

The Value Of Defined Benefit Plans

How And Why The City Of Webster Groves Moved From A Defined Contribution Plan To A Defined Benefit Plan

In 2013, the city of Webster Groves joined the Missouri Local Government Employees Retirement System (LAGERS), a statewide, public-defined benefit retirement plan covering local government workers from employers all across Missouri. This is our story of why and how we made this giant leap forward in providing retirement benefits to our employees, and, we believe, ultimately enhancing service to our citizens.

Background

In 1998, the city of Webster Groves converted from a defined benefit (DB) plan to a defined contribution (DC) plan for both non-uniformed and uniformed staff. The overarching belief at the time was that defined contribution plans were better because employees could personally be rewarded with significantly high market returns in a time when stock market returns were in the range of 23 percent to 37 percent in the preceding three years.

Markets plummeted in 2008. Many DC plan participants lost at least a quarter of their investments initially. For those employees who were planning to retire within the next year or two, this drastically impacted their financial readiness for retirement. While employees were able to personally accumulate healthy account balances in the 1990s, they were now forced to



deal with the fact that the market swings both ways.

Senior staff at the City decided to research other pension options available for city employees in 2009. They reviewed a number of articles from professional journals; held many conversations with city staff and met with professional consultants; and advisors on both the DB and DC side of the platform.

Employees generally were not comfortable bearing the investment risk and responsibility of their individual plans, even though they were offered the opportunity to meet quarterly, or more frequently if requested, with investment advisors.

Ultimately, we were looking for a solution that would more effectively serve employee needs and better utilize resources while enhancing employee performance and morale. We wanted to assist in providing future financial

security for our members and give them a track to security with a benefit structure that rewards them, as service to the community increased.

Choosing LAGERS

The key attraction to LAGERS is their detailed, solid plan design and reputation for efficient administration. Also, the pooled disability and survivor benefits provided by LAGERS is extremely attractive for members. This is viewed as a great safety net for younger employees. We did an extensive review and everything kept turning up positive. The knowledge, experience and expertise of the entire LAGERS administrative and investment team was impressive. Retirement system administration is incredibly complex and requires a very specialized skill set. LAGERS represents approximately 700 separate employers across the state, with more than 100 in the eastern (St. Louis) region. Assets under management are more than \$7 billion. Due to the asset size of the fund, investment opportunities are available that are not available to smaller investors, and lower fees for external investment managers can more easily be negotiated. At the time the City joined LAGERS, the plan's funded ratio (assets compared to liabilities) was 86.5 percent (it now stands at 94.8 percent funded)—a very healthy plan position.

All service with LAGERS-covered employers counts toward a member's overall final retirement benefit, so not participating in LAGERS was working against us in recruiting and hiring. We knew competing employers were successful in using LAGERS as a recruitment tool. LAGERS' plan design/funding mechanism is complex, well structured and secure. The system annually reevaluates all required contributions and makes any adjustments to ensure full benefit funding. They have a number of detailed system safeguards (gain smoothing, statutory limits on annual contribution rate increases, etc.) to lessen volatility in employer contribution rates.

The Process Of Converting To LAGERS

In order to educate employees and get the buy-in to the change, LAGERS staff presented the plan to city staff at six different meetings to provide an opportunity to reach as many employees as possible.

After a short period of time following the last session, we asked employees to vote – 93 percent of employees voted in favor of joining LAGERS. We felt confident the employees were well-educated on the issue and made the right choice. The City Council adopted a resolution to join LAGERS as of July 2013.

City employees were provided an opportunity to roll over funds from the previous DC plan (and use any other personal funds) to purchase their prior city service and receive that service credit under LAGERS. Many employees did and continue to have the opportunity.

Results

As a result of joining LAGERS, the City has seen many positive results:

- Morale has increased. With increased morale comes increased productivity and service to the community.
- We have added a significant

Missouri LAGERS



LAGERS members work hard. And each month of **hard work** helps them get a little closer to a **dignified, secure retirement**. LAGERS members are thousands of police officers, firefighters, librarians, utility & maintenance workers, and other **public servants** located in every corner of **Missouri**, serving their communities **every day**.



Comparing DC and DB Plans	
<p>Benefits of DC Plan</p> <p>Employee perspective:</p> <ul style="list-style-type: none"> *Benefits may be withdrawn under certain circumstances. *Benefits are portable (recruitment tool). <p>Employer perspective:</p> <ul style="list-style-type: none"> *Contributions are known and fixed. 	<p>Challenges With DC Plan</p> <p>Employee perspective:</p> <ul style="list-style-type: none"> *No guarantee of a certain benefit level. *Investment risk is assumed by employee. <p>Employer perspective:</p> <ul style="list-style-type: none"> *Adverse experience in employee investments can impact employee retirements.
<p>Benefits of DB Plan</p> <p>Employee Perspective:</p> <ul style="list-style-type: none"> *Steady stream of income during retirement. *All investment-related risk is borne by the employer. *Benefits are known and secure. *Cost-of-living adjustments to keep up with inflation. 	<p>Challenges with DB Plan</p> <p>Employer perspective:</p> <ul style="list-style-type: none"> *Requires actuarial services; might be costly. *DB plan contributions are less predictable, based on many uncertain factors such as workforce demographics, mortality, return on investment and inflation.

recruiting tool that allows the City to remain competitive in hiring into the future.

- Employees are retiring, generally, when they are eligible rather than continuing to work indefinitely due to the security of the lifetime benefits.
- The economic impact of benefits paid to retirees to the community and to the taxpayers who help fund the benefits is significant—approximately \$500,000 in benefits are paid annually to those retirees residing in Webster Groves alone.

In 2017, the LAGERS team came to the City and interviewed several employees, as well as Mayor Gerry Welch, to inquire about employee's experience in switching from the old DC plan to LAGERS. They all provided highly positive feedback and commentary, but perhaps Mayor Welch summed it up best:

// You can have a city where you have the most expensive ... equipment possible. That doesn't make any difference if you don't have good, skilled employees who really care about the service that they provide. //

~ Mayor Gerry Welch,
Webster Groves

“Here's the bottom line in all of this. You can have a city where you have the most expensive, wonderful ambulance, snowplows and other equipment possible. That doesn't make any difference if you don't have good,

skilled employees who really care about the service that they provide.”

We feel confident that providing employees with a secure means by which to retire when they are ready only further enhances the valuable services they provide to the community. 🍃

Joan Jadali is the assistant city manager and director of finance and administration for the city of Webster Groves. She has served in this role for over 11 years. Jadali is a member of the Government Finance Officers Association (GFOA) Committee on Retirement and Benefits Administration. She is a recipient of the Retirement Plan Associate (RPA) designation from the International Society of Certified Employee Benefit Specialists. Jadali is also a board member of Missouri LAGERS.

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