

PENSION FUNDING BASICS



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Missouri Local Government Employees
Retirement System




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Why Do You Provide a Retirement Plan for Employees?



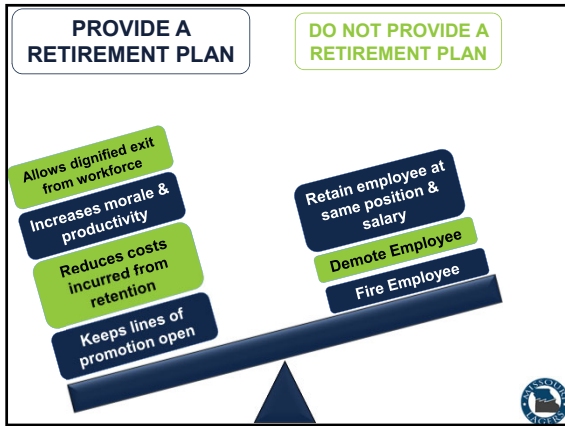

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PROVIDE A RETIREMENT PLAN	DO NOT PROVIDE A RETIREMENT PLAN
<div style="background-color: #90EE90; padding: 5px; margin-bottom: 5px;">Allows dignified exit from workforce</div> <div style="background-color: #000080; color: white; padding: 5px; margin-bottom: 5px;">Increases morale & productivity</div> <div style="background-color: #90EE90; padding: 5px; margin-bottom: 5px;">Reduces costs incurred from retention</div> <div style="background-color: #000080; color: white; padding: 5px; margin-bottom: 5px;">Keeps lines of promotion open</div>	<div style="background-color: #000080; color: white; padding: 5px; margin-bottom: 5px;">Retain employee at same position & salary</div> <div style="background-color: #90EE90; padding: 5px; margin-bottom: 5px;">Demote Employee</div> <div style="background-color: #000080; color: white; padding: 5px; margin-bottom: 5px;">Fire Employee</div>

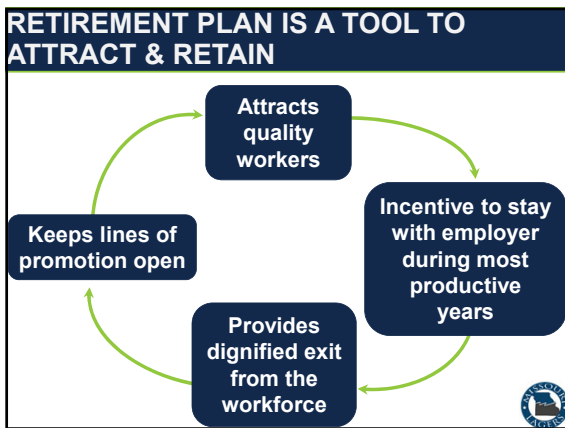




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PENSIONS: AN INVESTMENT IN MISSOURI

- Great workers = great services for the taxpayers of Missouri
- Missouri is a more attractive place to live when we have great public services, parks, infrastructure, schools, public safety, etc.
- Steady monthly pension benefits are spent back in the local communities, providing a great economic reinvestment in Missouri

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A SUCCESSFUL RETIREMENT PLAN


Stable Contributions

Committed Funding

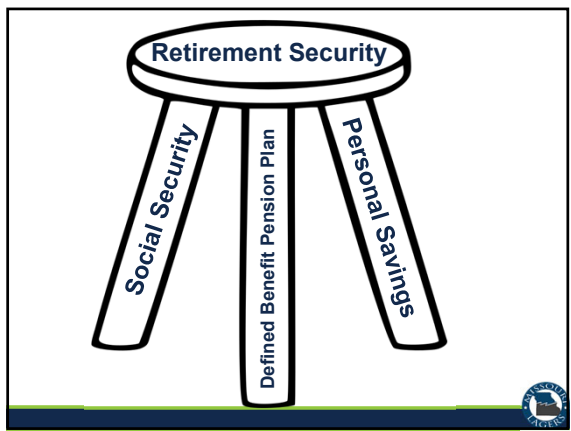
Universal Coverage

Replace Adequate Income

Efficient & Transparent Governance



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KEY RETIREMENT PLAN RISKS

Investment – Risk that investment returns will be less than expected

Inflation – Risk that inflation will erode purchasing power of one's retirement

Mortality – Risk of outliving one's retirement assets




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DEFINED BENEFIT PLANS

Preferred Plan for Government Workers

- 75% of State & Local Government Workers Participate
- 88% of These Workers are Required to Contribute



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WHAT IS A PENSION?

Defined Benefit Retirement Plan

- Provides monthly income during retirement
- Typically includes pre-retirement death and disability benefits
- Amount determined by a formula
 - Normally includes length of employee's service and salary



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BENEFIT FORMULA EXAMPLES

Multiplier 1%-2.5%	X	Average Salary	X	Years of Service
0.016	x	\$3,500	x	30 = \$1,680 per month

Flat \$ Amount	X	Years of Service
\$50	x	15 years = \$750 per month



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POPULARITY OF DB PLANS

1. Employer can set income replacement objectives
2. Employers can more efficiently integrate with Social Security
3. Benefits are related to employee pay, protecting them from pre-retirement inflation
4. Investment risk and reward assumed by the employer (access to better investment vehicles, increasing returns)



Source: Allen, Everett T. Retirement Plans- 401(k)s, IRAs, and Other Deferred Compensation Approaches. N.p.: n.p., n.d. Print.



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PUBLIC PENSIONS IN MISSOURI

- 77 Defined Benefit Public Pension Plans
- \$74.7 Billion in Assets
- 627,042 Missourians Participate



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PUBLIC PENSIONS IN MISSOURI



Missouri Joint Committee on Public Employee Retirement

- Centralized Reporting & Oversight Body
 - 6 Senators
 - 6 Representatives



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TERMS TO KNOW

Actuarial Accrued Liability - present value of promised pension benefits, or pension obligations.

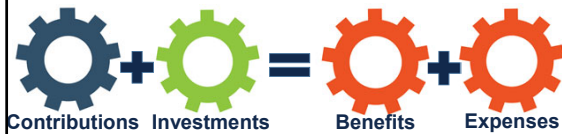
Unfunded Actuarial Accrued Liability – amount of liabilities (or promised benefits) that are greater than assets

Actuarial Assumptions - Estimates used to forecast uncertain future events affecting future benefits or costs associated with a pension fund.



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PENSION FUNDING FORMULA



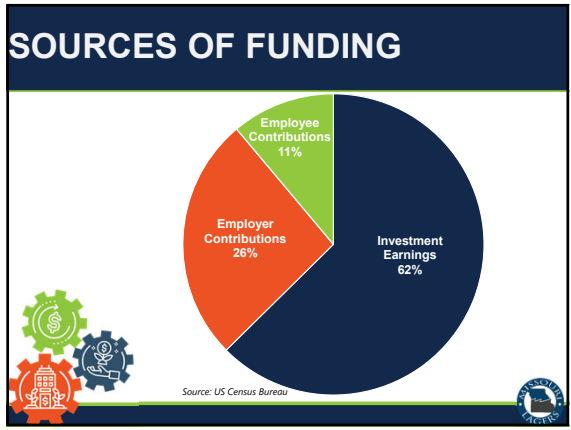
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FACTORS AFFECTING COSTS

- Actuarial Assumptions And Methods
- Differences In Benefit Levels
- Size Of Unfunded Liabilities
- Level Of Commitment To Pay Required Contributions
- Administrative & Investment Expenses



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CONTRIBUTIONS FROM EMPLOYEES

- Set by Plan Document, Ordinance, Statute
- Specific \$ Amount or % of Salary
- Normally Earn Interest
- Generally No Market Risk for Employees

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CONTRIBUTIONS FROM EMPLOYEES: NO PLANS

- 56 Plans are Employee Contributory
- 65 Plans are Employee Non-Contributory
- 5 Plans are Optional
- Range 1% - 18.08% of Pay



Source: Joint Committee on Public Employee Retirement 2019 Annual Report, www.jcper.org

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CONTRIBUTIONS FROM EMPLOYEES

Average Employee Contributions



- U.S. Plans: 6.86%
- Midwest Plans: 6.24%
- Missouri Plans: 3.87%

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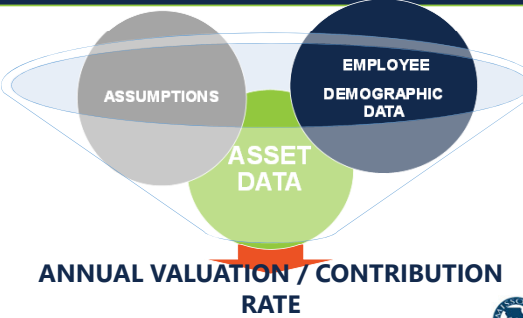
Contributions from Employers


- **Determined by an Actuary**
- **Based on assumptions Related to:**
 - Employee Demographics
 - Economics

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DETERMINING THE EMPLOYER'S CONTRIBUTION





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ACTUARIAL ASSUMPTIONS

DEMOGRAPHIC	<ul style="list-style-type: none"> Employees leaving employment Disabilities of Employees Retirements of Employees Salary Increases for Employees Mortality of Active Members & Retirees
ECONOMIC	<ul style="list-style-type: none"> Rate of Investment Return Price Inflation Wage Inflation Payroll Growth

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ACTUARIAL ASSUMPTIONS

• Changes in the annual required contribution occur when the assumptions and experience don't match.

• You Pay for Experience, Not the Assumptions

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INVESTMENT EARNINGS

Determined by:

- Asset Allocation
- Market Performance
- Talent of Money Managers/Consultant

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INVESTMENT EARNINGS

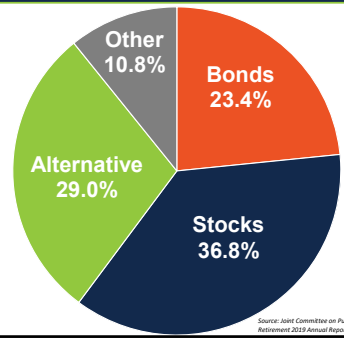
Chapter 105 MO Revised Statutes:

- Requires Trustees to Use “Prudent Person Rule” when investing participants’ assets



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MO PLANS' ASSET ALLOCATION

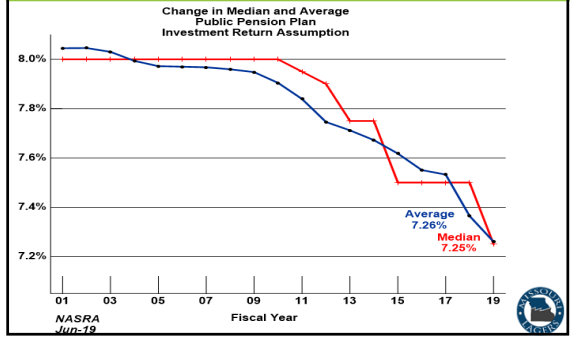


Source: Joint Committee on Public Employee Retirement 2019 Annual Report, www.jcper.org



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INVESTMENT EARNINGS ASSUMPTION: U.S. PLANS





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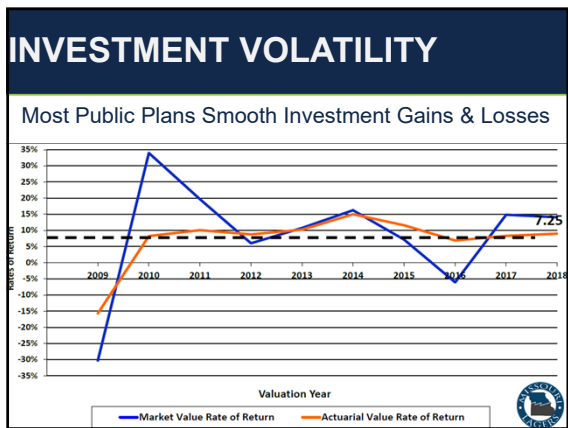
INVESTMENT EARNINGS ASSUMPTION: MO PLANS

Range between 4.75% - 7.75%

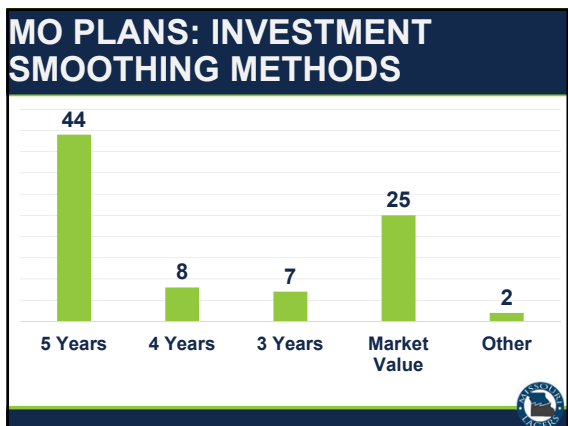
- Median = 7.00%
- Average = 6.96%

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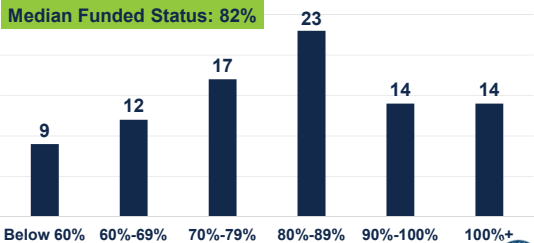


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MO PLANS PENSION FUNDING

Funded Status = Assets / Liabilities

Median Funded Status: 82%



Source: Joint Committee on Public Employee Retirement 2019 Annual Report, www.jcper.org



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PENSION FUNDING

Common Characteristics of Well-Funded Plans

An amortization policy & practice that reduces unfunded liabilities in a timely manner while minimizing volatility.



Source: National Association of State Retirement Administrators



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PENSION FUNDING

Common Characteristics of Well-Funded Plans

- Regular receipt of actuarially determined contributions.
- Actuarial assumptions that align with experience.



Source: National Association of State Retirement Administrators



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PENSION FUNDING

Common Characteristics of Well-Funded Plans

- Flexibility in plan design and/or financing.



Source: National Association of State Retirement Administrators



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THANK YOU!



MISSOURI LAGERS
A Secure Retirement for All

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