



Pension Plan Transition

City Council Work Session

March 1, 2010

General Assumptions

- **All of us (Mayor, City Council, and Staff) are working towards the same objective - the protection and betterment of the Sedalia community**
- **City employees are the greatest resource to delivering the services desired by our residents**

General Assumptions

- **The Mayor and City Council are the final decision makers regarding employee benefits, including pension plans**
- **There is a finite amount of resources to address the needs of the community**

General Assumptions

- **Decisions made must comply with statutory and Constitutional requirements**
- **In order for the Mayor and City Council to make sound decisions, everyone must have the same information and a complete understanding of the issues**

General Assumptions

- While there may be disagreement on priorities and the interpretation of statistics, there should be general agreement on the statistics
- Benefit calculations are complex and dependent upon multiple factors. Therefore, not every benefit calculation for employees may be the same

General Assumptions

- **There are no magical, quick fix solutions. Problems created over several years will have to be addressed over several years**
- **The purpose of this presentation is to provide background information. Action to formally make the transition will be considered later in March**

Overview of the Pension Plan

Policemen Retirement Fund

Effective Date : April 1, 1970

Plan Year : August 1 - July 31

Plan Eligibility : Active service in Sedalia Police Department (sworn personnel)

Administered by : Policemen Retirement Fund Board of Trustees

Mayor, City Clerk, City Attorney, Police Chief, retired member of the police department (Ed Vaughan), two members of the department elected by members of the department (Chet Mackewicz, David Woolery), three residents – one attorney (Myron McNeal) one CPA (Dan Pilliard) and one citizen at large (vacant)

Annual actuarial study performed by : JP Morgan

Plan investment manager : Retirement Plan Advisors

Overview of the Pension Plan

Employees Covered by Pension

	Police Retirement
Current	42*
Former (Vested)	7
Retired	34
Total	83

Information taken from Actuarial Study dated 12/31/2009

Transition Plan

➤ **Current employees will be enrolled in LAGERS as of April 1, 2010**

- **Previously accrued benefit under Police Pension fund will be paid from Police Pension fund at retirement**
- **Benefit accrued after April 1, 2010 will be paid from LAGERS at retirement**
- **Existing retirees will continue to receive benefit under Police Pension fund**

➤ **Police Pension Fund to be Retired**

- **When all benefits accrued under the Police Pension fund have been paid out, the Police Pension fund can be retired**
- **Not likely to occur for 50+ years**

Transition Assumptions

- **The transition to LAGERS can not create any impairment issues**
 - An impairment exists if a benefit already due to an employee is taken away by the transition
 - The City has the right to modify future benefits of any pension plan
- **All benefits accrued under the Police Pension plan will be paid out from the Police Pension fund upon employee retirement**

Transition Assumptions

- For vesting purposes only, all officers with service credited under the Police Pension plan will receive equal credit for service in LAGERS
- Any officer with more than 5 years of service under the Police Pension plan will be fully vested in LAGERS as of the transition date

Benefits of the Pension Plans

Plan Comparisons *Pension Plan Vesting*

	Police Retirement	LAGERS
Vesting Schedule	0 - 4 YOS = 0 % 5 YOS = 30 % 6 - 14 YOS = +5 % per Year 15 + YOS = 100 %	0 - 4 YOS = 0 % 5 + YOS = 100 %

YOS = Years of Service

Transition Assumptions

- All officers with service credited under the Police Pension system will receive 100% credit for those years of service
- LAGERS benefit will be credited solely on years of service in LAGERS plan

Transition Options

- **Hard Freeze of Existing Pension System**
 - Years of Service frozen as of transition date
 - Salary frozen as of transition date
 - Years of Service and Salary accrue for benefits under LAGERS

- **Soft Freeze of Existing Pension System**
 - Years of Service frozen as of transition date
 - Salary continues to adjust until retirement date
 - Years of Service and Salary accrue for benefits under LAGERS

Overview of the Pension Plan

Financial Figures for Police Pension Fund

	Police Retirement <i>Actuarial as of 01/2008</i>	Police Retirement <i>Hard Freeze as of 3/31/2010</i>	Police Retirement <i>Soft Freeze as of 3/31/2010</i>
Accrued Liabilities	\$ 6,742,592	\$ 7,472,968	\$ 8,209,737
Actuarial Value of Assets	\$ 4,521,203	\$ 3,298,346	\$ 3,298,346
Unfunded Actuarial Accrued Liability	\$ 2,221,389	\$ 4,174,622	\$ 4,911,391
Funded Percentage	67.1 %	44.1 %	40.2 %

Overview of the Pension Plan

L.A.G.E.R.S.

Effective Date : August 1, 1972

Plan Year : April 1 - March 31

Plan Eligibility : Full time employees of the City

Administered by : LAGERS Board of Trustees

Three trustees are participating members elected by member delegates to annual meeting, three represent member political subdivisions elected by employer delegates to annual meeting and one trustee is appointed by the Governor to serve in citizen capacity

Annual actuarial study performed by : Gabriel Roeder Smith & Company

Benefits of the Pension Plans

Plan Comparisons

Retirement Benefit

	Police Retirement	LAGERS
Basis for Compensation	2 % of Monthly Compensation	2 % of Final Average Salary
Multiplier	Years of Service	Years of Service
Post Retirement Benefit Adjustment	Provides for 2 % Adjustment <i>If actuarially sound</i>	Based on Consumer Price Index - 4 % maximum
Comments	Maximum of 30 years of service credit	Includes overtime compensation, uniform allowance, etc.

Benefits of the Pension Plans

Plan Comparisons

Early Retirement Formulas

	Police Retirement	LAGERS
Formula Prior to Date	$0.02 \times \text{Monthly Comp} \times \text{YOS}$	Benefit is reduced by $\frac{1}{2}$ % per month
Formula After Date	$0.02 \times \text{Monthly Comp} \times \text{YOS} \times \text{VP}$	Benefit is reduced by $\frac{1}{2}$ % per month
Comments	Paid upon reaching 52 Years Old	Must have 5 years of service and be 55 Years Old

VP = Vesting Percentage YOS = Years of Service

Benefits of the Pension Plans

Plan Comparisons

Survivor Benefit

	Police Retirement	LAGERS
Survivor Option A	50 % to Spouse 25 % to minor Child <i>No reduction to employee</i>	75 % to Spouse 0 % to minor Child <i>Retired Employee is Paid 85 % of Benefit</i>
Survivor Option B	N / A	50 % to Spouse 0 % to minor Child <i>Retired Employee is Paid 90 % of Benefit</i>
Survivor Option C	N / A	No Spouse <i>Retired Employee is Paid 90 % of Benefit</i>

Benefits of the Pension Plans

Plan Comparisons

Pre-Retirement Disability Benefit

	Police Retirement	LAGERS
Duty-related Disability	Employee Contribution - or - Calculation Outlined in Ordinance	Final Average Salary x Years of Service at Age 60
Non-Duty-related Disability	Same as Duty-related	Final Average Salary x Years of Service

Benefits of the Pension Plans

Plan Comparisons

Pre-Retirement Death Benefit

	Police Retirement	LAGERS
Benefit	Benefit equals 3 times salary for the plan year in which the death occurred	Duty-related : Spouse entitled to benefit, calculated to include YOS at age 60 Non-Duty-related : Formula-based allowance

Funding of the Pension Plans

Plan Comparisons

Social Security and Medicare

	Police Retirement	LAGERS
Social Security	Participate <i>City and Employee each contribute 6.2 % of Salary</i>	Participate <i>City and Employee each contribute 6.2 % of Salary</i>
Medicare	Participate <i>City and Employee each contribute 1.45 % of Salary</i>	Participate <i>City and Employee each contribute 1.45 % of Salary</i>

Funding of the Pension Plans

Plan Comparisons *Contributions*

	Police Retirement	LAGERS (Police)	LAGERS (General)
Employee	\$ 15 per Month	<i>City Pays on behalf of the Employee</i>	<i>City Pays on behalf of the Employee</i>
Employer	11.70 % of Payroll <i>Ad Valorem Tax</i>	14.2 % of Salary <i>Adjusted annually by formula</i>	11.2 % of Salary <i>Adjusted annually by formula</i>

Next Steps in Transition

- What questions, if any, are unanswered as we move forward with the transition ?
- Budget draft figures include the cost of LAGERS contributions for Police employees
- Ordinances modifying the existing Pension Plan to be brought forward March 15

