in Accumulated Plan Benefits

A statement of changes in the actuarial present value of accumulated plan benefits follows. This statement shows the effect of certain events on the actuarial present value shown on the previous page.

Actuarial Present Value of Accumulated Plan Benefits as of December 31, 2004	**$**	**2,363,590,225**
Increase (decrease) during the year attributable to:		
Plan amendment	$	0
Change in Actuarial Assumptions		(19,081,657)
Benefits Accumulated and Gains and Losses		374,219
Increase for interest due to the decrease in the discount period		199,540,002
Benefits Paid and Transfers to other Systems		(153,476,417)
Net increase (decrease)	$	27,356,148
Actuarial Present Value of Accumulated Plan Benefits as of December 31, 2005	**$**	**2,390,946,373**

The benefits valued include all benefits – retirement, preretirement death, and vested termination and medical benefits – payable from the Plan for employee service prior to the valuation date. Benefits are assumed to accrue (accumulate) in accordance with the plan provisions.

The actuarial present value of accumulated plan benefits shown in this report is calculated using the same actuarial assumptions used for funding purposes.

We reserve the right to review any materials in which the actuarial calculations shown above are reproduced and credited to Mercer Human Resource Consulting.

Section 3.1

Summary of Assets

	December 31, 2005
Market Value	
Cash, Cash Equivalents, Accounts Receivable and Accounts Payable	$ 44,331,144
Corporate Bonds	273,713,332
State and Local Obligations	3,490,444
Short Term Bills & Notes Agencies	0
Short Term Bills & Notes Treasuries	0
Commercial Paper & Short Term Investments	0
Venture Capital	19,511,973
U.S. Government Bonds	448,288,397
Common Stock	1,580,404,512
Other Bonds	23,301,407
Other Assets	522,942
Loans to Members	19,049,122
Accrued Interest on Investments and Dividends Receivable	8,989,869
Equipment	84,098
Total Assets	**$ 2,421,687,240**
Accrued Contributions	0
Less: Advanced Contribution	0
Less: Accrued Liabilities	9,475,412
Assets for Valuation	**$2,412,211,828**

Section 3.2

Reconciliation of Assets

	Market Value
Assets as of 12/31/2004	**$2,384,920,618**
Receipts	
Investment income	70,460,458
Employer contributions	19,062,028
Employee contributions	12,792,674
Net appreciation	87,065,379
Transfers from other systems	319,924
Disbursements	
Benefit payments	153,248,938
Transfers to other systems	547,402
Expenses	8,612,911
Assets as of 12/31/2005	**$2,412,211,828**

Section 3.3

Development of Actuarial Value of Assets

1. Market Value of Assets 12/31/2004				**$2,384,920,618**
2. Contributions during 2005				31,854,702
3. Benefit Payments and transfers out during 2005				(153,476,417)
4. Expenses during 2005				(8,612,911)
5. Expected Return on Assets				202,228,285
6. Expected Market Value of Assets 12/31/2005				2,456,914,277
7. Market Value of Assets 12/31/2005				**$2,412,211,828**
8. Asset Gain/(Loss)				(44,702,449)
9. Year	**Gain/(Loss)**	**Factor**	**Unrecognized Amount**	
a. 2005	$ (44,702,449)	0.8	$ (35,761,960)	
b. 2004	30,463,807	0.6	18,278,284	
c. 2003	0	0.4	0	
d. 2002	0	0.2	0	
10. Total Adjustment (a+b+c+d)				$(17,483,675)
11. Preliminary Actuarial Value of Assets (7-10)				**$2,429,695,503**
12.				
a. 120% of Market Value				2,894,654,194
b. 80% of Market Value				1,929,769,462
13. Actuarial Value of Assets (11, but not more than 12.a nor less than 12.b)				**$2,429,695,503**

Section 4.1

Plan Participants

A. Reconciliation of Participants From December 31, 2004 to December 31, 2005

	Active Full-time Participants	Inactive Participants		Total
		With Deferred Benefits	Receiving Benefits	
Beginning of Year	**3,475**	**161**	**4,388**	**8,024**
Contribution Refund Cash-outs	(45)	N/A	N/A	(45)
Vested Terminations	(12)	12	N/A	0
Age Retirements	(149)	(6)	155	0
Disablements	(6)	N/A	6	0
Deaths	(2)	(2)	(194)	(198)
Survivors	N/A	2	43	45
New Entrants	91	N/A	N/A	91
Rehires	20	(6)	0	14
Net Part Time Change	31	N/A	0	31
Data Corrections	(29)	(2)	10	(21)
Net Change	(101)	(2)	20	(83)
End of Year	**3,374**	**159**	**4,408**	**7,941**

There were 1,639 part-time employees at December 31, 2005 compared to 1,576 part-time employees at December 31, 2004.

3374
+1639
5,013

3374 - full-time
+ 1639 part-time

Section 4.1

B. Average Compensation for Full-Time Participants

	Service									
Age	**0 - 4**	**5 - 9**	**10 - 14**	**15 - 19**	**20 - 24**	**25 - 29**	**30 - 34**	**35 - 39**	**40+**	**Total**
Under 25	29	8								37
	23,348									
25-29	63	53	6							122
	28,873	40,263								
30-34	96	91	27	6						220
	34,641	42,442	43,154							
35-39	91	119	91	86	4					391
	37,219	44,584	47,820	49,811						
40-44	62	95	105	238	56	11				567
	37,169	44,929	49,054	51,409	56,339					
45-49	54	84	79	215	137	151	5			725
	32,771	43,781	49,059	50,288	54,372	55,462				
50-54	43	52	69	151	105	176	63			659
	39,510	44,467	47,818	49,346	55,447	59,217	56,138			52,417
55-59	35	42	55	100	57	93	65	7	1	455
	43,225	49,592	48,542	49,302	50,554	56,661	61,170			52,365
60-64	6	19	22	40	12	17	18	12	3	149
			55,754	47,204						53,826
65-69	1	5	4	7	3	2	6	2	5	35
										53,030
70-74	1		1	2	1	2	1	1	1	10
										53,232
75+				1			2		1	4
										36,827
TOTAL	481	568	459	846	375	452	160	22	11	3,374
	35,189	44,420	48,283	50,002	54,427	57,076	58,353	54,270		48,610

Compensation shown above is 2005 compensation and has been limited to $210,000. There are also 1,639 part-time participants.

Section 4.1

C. Inactive Participants – Pension Benefits

Age	Participants With Deferred Benefits		Participants Receiving Benefits	
	Count	Total Monthly Benefits	Count	Total Monthly Benefits
Under 40	5	$ 4,081	10	$ 6,708
40–44	19	24,159	22	17,261
45–49	22	28,671	43	72,149
50–54	40	58,923	310	842,945
55–59	54	66,944	569	1,626,256
60–64	8	8,324	563	1,406,487
65–69	3	785	612	1,310,667
70–74	2	554	640	1,269,818
75–79	2	634	603	1,088,003
80–84	2	554	555	879,160
85–89	2	2,244	322	433,615
90–94	-	-	124	152,099
95–104	-	-	35	38,457
Total	**159**	**$ 195,872**	**4,408**	**$ 9,143,625**

Section 4.2

Actuarial Basis

A. Individual Entry Age Normal Cost Method

Liabilities and contributions shown in this report are computed using the individual entry age normal method of funding. The objective under this method is to fund each participant's benefits under the plan as payments which are level as a percentage of salary, starting at original participation date (or employment date), and continuing until the assumed retirement, termination, disability or death.

At the time the funding method is introduced, there will be a liability which represents the contributions which would have been accumulated if this method of funding had always been used. The difference between this liability and the assets (if any) which are held in the fund is the unfunded liability, which is typically funded over a chosen period in accordance with an amortization schedule.

A detailed description of the calculation follows:

- The **normal cost** for each active participant under the assumed retirement age is determined by applying to compensation the level percentage of salary which, if contributed each year from date of entry into the plan until the assumed retirement (termination, disability or death) date, is sufficient to provide the full value of the benefits expected to be payable.

- The **present value of future normal costs** is the total of the discounted values of all active participants' normal costs, assuming these to be paid in each case from the valuation date until retirement (termination, disability or death) date.

- The **present value of projected benefits** is calculated as the value of all benefit payments expected to be paid to the plan's current participants, including active and retired members, beneficiaries, and terminated members with vested rights.

- The **accrued liability** is the excess of the present value of projected benefits over the present value of future normal costs.

- The **unfunded liability** is the excess of the accrued liability over the actuarial asset value of the fund, and represents that part of the accrued liability which has not been funded by accumulated past contributions.

- The **past service cost** is the level annual payment over a stipulated number of years which is required to amortize the unfunded liability.

There have been no changes to the cost method.

Section 4.2

B. Asset Valuation Method

The actuarial value of assets is based on a five-year moving average of gains and losses recognized at 20% per year. The investment gain/(loss) is taken as the excess of the actual return on assets over the expected return on assets. The investment gain/(loss) is then recognized at 20% per year until fully recognized. The actuarial value of assets is the market value minus the sum of the deferred investment gains/(losses) during the preceding five plan years.

In addition, the actuarial value is restricted to be no less than 80% of the market value or no more than 120% of the market value.

The actuarial value of assets was reset to the market value at December 31, 2003.

C. Valuation Procedures

The limitations of Internal Revenue code Section 415(b) have been incorporated into our calculations.

The plan was amended July 1, 1991 to include part-time employees who were previously excluded. These participants do not exhibit the same turnover pattern as full-time employees. Consequently, the liabilities and costs in this valuation are based upon full-time participants only, except to include the accumulated contributions for part-time employees. The city is contributing at a rate of 3.00% of pay based on the 1995 analysis of experience.

For participants who terminate prior to retirement with less than 15 years of service, the liability held is the value of employee contributions with interest. Seventy-five percent of participants who terminate prior to retirement with 15 years of service or more are assumed to elect a return of employee contributions with interest, while 25% are assumed to elect annuity benefits.

There have been no changes to the valuation procedures.

Section 4.2

D. Actuarial Assumptions

(1) The actuarial assumptions used to determine employer contributions to the plan are as follows:

Investment Return: 8-3/4% per year, net of expenses, compounded annually.

Mortality:
- Non-disabled lives: Uninsured Pensioner 1994 Mortality Table projected to 2009.
- Disabled retirees: Pension Benefit Guarantee Corporation Disabled Mortality Table.

Turnover: 2000 City of Cincinnati Rate of Termination Experience Table. The turnover assumption during the first three years of service is as follows:

Years of Service	Current Rate
1	.10
2	.10
3	.07

Specimen rates after the first three years of service are as follows:

Attained Age	Current Rate
25	.0675
30	.055
40	.030
50	.035
60	.040

Disability: The 1995 City of Cincinnati Disability Retirement Experience Table. Specimen rates are as follows:

Attained Age	Rate per 1,000 Lives
25	1.2
30	1.4
40	2.8
50	6.6
60	0.0

Section 4.2

D. Actuarial Assumptions (Continued)

Salary: Salary increases are assumed to vary by service. Specimen rates are as follows:

Service	Annual Increase
0	.080
5	.055
10	.040
20	.040
30	.045

Other Salary Assumptions: For those participants who had not elected the 2.50% formula an additional 10% increase in average salary is used to reflect final lump sum payments.

Salary for valuation purposes is total pay for year multiplied by:

(1) 1.0027 if year has 26 pay periods
(2) 0.9656 if year has 27 pay periods.

Retirement Age: Rates of retirement are assumed to be in accordance with the following table for participants who are age 60 with 5 years of service or are any age with 30 years of service (those eligible for unreduced benefits).

Age	Current Rate
47-50	25%
51-53	30%
54	35%
55-56	35%
57-59	30%
60	30%
61-64	25%
65	30%
66-69	30%
70 and above	100%

Early Retirement: Twelve percent of those eligible for reduced early retirement are assumed to retire.

Section 4.2

D. Actuarial Assumptions (Continued)

Medical Benefits:

The City offers medical benefits (including outpatient prescription drug coverage) to retirees before and during Medicare eligibility. Three plan options are offered to current and future retirees: a traditional indemnity plan, a PPO and an HMO. Sample plan provisions are shown in Section 4.3.

Starting claim costs were developed based on historical retiree claims and enrollment experience data projected forward to the valuation period with trend and adjusted for the demographics of the historical vs. current retiree population. Historical claims experience was reviewed from January 2003 through December 2005, with data split separately by plan, by medical and prescription drug coverage and by Medicare status.

The City's medical plan integrates secondary to Medicare payments (Medicare Parts A & B) for those individuals enrolled in Medicare. Typically retired individuals (and their dependents) age 65 and over are eligible for Medicare Parts A & B. However, the City only began paying into Medicare on March 31, 1986. Therefore, a portion of retirees hired prior to that date are not eligible for Medicare Part A coverage. All City retirees and dependents over age 65 are assumed to be eligible for Medicare Part B. The projected costs take into account the historical and anticipated percentage of retirees and dependents eligible for both Medicare Parts A&B and those eligible for only Part B.

Claims information was analyzed by plan (Traditional, PPO and HMO), by type of service (medical/prescription drug) and by age group (pre 65 and post 65). Administrative fees (claims administration and management, stop-loss, prescription drug, etc.) charged to the plan are included in the costs developed.

Some retirees may have dependent children covered under the retiree health plan. Their cost is included in the historical claims experience used to estimate the adult per capita rate.

Costs are determined on a per capita basis, adjusted to age 65, and annualized for presentation. Costs are developed by plan (Traditional, PPO and HMO), and blended based on the current and expected enrollment among plans.

For health plan projection/valuation purposes, the City's valuation is split into multiple "Groups". Group 1 refers to current inactive (retiree) participants and active participants hired prior to 1997. Group 2 refers to active participants hired in 1997 or later. The reason for this distinction is that the contribution methodology is materially different for those employees hired after January 8, 1997.

Section 4.2

D. Actuarial Assumptions (Continued)

The starting costs have been updated based on the analysis described above. A summary of annual starting costs (including third-party administration expenses) at age 65 is displayed below:

Annual average age 65 adult per capita claims cost				
	2006 Cost Projected in 12/31/05 valuation		*2005 Cost Projected in 12/31/04 valuation*	
	Group 1	Group 2	Group 1	Group 2
Pre-Medicare	$12,854	$12,851	$12,292	$12,361
Medicare eligible	$4,432	$4,094	$4,324	$3,931

For Group 1, there is an adjustment for those hired after March 31, 1986 (when the City began paying into Medicare) to reflect the fact that anyone hired after that date is assumed will be eligible for both Medicare Parts A & B. In addition, there are slight differences (less than 2% this year) in the expected costs between Group 1 current retirees vs. Group 1 current actives based on the expected enrollment between plans. (Group 1 costs for current retirees displayed above.)

Future projections of costs are estimates. All estimates, based upon the information available at a point in time, are subject to unforeseen and random events. Therefore any projection must be interpreted as having a likely range of variability from the estimate.

Medical Trend Rates: Starting costs are expected to increase each year with trend.

The trend assumptions are comprised of three elements: the initial trend rate, the ultimate trend rate, and the grade-down period. Trend rates exclude the expected impact of aging since this impact is explicitly reflected elsewhere in the valuation.

The initial trend rate is the expected increase in health care costs into the second year of the valuation (i.e., the first assumed annual increase in starting per capita rates). Initial rates are established separately for pre-Medicare medical claims, Medicare-eligible medical claims, prescription drug claims, dental expenses and vision expenses. (Administrative expense trends are included in each of the applicable coverages.) These expected trend rates are based on market assessments and surveys and take into account actual City historical experience, expected unit cost information, changes in utilization, plan design leveraging, cost shifting, and new technology.

Section 4.2

D. Actuarial Assumptions (Continued)

The assumed ultimate trend rate and grade-down period are based on macroeconomic principles. These assumptions reflect assumed long term general information, nominal gross domestic product growth rates, and the excess of national health expenditures over other goods and services, and an adjustment for an assumed impact of population growth.

Trends are developed independently for each plan. For valuation purposes, where applicable (e.g. medical and administrative fees, expected enrollment between plans) these trend rates are blended together based on an enrollment and cost-weighted average basis.

The result of the updated analysis is projected future trend rates equal to or less than anticipated in last year's valuation.

Assumed increases are shown in the table below.

Medical Trend assumed in this valuation (Group 1 & 2 trends are the same):

	Medical (& administrative fees)		Prescription Drug	
Period	Pre-Medicare	Medicare Eligible	Pre-Medicare	Medicare Eligible
2006 to 2007	7.5%	6.9%	12.0%	12.3%
2007 to 2008	7.0%	6.6%	10.8%	11.1%
2008 to 2009	6.5%	6.2%	9.5%	9.8%
2009 to 2010	6.0%	5.8%	8.3%	8.5%
2010 to 2011	5.5%	5.4%	7.0%	7.3%
2011 to 2012	5.0%	5.0%	5.8%	6.1%
2012 to 2013	5.0%	5.0%	5.0%	5.0%
2013 and onward	5.0%	5.0%	5.0%	5.0%

Sample Medical Trends assumed in last year's valuation (note that trends provided were a blend of Medical, Administrative fees and Prescription drug experience and slightly different between Group 1 and Group 2):

	Group 1		Group 2	
Period	Pre-Medicare	Medicare Eligible	Pre-Medicare	Medicare Eligible
2005 to 2006	11.5%	11.2%	11.5%	11.2%
2007 to 2008	9.5%	9.4%	9.4%	9.3%
2010 to 2011	6.4%	6.5%	6.3%	6.4%
2012 and onward	5.0%	5.0%	5.0%	5.0%

Section 4.2

D. Actuarial Assumptions (Continued)

Medical Aging: Independent of other factors (e.g. Medicare) overall medical costs are assumed to increase with age, as follows:

Age	Medical Increase Per Year	Prescription Drug Increase Per Year
40 - 44	2.0%	4.5%
45 - 46	3.0%	4.5%
47 - 49	3.0%	4.0%
50 - 51	3.0%	3.5%
52 - 54	3.0%	3.0%
55 - 58	4.0%	3.0%
59 - 64	4.0%	2.5%
65 - 66	3.5%	2.5%
67 - 69	3.5%	1.5%
70 - 71	2.5%	1.5%
72 - 76	2.5%	0.0%
77 - 78	2.5%	-1.0%
79 - 81	0.0%	-1.0%
82 - 86	0.0%	-2.5%
87+	0.0%	0.0%

Last year these factors were provided on a blended medical and prescription drug basis. This year they have been segregated between medical and prescription drug and updated slightly.

Retiree Contributions: Group 1 current and future retirees only contribute towards the cost of coverage in the HMO plan. Contribution amounts are $64 per year Pre-Medicare and $62 per year Medicare eligible. For retirees with dependent(s) covered, contributions are double the amounts above. Contributions do not increase with aging, but are assumed to increase with medical trend. (Group 1 retirees in other plans have no retiree contributions.) Group 2 retirees contribute based on a "points system" at retirement (see section 4.3).

Participation: All eligible retirees and dependents in Group 1 are assumed to elect coverage. Group 2 retirees will have to pay some portion of their expected medical costs, so assumed participation rates are reduced in line with the level of cost sharing.

Retiree Contribution Percentage	Assumed Participation Rate
0% (same as Group 1 Retirees)	100%
25%	80%
50%	60%
75%	40%

D. Actuarial Assumptions (Continued)

Medicare Reform Impact: The projected savings estimate due to Medicare Reform Part D coverage being implemented in 2006 was updated based on the final Medicare Part D regulations, the City's final decision with regards to its coordination with Medicare Part D and updated retiree prescription drug experience data. This year we are reflecting that the City has elected to continue providing prescription drug coverage without any changes to the current prescription drug plans and receive the subsidy provided by Medicare. This provides a greater savings to the plan compared to the assumed method of integration used in last year's valuation (e.g., that the City's plan would integrate with Medicare on a secondary basis and the City would reimburse members for the Medicare Part D premium based on the corresponding retiree contribution requirements for each group).

Annual Savings to the City per Medicare Eligible Participant Due to Medicare Reform Provisions @ age 65

	2006 Subsidy Projected in 12/31/05 valuation	*2006 Subsidy Projected in 12/31/04 valuation*
Group 1 Current Retirees	-$450	-$330
Group 1 Future Retirees	-$450	-$400
Group 2	-$440	-$300

Medicare Reform savings are assumed to increase at prescription drug trend rates.

Other Health Benefits: Medicare Part B: The City reimburses the Medicare Part B premiums for retirees and dependents. Medicare Part B premiums are assumed to increase in accordance with estimates from the 2005 Annual Report of the Board of Trustees Report until the year 2015 (same as in last year's valuation) and then increase at 5.0% per year thereafter. 2006 Part B Premiums are $1062 ($938.40 in 2005).

Section 4.2

D. Actuarial Assumptions (Continued)

	Dental: One traditional dental indemnity plan is provided to all current and future retirees. The plan includes a $1,000 annual maximum on plan benefits. 2006 projected starting cost is $227 per adult per year ($206 for the 2005 estimate). Costs are assumed to increase at a decreasing rate, starting at 6.00% for 2006, then decreasing by 0.25% per year to 4.25% and remaining there for 18 years, then decreasing gradually over 16 years to no material trend. This takes the $1,000 annual maximum on annual dental claims into account. (This is virtually the same trend table as utilized last year initiated in 2006 rather than 2005.) Dental aging assumptions are a 1.0% increase per year up to age 65, then 0%.
	Vision: One indemnity design plan is provided to all current and future retirees. The plan has fixed benefits with a $100 annual maximum benefit. The 2006 projected starting cost is $25 per adult per year ($24 for the 2005 estimate). Although the claims benefit level is fixed, we anticipate a 3.0% annual trend increase in costs to account for increases in administrative costs. (The trend assumption utilized last year was 1.0% annual trend increase per year.) No aging impact is assumed in the vision coverage.
Option Electives:	75% of male participants and 25% of female participants will have a spouse who is covered under the medical, dental and vision benefits portions of the plan. Of these participants with a covered spouse, 85% will elect a Joint & Survivor option.
Expenses:	Investment and plan administration expenses are assumed to be the prior year's expenses reduced by $250,000 and then rounded to the next $100,000.

(2) For computing the value of vested and non-vested benefits, the following modifications were made to the above assumptions:
No future increases in salaries were assumed. Accumulated plan benefits were calculated using estimated Average Monthly Earnings in effect on the valuation date.

Section 4.3

Summary of Plan Provisions

Average Compensation:

The average compensation used in the calculation of benefits depends on whether the participant elects the 2.50% formula which uses the average highest base compensation or the 2.22% formula which uses the average highest total compensation.

Average Highest Base Compensation:

The term "average highest base compensation" means the average annual compensation earned by a member during his most highly compensated period of three consecutive years of service. It excludes overtime pay, payment for compensatory time, earnings from any additional part-time employment in City service, and lump sum terminal leave pay.

Average Highest Total Compensation:

The term "average highest total compensation" means the average annual compensation earned by a member during his most highly compensated period of three consecutive years of service. It includes that portion of lump sum terminal leave pay which could be accumulated in the final three years of active service, except that the payment for unused sick leave shall not exceed an amount equal to the compensation at the hourly rate last earned by a member for 312 hours.

Service Retirement Allowance:

<u>Condition for Allowance</u>: Any member in service may retire upon:

a. attaining age 60, regardless of length of creditable service if he was enrolled prior to January 1, 1969, or with at least 5 years of creditable service if he was enrolled January 1, 1969 or later, or
b. completing 30 or more years of creditable service at any age, with a retirement allowance commencing immediately; or
c. completing 5 years of creditable service before age 60 and then may retire with a retirement allowance commencing at age 60, provided, however, at the time of election of the deferred annuity there is no loan outstanding against his contributions.

<u>Amount of Allowance</u>: The annual retirement allowance consists of:

a. An annuity provided by the number equal in value to his contributions with interest at the time of his retirement; and

b. A pension which together with his annuity produces a total annual retirement allowance equal to 2.50% of his average highest base compensation or 2.22% of his average highest total compensation multiplied by the number of years of his membership service, whichever is applicable.

c. For members with credit for service rendered prior to the establishment of the System, an additional pension of 2.50% of his average highest base compensation or 2.22% of his average highest total compensation multiplied by the number of years of such prior service, whichever is applicable.

d. Annual increases of 3% compounded annually commencing 1 year after retirement.

In no event shall the retirement allowance be less than $4.00 per month multiplied by his years of credited service not in excess of 25 years.

In no event shall the retirement allowance be greater than that permitted by Section 415 of the Internal Revenue Code.

Advanced Service Retirement Allowance:

Condition for Allowance: Any member who has attained age 55 and has 25 but less than 30 years of membership service may retire on an advanced service retirement allowance.

Amount of Allowance: The annual retirement allowance consists of:

a. An annuity provided by the number equal in value to his contributions with interest at the time of his retirement.

b. A pension which shall be the actuarial equivalent at his age at the date of retirement, of the pension which would have been payable had he attained the age of sixty on said date.

Disability Retirement Allowance:

Condition for Allowance: Any member in service who (1) is disabled as the result of an accident which occurs in the performance of his duties as an employee regardless of age or length of service, or (2) having completed five years of service, is disabled by reason of either accidental or non-accidental cause, may be retired on a disability retirement allowance, provided he is found to be permanently incapacitated, either mentally or physically, for the further performance of duty.

Amount of Allowance: Upon disability retirement a member receives a service retirement allowance if he has attained age 60 or any age with 30 years of creditable service, otherwise he receives a disability retirement annual allowance which consists of:

a. An annuity provided by the number equal in value to his contributions with interest at the time of his retirement.

b. A pension which together with his annuity produces a total annual retirement allowance equal to 90% of the sum of 2.50% of his average highest base compensation or 2.22% of his average highest total compensation, whichever is applicable, multiplied by the number of years of his creditable service, except that such allowance shall not be less than smaller of:

(1) 25% of his average highest compensation; or

(2) 90% of the service retirement allowance to which he would have become entitled had he continued in service to age 60 without further change in average highest compensation but in any event not less than $43.20 for each year of his service not in excess of 25.

c. Annual increases of 3% compounded annually commencing 1 year after retirement.

Ordinary Death Benefit:

Condition for Benefit: Upon the death of a member in service, a benefit is paid to the designated beneficiary, if living, otherwise to the surviving spouse, children or certain other dependents.

Amount of Benefit: In the event of death, all contributions made by the member with interest are returned to the estate or designated beneficiary. In addition, a lump sum payment is made from the contributions of the City equal to 50% of the compensation received by the member during the year immediately preceding his death provided the member had at least eighteen months of service.

Section 4.3

Survivor Death Benefits:

Condition for Benefit: Upon the death of a member in service with survivors, including a member on leave of absence without pay for a period of not more than one year, with eighteen months or more of service, a monthly benefit is paid unless the member is in the building crafts. Building crafts participants are not entitled to Survivor Death Benefits.

Amount of Monthly Benefit:	2006	2005
Unmarried widow (or widower) and one child under 18	$553.44	$537.32
Unmarried widow (or widower) and two or more unmarried children under 18	$750.22	$728.37
Widow (or widower) at age 50 (if spouse had 15 or more years of service)	$276.73	$268.67
Widow (or widower) at age 62 (if spouse had less than 15 years of service)	$276.73	$268.67
One unmarried orphan under 18	$276.73	$268.67
Two unmarried orphans under 18	$553.44	$537.32
Three or more unmarried orphans under 18	$750.22	$728.37
One dependent parent	$196.76 Min. $276.73 Max.	$191.03 Min. $268.67 Max.
Two dependent parents	$276.73 Min. $553.44 Max.	$268.67 Min. $537.32 Max.

Beginning in 2000 the survivor benefits are indexed annually by 3% per year.

Section 4.3

Retirement Death Benefit:

Upon the death of a retired member, a lump sum benefit of $7,500 is paid to the designated beneficiary, if living, otherwise to the surviving spouse, children or certain other dependents.

In addition, all contributions made by the member together with interest prior to retirement, in excess of retirement allowance payments received prior to death, are paid to such beneficiary, provided, however, the member has not elected an optional retirement allowance as hereinafter described.

Return of Contribution:

Upon the withdrawal of a member prior to retirement, the entire amount of the employee contributions with interest at 2% per annum is returned to him upon the participant's election.

Special Privileges:

Upon retirement a member may elect to receive the actuarial equivalent of the retirement allowance in any one of the optional forms described below. Effective December 22, 1971 members over age 60 and members who have completed 20 years of service, including members on deferred retirement, may elect, prior to retirement, any one of the optional forms. In the event of death before retirement the person designated shall receive the same benefit as would have been received if the member had retired the day before death. However, in event of such death, the optionee will not be entitled to an optional allowance until the date the deceased member would have reached age 55 with 25 years of service or age 60 with 20 years of service.

> **Option 1**: Reduced retirement allowance payment with the provisions that, at death, the amount of the allowance shall be continued throughout the life of the designated beneficiary at the time of this election of the option.
>
> **Option 2**: Reduced retirement allowance payments with the provision that, at death, one-half of the amount of the allowance shall be continued throughout the life of the designated beneficiary at the time of the election of this option.
>
> **Option 3**: Reduced retirement allowance payments with the provision that, at the first death of the member or the designated beneficiary at the time of the election of this option, two-thirds of the amount of the allowance shall be continued throughout the life of the survivor.
>
> **Option 4**: Reduced retirement allowance payments with the provisions that, at the first death of the member or designated beneficiary at the time of the election of this option, 80% of the amount of the allowance shall be continued throughout the life of the survivor.

In the event of the death of a member in service who was eligible to retire and who is survived by a spouse who was designated as sole primary beneficiary, such spouse may elect to receive the Option 1 allowance described above.

Section 4.3

Medical, Prescription Drug, Dental, and Vision Benefits:

All retired members and those who are receiving survivor benefits are entitled to have their Anthem Blue Cross-Blue Shield benefits, including dental and vision coverage paid by the System. Sample plan provisions of the current benefits are shown below:

	Current Retiree Medical (& Prescription Drug) Plan Designs		
	Traditional	PPO*	HMO
Plan Design			
Individual Deductible	$50	$0//$100	$0
Office Visist, Therapy Copayment	20%	$10//30%	$0
Inpatient Hospital Member Copayment, then Plan Coinsurance	$0, then 100%	$100, then 100%//70%	$0, then 100%
General Coinsurance	100%	100%//70%	100%
Annual Out of Pocket Maximum	$450	$300//$700	$500
Prescription Drug Copayment	$5 (non-network 50%)	$5 generic/$12 brand//50%	$3

* "//" signifies the difference between in-network and out of network benefit levels

Upon the death of a retired member for whom an option 1, 2, 3, or 4 is in effect, the designated beneficiary shall continue to be covered for such hospital and surgical benefits. Dental and Vision benefits are subject to a cap of $1,000 per year for dental benefits and $100 per year for vision.

Moreover, when benefits under this coverage would be reduced by reason of the retired member's eligibility for hospital and medical benefits under federal Social Security laws, the System will pay the federal Medicare Part B premium. (This valuation does not include reimbursement of additional premiums to be charged to high income retirees by Medicare in 2007 and later.)

To be eligible for these benefits, the member must have earned 15 years credited service at the time of termination, or terminate after age 60 with 5 years credited service.

For members who are hired after January 8, 1997, the plan will provide medical benefits in accordance with the following schedule:

- 100% of full cost if age plus service at termination exceeds 90
- 75% of full cost if age plus service at termination exceeds 80 but is less than 90
- 50% of full cost if age plus service at termination exceeds 70 but is less than 80
- 25% of full cost if age plus service at termination exceeds 60 but is less than 70
- 0% of full cost if age plus service at termination is less than 60

Contributions:

By Member: Each member, commencing January 1, 1978, contributes at a rate of 7% of the salary used to compute retirement benefits until his retirement.

By Employers: The sponsoring employer makes annual contributions based on member's salaries so that, when members become eligible for benefits, reserves will have been accumulated adequate to provide the pension and other benefits payable by the plan on account of creditable service.

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