

PROPOSITION R AND LAGERS: FREQUENTLY ASKED QUESTIONS



Question: What is LAGERS?

LAGERS is the Missouri Local Government Employees Retirement System. It is a defined-benefit pension plan system, set up by the State of Missouri for local government entities such as cities, counties, and fire protection districts and their employees.

Question: What does the City of Kirkwood currently offer for employee retirement?

Currently, the City offers a defined-contribution pension plan for uniformed police officers and firefighters, a defined-contribution pension plan for civilian employees, and a voluntary deferred-compensation 457 Plan that is open to all City employees.*

A defined-contribution plan for public employees is called a 401(a) plan and is similar to the better known 401(k) plan found in the private sector. The City contributes an amount, based on a percentage of employee pay, into an account for each eligible pension plan participant. This money is invested in mutual funds. Administration and investment of the funds is handled by a recordkeeping firm selected by members of the two pension boards (civilian and police/fire) and hired by the City. Currently, this is TIAA.

In a defined-contribution plan, the contributions and investment income and losses combine for a balance that an employee can draw on during retirement. Market fluctuations can affect this balance. However, in a defined-benefit retirement plan (such as LAGERS), the Plan invests the funds for long-term results and is not limited to mutual funds. Employees are then guaranteed monthly payments in retirement, based on a formula that involves how long they work, the salary they earn, and the benefit multiplier chosen by the employer. The amount of money needed to fund the retirement plan is calculated by actuaries and invested by professionals, and the investment risk is carried by the employer.

Question: Why is this change necessary?

The City believes that LAGERS is a better overall pension plan for its employees, and it will result in a retirement benefit that employees can easily understand, one they will not outlive, and for most employees will provide an adequate income replacement rate. The City wants to provide a competitive salary and benefits package that will attract and retain a highly qualified, competent, and motivated workforce. In the public sector, retirement benefits for the majority of public entities are provided via defined-benefit plans. Kirkwood is one of the few municipalities in St. Louis County with a defined-contribution plan, which the City's compensation and benefits consultants have found to be less attractive. State-wide, more than 700 public employers participate in LAGERS. Additionally, according to an analysis conducted by Vanguard, a majority of City employees in our current pension plans are inappropriately invested for their age, even though they have access to financial advice.

Many of the jobs with the City are physically demanding, such as electric linemen, sanitation workers, and firefighters (to name a few). One of the attractive features of LAGERS is that full retirement benefits

are available for public safety employees at age 55 and for civilian employees at age 60, although there is no requirement to retire at any particular time. As long as employees are healthy, able to be effective, and are engaged in their work, their experience can really benefit the City. However, when the employee can no longer physically carry out the requirements of the position, continuing to work because they are worried about having enough retirement income puts themselves and the City at risk.

Employees in a defined-benefit plan have much more certainty when it comes to knowing what they will have available to them when it comes to a lifetime stream of income in retirement. Research shows that employees who choose how their retirement savings will be invested typically earn lower returns than those of professionally managed defined benefit plans. By moving to LAGERS, the City believes it can offer employees an improved pension plan that better meets their needs and makes the City's retirement benefits more attractive to potential candidates with public sector experience. We can do so at a cost that is not much more than what the City already expends on current plans.

Question: Aren't defined-benefit plans falling out of favor, and aren't many in trouble?

401(k) plans were never intended to supplant defined-benefit pension plans. However, in the private sector, due to a variety of factors such as government regulations, accounting rules, and insurance premiums, many private companies over the last 30 years have closed their defined-benefit pension plans and only offer a defined-contribution plan. In the public sector, defined-benefit plans operate under different rules and remain the type of retirement benefit offered to most public sector employees, including school teachers, police officers, and firefighters. Government pension plans that make the news have generally not been adequately funded by the employer, sometimes for decades. LAGERS was designed so that can't happen. Actuaries perform calculations for each member entity based on their employee population and demographics and determine an amount needed each year to fund the benefit level selected. Member cities do not have the option of paying less than what the actuaries say is needed. In fact, if for whatever reason a member decides not to pay all of what is needed, LAGERS can go to the state to collect on what is owed from tax revenue the state collects on behalf of cities.

Question: The City's finances are in good shape now, but what about in the future? Are we locked in?

The state legislature structured LAGERS to be a permanent membership for cities. Once the City of Kirkwood joins, it will always be a member. This permanence provides stability. LAGERS has a very long-term investment strategy, and it would not be able to successfully pursue such a strategy and earn the type of market returns it does if members were coming and going from the system. However, no city is locked into a particular benefit *level*. If Kirkwood were to find itself in financial difficulties down the road, it could choose to move to a lesser benefit level. Conversely, the City could also in the future choose to upgrade its benefit level. Even if the benefit level is decreased, employees will still receive the benefit at the level it was earned up to that period, but going forward, benefits would be earned at the new level. Another protection to the City is the cap on the maximum annual increase that LAGERS can require of a member. The percent of salary that LAGERS can require a city to pay to fund the benefit level they have chosen can go up only 1 percent in a given year.

Question: What will this change cost? Will I, as a taxpayer, have to pay more?

The total cost of going to LAGERS at the benefit levels proposed is going to be a bit more than what the City currently contributes to the pension plans and deferred compensation plan for employees. The City would initially contribute an estimated \$2,608,080 to the LAGERS plan, compared to its current contribution of \$2,248,011. That is an increase of \$360,069 annually. However, the City receives revenue from a dedicated property tax for police and fire pensions, as well as from the Fire/EMS sales tax and from the County-wide Prop P sales tax for police. Costs not covered by the dedicated property tax can be funded from the Fire/EMS sales tax and the Prop P sales tax. The ballot measure being placed before voters does not increase taxes.

What level of benefits is the City proposing for LAGERS?

Police officers and firefighters do not participate in Social Security*, so their retirement benefit needs to be at a higher benefit level than that of civilian employees. For police and fire, the City has chosen a benefit level with a 2.5 percent multiplier based on a five-year final average salary. When these two factors are multiplied by the number of months of service credit, the result is the monthly amount that will be paid to an employee upon retirement. For civilian employees, the benefit level chosen is a 1.75 percent multiplier and a five-year final average salary. Employees will contribute an additional 4 percent of their salary to fund these benefits. These numbers are competitive with other local government pensions in the area and are the same benefit levels offered by Webster Groves and Maplewood for police and fire. Example: A police officer who has worked for the City for 20 years (240 months) and earns an average of \$6,500 per month during the five years before retirement will receive \$3,900 per month in retirement income or: $240 \times 6,500 \times 2.5 \text{ percent} = 3,900$.

Question: What happens to the existing defined-contribution pension plans?

Employees will retain full control of their accounts and the money in them. No new City employees would be enrolled in the existing pension plans, and no new contributions would be made to the existing accounts of current City employees. Governance of the Board of Trustees for each plan will remain as it currently is, with the Police Chief and Fire Chief as board members, plus two elected employee members from Fire, two elected employee members from Police, and a citizen member appointed by the Mayor. For civilians, the board will continue to be comprised of two elected civilian employees and five citizen members appointed by the Mayor.

PLEASE NOTE: Employees will not be required or compelled to move their existing retirement account funds into LAGERS. Money in existing retirement accounts belongs to the individual employee, and it will be the employee's choice whether to use any of that to purchase service credits for prior years of service.

*Prior to 1951, Social Security coverage was unavailable to state and local government employees. When it did become available, local governments were given a one-time choice for public safety employees to either opt-in or opt-out of Social Security. At that time, Kirkwood public safety employees and the City Council chose to opt-out of Social Security.