

**MINUTES OF WORK SESSION
CITY COUNCIL OF THE CITY OF LADUE
ST. LOUIS COUNTY, MISSOURI
WEDNESDAY, JANUARY 23, 2019**

The work session of the City Council of the City of Ladue, St. Louis County, Missouri, was held on Tuesday, January 23, 2019, at 7:30 a. m., at the City Hall, 9345 Clayton Road. The following members were present:

The Hon. Nancy Spewak, Mayor, presiding.

Members of the Council present:

Stacey Kamps
John Howell
Patrick Hensley
Harold Burroughs
William Brennan
John Fox

Six Council Members present.

Also present were Ms. Laura Rider, Assistant to the Mayor/City Clerk; Mr. Sam Zes, Finance Director; Fire Chief Steven Lynn, Police Chief Ken Andreski, Jr.; Ms. Anne Lamitola, Public Works Director.

Items for discussion: Introduction/Ladue Employee Pension Plans

Mayor Spewak offered introductory comments regarding the pension plans. The catalyst for Council undertaking the review of the LAGERS program at this time is that LAGERS has the ability to take over the administration of frozen pension plans, the City's desire to provide the best benefits to its employees in a fiscally responsible and sustainable manner and at the employees' request.

Approval and adoption of the agenda: Council Member Fox moved approval of the agenda with second by Council Member Kamps the motion passed unanimously.

Mayor Spewak introduced Mr. Jeff Kempker with Missouri Local Government Employees Retirement System (LAGERS). Mr. Kempker provided a background of LAGERS history and benefit structure. The LAGERS system was created by the Missouri General Assembly in 1967. It is a growing pension plan, adding an average of 15 new employers each year; with 35,000 active members and 24,000 retirees and about 740 employers in the system. LAGERS is unique in that it offers flexibility with about 100 different options. All employer members pay contribution rates based on the demographics of their individual group. LAGERS is an agent multiple employer plan, not a cost sharing plan. Each employers rates are based on the

benefit plan that they choose based on their own demographics. Contribution rates are calculated for each individual group for each employer. For example, Ladue would have three separate employee groups; fire, police and civilian/general employees.

LAGERS staff manages close to \$8 billion for its members. It is the third largest public pension plan in the state of Missouri as far as asset size.

Mr. Kempker highlighted the main differences between the city's pension plan and the LAGERS plan. The vesting period for the City's plan is 10 years while LAGERS is 5 years; retirement age for general employees under the City's plan is 62 years while the LAGERS plan is age 60, employee contributions with LAGERS is either 0% or 4%, the City's plan has 6% employee contribution for police and fire and 0% for the general employees, and LAGERS offers a COLA with no cap while the City's plan has a 20% cap for the fire and police and no COLA for the general employees.

Mr. Kempker noted LAGERS is looking at the possibility of adding more employee contribution options at 2% and 6%. He explained LAGERS plan document is state statute so any changes they want to make have to go through the legislative process.

The multipliers of both the City's plans and LAGERS are very similar. If the City were to move to LAGERS all employee service credit could be converted to LAGERS service. The first step would be to bring the current active employees into LAGERS. Then after a two to three month period, LAGERS would take over the administration of the benefits distributed to the retirees and deferred employees. Nothing changes for retirees except where their benefit comes from. Retirees would only receive one benefit, just from LAGERS.

LAGERS is portable, employees only vest once, so once an employee reaches vesting at 5 years if they move to another LAGERS employer they are already vested which is considered a positive as a recruitment tool.

Mr. Kempker introduced Mr. Brian Collette, Chief Investment Officer, for LAGERS. Mr. Collette reviewed the asset allocation process for LAGERS and the process for developing the assumption rate, which is reviewed every five years. LAGERS surveys the best to get their capital market assumptions. The LAGERS Board votes on standard deviation risk level. Based on this, LAGERS actuaries build the assumption rate with LAGERS staff. The current assumed rate is 7.25%. Mr. Collette feels LAGERS is different in this perspective, as other plans normally rely on their actuary to tell them the assumption rate.

Mayor Spewak interjected that currently, Marquette is making the asset allocation decisions based on the pension plans investment policy with the trustees monitoring the asset allocation. The City has volunteer citizens on the Board of Trustees as well as employee members.

Mr. Collette explained LAGERS sets targets for liquidity and illiquidity and manages the portfolio based on the policy. LAGERS has the ability to make private investments. LAGERS is 95% funded actuarially, over 100% funded market.

LAGERS has the ability to require contributions from their employer members. The employers don't have a choice to fund, they must fund their plan.

Because of their size LAGERS has the ability to negotiate fees. If managers don't beat the benchmark they don't get paid. If they beat the benchmark, LAGERS shares the earnings with the manager. All assets are held in LAGERS name so they are able to monitor trade costs.

LAGERS is governed by a seven-member board of trustees that serve without compensation. Six members of the board are elected by the membership and one member is appointed by the governor.

Analysis/Comparison of the City's Plans to LAGERS Plans

Mr. Bill Winningham with Milliman, the City's actuary, presented an analysis of the costs in the event the City moved the pension plans to LAGERS. LAGERS initial valuation study was used for the analysis. He looked at methodology and assumptions in order to make some comparisons. He looked at various scenarios with the LAGERS plans and compared those to the city's plan if the City were to adopt the same benefit levels as LAGERS. Exhibits distributed included costs for the L-6 and L-11 plans for the Uniformed employees. The L-6 plan is very similar to the current Ladue plan multiplier of 60%, LAGERS cost of living adjustment, which has no cap, is more generous than the City's plan which has a cap of 20%. LAGERS uses a three-year final average salary and Ladue uses a five-year average. The L-11 plan has a 75% multiplier.

Normally, LAGERS amortizes unfunded liability over 30 years. However, for the sake of comparison, LAGERS contribution rates were adjusted to show 100% funded by 2025; the date that the uniformed plan is projected to be fully funded under the Ladue plan.

Mr. Winningham next presented exhibits for the Non-Uniformed employees; L-7 with a 45% multiplier and L-12 with a 52.5% multiplier. The benefit under the current Ladue plan has a 37.5% multiplier. There is no cost of living adjustment in the current Non-Uniformed plan. Retirement age under the Ladue plan is 62 years.

Mr. Winningham presented two additional exhibits showing costs to improve the current Ladue plan for the Non-Uniformed employees with increased multiplier and cost of living adjustment added. Exhibit COLA 1 included upgrading the current multiplier of 37.5% to 45% and cost of living adjustment with 20% cap. Exhibit COLA 2 included upgrading the current multiplier from 37.5% to 52.5% and cost of living adjustment with 20% cap.

Mr. Winningham noted the non-uniformed employees participate in social security.

Next step - Council Member Fox requested projections of the fiscal impact for all the plans from Mr. Zes.

Mr. Winningham offered to bring a database of other entities trend for lowering the assumption rate to the next Pension Plan Board of Trustees meeting.

Adjournment: Council Member Fox moved adjournment, seconded by Council Member Brennan, which motion passed unanimously. The work session adjourned at 9:00 AM.

APPROVED THIS 19TH DAY OF FEBRUARY, 2019.



Nancy Spewak, Mayor

ATTEST:



Laura Rider, City Clerk