

**MINUTES
BOARD OF ALDERMEN
COMMITTEE OF THE WHOLE
AUGUST 7, 2023
DES PERES GOVERNMENT CENTER**

The Board of Aldermen of the City of Des Peres, Missouri convened as a Committee of the Whole for purposes of holding a work session relating to the Des Peres Employee Pension Plan held at the Des Peres Government Center, 12325 Manchester Road 63131, commencing at 6:00 P.M. on Monday, August 7, 2023.

ROLL CALL

Mayor Becker took roll with the following elected officials physically present: Alderman Barrett, Concagh, Fitzpatrick, Kleinschmidt, Osherow, and Pound.

Mayor Becker stated that this was a joint work session for both the Board of Aldermen and members of the Audit & Finance Committee being held for educational purposes to examine the employee pension plan currently provided using a Defined Contribution Structure and whether or not the basic plan design should be converted back to a Defined Benefit Structure.

He asked that the record reflect that Rich Carver, Brent Dolezalek and Conor Ward from the Audit & Finance Committee were present and acknowledges that members Randy Atkisson, Lori Hartman and Katrina Pon were unable to attend due to scheduling conflicts. He thanked all of the members of the committee for their service to the community.

Mayor Becker asked that the record reflect that the following staff members were present: City Administrator, Director of Finance, Human Resource Coordinator, Director of Public Safety, and Director of Public Works.

He acknowledge the presence of a large group of employees present to observe and advised that if time permitted they would be provided an opportunity for questions and discussion but reminded all that tonight was the beginning of the review and discussion process.

PRESENTATION BY CITY ADMINISTRATOR

The City Administrator advised that tonight's work session with the Mayor and Board of Aldermen is the culmination of a series of similar educational sessions previously held with various employee groups regarding the basic differences between the city's current *Defined Contribution Pension Plan* which is more the norm in private sector plans and a *Defined Benefit Pension Plan* which is more traditionally found in the public sector.

He advised that the current DC Plan was created in 2000 following an employee driven initiative, primarily from members of the Department of Public Safety, to change from a DB Plan to a DC Plan. In October 2022, employees submitted a petition that the city revisit its pension plan including reversion back to a DB Plan. This is actually the 3rd time in 20 years that employees expressed dissatisfaction with the performance of the DC Plan and requested consideration to return to a defined benefit plan model.

In response to that request, the city retained Retirement Plan Advisors to development materials and conduct educational sessions on the differences between *Defined Benefit* and *Defined Contribution Pension Plans* from both the employee and employer's perspective so that employees and members of the Board of Aldermen could be better informed in making the decision on this issue.

The city also commissioned an Actuarial Valuation of costs of proving a DB pension through the Missouri Local Government Employee Retirement System (LAGERS) which was created by the General Assembly in 1968 for the express purpose of allowing local governments in Missouri. By end of its first year, 70 cities had joined LAGERS providing pension coverage for over 4,600 employees and \$2.1 million on plan assets. Today, over 830 governmental entities use LAGERS to provide pensions to over 35,000 active employees and 28,000 retirees and total plan assets over \$10 billion. Employers have 7 basic plans and with options offer over 100 plan designs. Actuarial valuations were receive on May 9th and tool some time to evaluate and synthesize into a less intimidating summary,

The City Administrator recommended, if the decision is made to convert to a DB Plan, that the city do so using LAGERS not a self-administered defined benefit plan due to the complexity and costs for administration and compliance if we administering such a plan. Many of the remaining legacy defined benefit plans in our region administered by cities are being converted to LAGERS plans due to the complexities and liabilities associated with managing those plans.

A change to LAGERS will require the Board to make a number of decisions each of which impacts plan benefits and costs including:

- Effective Date at least 45 days after receipt of the actuarial valuation
- Membership Eligibility for Participation: 1,500; 1,250 or 1,000 minimum hours worked per year (2,080 is a "full time" 40 hour per week employee
- Employee Group to be Covered: You may cover all employees; just General Employees but not Police & Fire. Cities cannot cover only Police & Fire
- Benefit Program from among benefit levels of 1.0%; 1.25%, 1.50%, 1.75% or 2.0% of final average salary x years of service
- Definition of Final Average Salary Period: either 3 years or 5 years
- Retirement Eligibility based on age (55 Police/Fire; 60 General;) or using Rule of 80
- Employee Contribution as a % of Salary: 0.0%, 2.0%, 4.0% or 6.0%
- Amount of Prior Service for time worked for calculating vesting and benefits at 100%, 75%, 50%, 25% or 0.0%.

The City Administrated provided two other relevant points: (1) a decision to go into LAGERS is not reversible - the city can increase or decrease benefit levels only proactively not retroactively; and (2) LAGERS is always fully-funded because they have the legal right to attach taxes due to the city from the state to pay LAGERS if a member fails to make their monthly payments.

PRESENTATION BY RETIREMENT PLAN ADVISORS

Andy Trachsel, CFA & CPS from Retirement Plan Advisors made a presentation entitled "*Understanding the Differences in the Des Peres Defined Contribution and LAGERS (Defined Benefit) Plans*". A copy of the power point presentation is attached.

The consultant summarized the major differences:

- In a defined contribution plan, the employer's cost is defined in the plan usually as a percent of salary. Once vested, those contributions are owned by the employee not the employer. The benefit to the employee is estimated and dependent on investment performance with the employee deciding on investment strategies. The dollar value as a monthly benefit is determined by the employee. It is possible for an employee to outlive their retirement benefit but any unused funds in their retirement account are forwarded to the employee's designated beneficiary. Pension risk is largely the employee's. However, employee risk can also positively impact their pension benefits when the market outperforms the assumed 8.0% rate of return in the plan.
- In a defined benefit plan, the employer guarantees a certain life benefit usually based on a formula including salary, years of service and some multiplier. Pension risk is largely on the employer in terms of higher contributions if investments underperform or employees live past mortality estimates. Risk, also, goes the other way to the benefit of the employer in terms of lower future costs if investment returns exceed expectations or if employees' life is less than mortality expectations. Employee pension benefits, other than a spouse's option, are not transferable to a beneficiary and remain the property of the employer.

PRESENTATION OF LAGERS STUDY

The Director of Finance provided a summary of the anticipated costs for a LAGERS defined benefit program looking only at those LAGERS options that either (1) most closely met the city's current pension costs; (2) the two nearest the market amount in St Louis suburban cities; and (3) the 2.0% top LAGERS options. In all cases, we assumed a 5 year average salary and a 4.0% employee contribution which is similar to our DC plan in which the city contributes 9.0% of salary and the employee 4.0%. A written report is attached and was distributed prior to the meeting to the Mayor, Board of Aldermen and Audit & Finance Committee.

The LAGERS Actuarial Valuation predicts costs as a percentage of payroll based on benefit levels selected with the 1.0% plan design same as prior DB Plan; 1.5% plan nearest to our current costs; 1.75% plan the latest trend in area municipalities; and 2.0% to plan design:

NO PRIOR SERVICE With 4.0% Employee Contribution	CURRENT PLAN		LAGERS DB PLAN		LAGERS DB PLAN		LAGERS DB PLAN		LAGERS DB PLAN		
	DEFINED CONTRIBUTION		L-1 1.00% Plan		L-7 1.50% Plan		L-12 1.75% Plan		L-6 2.0% Plan		
Payroll	Annual Cost		Annual Cost		Annual Cost		Annual Cost		Annual Cost		
Public Safety	4,446,816	9.00%	400,213	6.20%	275,703	10.70%	475,809	12.90%	573,639	15.10%	671,469
General Employees	3,948,627	9.00%	355,368	4.20%	165,838	7.70%	304,036	9.50%	375,010	11.40%	450,132
Total Payroll	8,395,443	9.00%	755,581	5.26%	441,541	9.29%	779,845	11.30%	948,649	13.36%	1,121,601
			IMPACT ON ANNUAL COST		(314,040)		24,264		193,068		366,020
Unfunded Liability on Creation of New LAGERS PLAN					1,554,041		2,330,989		2,719,632		3,108,011

All Plan Designs assume an Employee Contribution of 4.0%; A Final Average Salary at 5 Years and No Prior Service for Benefits Unfunded Liability to be amortized over 30 years with costs included in the % of salary calculations Percent of Salary Contribution to Change Annually Based on Actuarial Analysis July 1st of each year

The Director noted that the 4.0% employee contribution under the DC Plan is before taxes but employee contribution in the DB plan is after taxes making that cost slightly higher to the employee. If the city were to go to the 1.0% plan design with no employee contribution, our costs would be roughly the same as current DC Costs.

LAGERS allows a city to grant prior service for vesting purposes which is what caused the unfunded liability at time of plan adoption.

LAGERS also allows a city to grant prior service for calculation of benefit purposes at a rate of 100%, 75%, 50% or 25% of years of service from the termination date of our old DB Plan in 2000 until creation of the new plan in 2024. That decision has a significant impact on plan costs:

100% PRIOR SERVICE	CURRENT PLAN		LAGERS DB PLAN		LAGERS DB PLAN		LAGERS DB PLAN		LAGERS DB PLAN		
With 4.0% Employee Contribution	DEFINED CONTRIBUTION		L-1	1.00% Plan	L-7	1.50% Plan	L-12	1.75% Plan	L-6	2.0% Plan	
	Payroll	Annual Cost		Annual Cost		Annual Cost		Annual Cost		Annual Cost	
Public Safety	4,446,816	9.00%	400,213	12.80%	569,192	20.70%	920,491	12.90%	1,093,917	28.40%	1,262,896
General Employees	3,948,627	9.00%	355,368	9.70%	383,007	15.90%	627,816	9.50%	754,169	22.40%	884,470
Total Payroll	8,395,443	9.00%	755,581	11.34%	952,199	18.44%	1,548,307	22.01%	1,848,086	25.58%	2,147,366
	IMPACT ON ANNUAL COST				196,618		792,726		1,092,505		1,391,785
Unfunded Liability on Creation of New LAGERS PLAN					10,397,362		12,996,751		18,195,436		20,794,641

All Plan Designs assume an Employee Contribution of 4.0%; A Final Average Salary at 5 Years and 100% Prior Service for Benefits Unfunded Liability to be amortized over 30 years with costs included in the % of salary calculations Percent of Salary Contribution to Change Annually Based on Actuarial Analysis July 1st of each year

This represents our maximum cost option. If the city chooses a prior service award of 25%, 50% or 75%, an updated actuarial valuation would be required at last 45 days prior to the effective date. However, the City Administrator stated that for evaluation at this conceptual stage, we can estimate the costs of lesser levels of prior service credits using these two studies.

When it comes to prior service, the city has multiple options which could include granting 0% prior service but allowing employees to use their DC funds to buy back some years of services; granting some percentage of prior service with employees forfeiting accumulated DC balances to the city as a funding source; or granting prior service at city expenses and/or increasing employee contributions from 4.0% to 6.0% for granting prior service to all employees.

Retirement Plan Advisors stated that their experience in other cities, employees typically choose not to use their DC balances to purchase prior service credits.

ANALYSIS OF BENEFIT VALUE UNDER DC AND DB PLANS

Retirement Plan Advisors presented a number of illustrations of the comparative value of a LAGERS Benefit to a DC benefits based on our two largest pay groupings: Public Safety Officer in the Commissioned Pay Plan and Pay Range 6 (Maintenance Workers) in the Non-Commissioned Pay Plan

DISCUSSION

Following a period of questions and discussion, the Mayor thanked all for attending and stated that the board has much information to evaluate before making any decisions. Tonight is a start not an end to the evaluation process.

The City Administrator asked that the board of aldermen provide direction to staff on how to proceed in moving forward with a decision. What additional information is needed by the board? Information needed by employees? How does the board want to engage employees in this discussion? Do we want to narrow down the options that might be considered before engaging employees? How will "this" be decided? How would a pension changed be financed?

The City Administrator advised that it is his intention to now take the information on costs based on the LAGERS studies to employee groups probably at our Columbus Day Training Day. Provide an opportunity for a LAGERS representative to make a presentation directly to various employee groups and answer questions regarding the nuances of their plan design. I would provide information on the associated costs to again make certain that employees are as fully informed in order to make an informed judgement on the pros and cons of both plan designs and the costs associated with converting to a DB plan. Currently, compensation including salary and benefits represents nearly 80% of our operating budgets and any dramatic increase in pension costs would be difficult to absorb without other adjustments in the overall compensation package.

ADJOURNMENT

Alderman Concagh made a motion, seconded by Aldermen Fitzpatrick to adjourn the work session meeting at 7:42 P.M.

Minutes Prepared by:



Douglas J. Harms
City Administrator