

FINANCE



2018 PENSION FINANCE SURVEY

MISSOURI LAGERS



A Secure Retirement For All

2018 PENSION FINANCE SURVEY

Executive Summary

LAGERS views its relationship with participating employers as a partnership to build and maintain strong communities across Missouri. We take this relationship seriously and want to make sure we are holding up our end of the bargain. LAGERS remains one of the most financially sound public pension plans in the U.S. and we don't see any reason why that would change. All of our 715+ employers are making their full contributions every month and your system is 95% pre-funded.

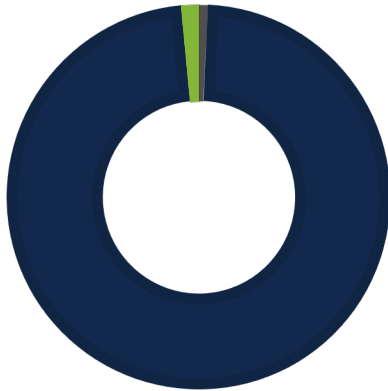
97% OF LOCAL GOVERNMENT FINANCIAL OFFICIALS SAY PARTICIPATING IN LAGERS IS A GOOD INVESTMENT FOR THEIR ORGANIZATION.

The purpose of this survey was to gain insight into the funding of LAGERS benefits from our member employers' point of view. The responses have helped us understand how our member employers view their LAGERS costs and how these costs affect their overall operation. The survey was sent to 694 individuals who are financial officers for their local government agencies and we received 136 responses (19.5% response rate).

KEY FINDINGS

- 97% say that LAGERS participation is a good investment for their organization
- Local government contributions to LAGERS account for 2.83% of the organizations' total annual budget, on average
- 99% say the cost of LAGERS benefits has never been the sole cause for the organization to reduce services to the public
- 98% say the cost of LAGERS benefits has never been the sole cause for the organization to lay off workers
- Over 8 in 10 believe their contributions to LAGERS are not a financial burden to their organization.

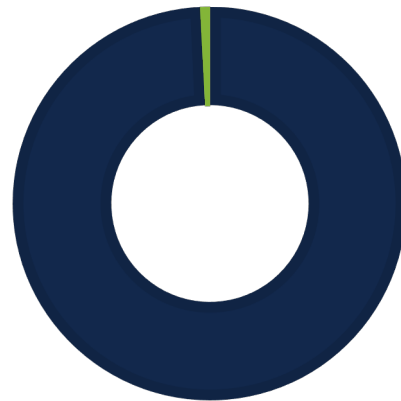
HAS THE COST OF LAGERS BENEFITS EVER BEEN THE SOLE REASON FOR LAYING OFF WORKERS?



■ Yes ■ No ■ Don't Know

- <1.0% YES (1)
- 97.7% NO (133)
- 1.4% DON'T KNOW (3)

HAS THE COST OF LAGERS BENEFITS EVER BEEN THE SOLE REASON FOR REDUCING PUBLIC SERVICES?

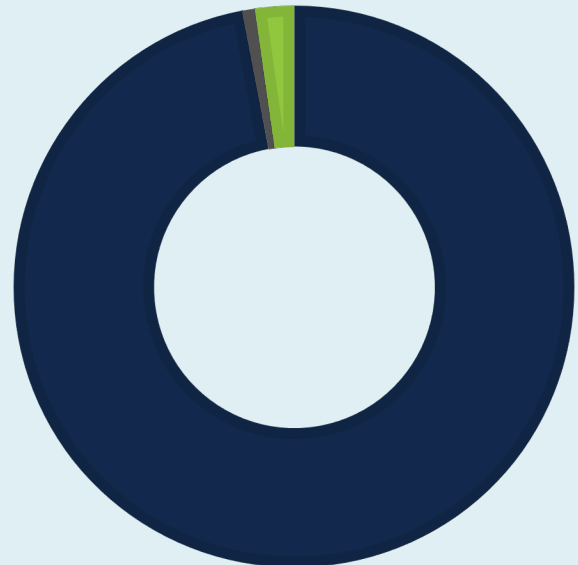


■ No ■ Don't Know

- 0.0% YES (0)
- 99.2% NO (135)
- <1.0% DON'T KNOW (1)

DO YOU BELIEVE LAGERS PARTICIPATION IS A GOOD INVESTMENT FOR YOUR ORGANIZATION?

97.0% YES (132)
 <1.0% NO (1)
 2.2% DON'T KNOW (3)



■ Yes ■ No ■ Don't Know

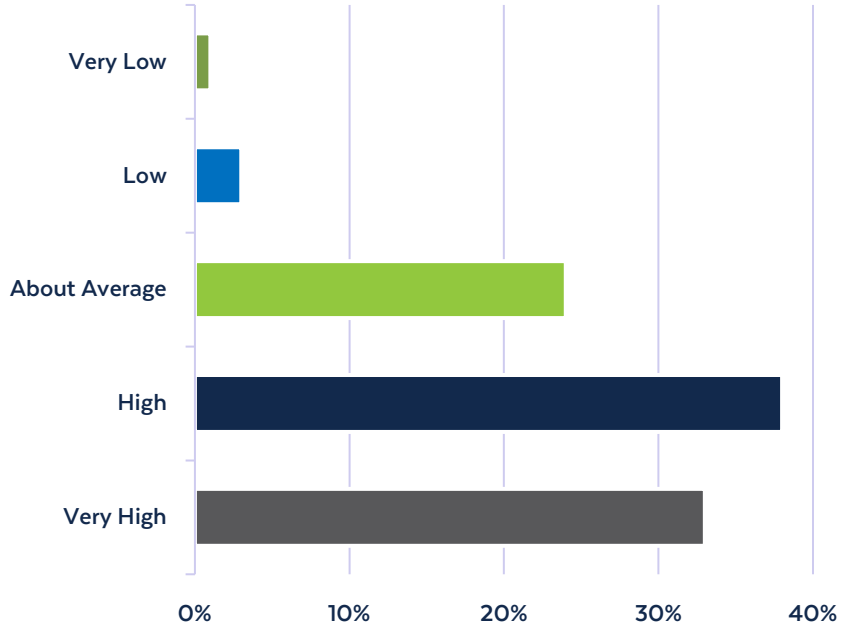
COMMENTS:

"ABSOLUTELY!"

"Yes. (1) An excellent benefit to provide for employees. (2.) This type of retirement system ensures our employees will have a stable monthly supplemental income when they retire. Most of our retirees continue to live in town and spend their income here."

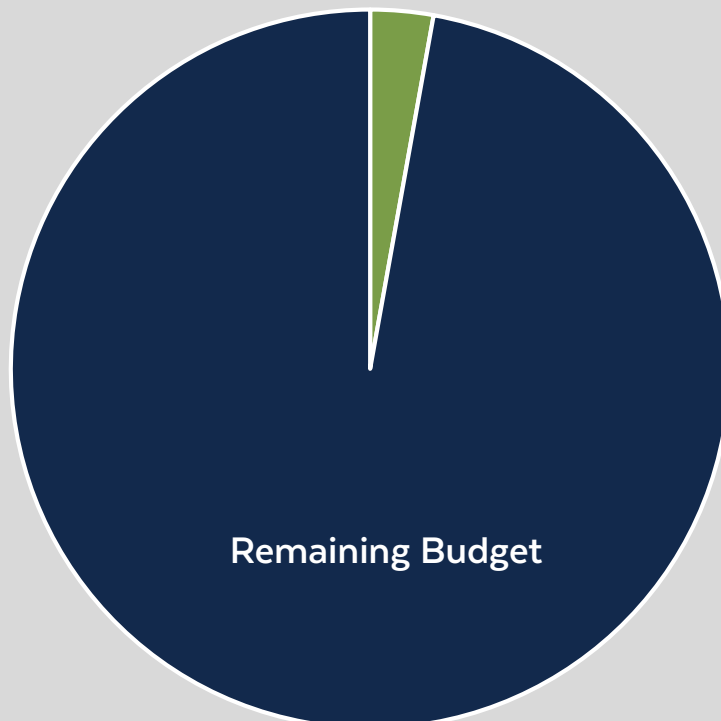
"LAGERS is an excellent benefit for employees. Looking at it from the employer's perspective, it is very costly."

HOW HIGH OF A PRIORITY IS EMPLOYEE COMPENSATION AND BENEFITS DURING YOUR ORGANIZATION'S BUDGETING PROCESS?



LOCAL GOVERNMENT CONTRIBUTIONS TO LAGERS ACCOUNT FOR 2.83% OF THE ORGANIZATIONS' TOTAL ANNUAL BUDGET, ON AVERAGE.

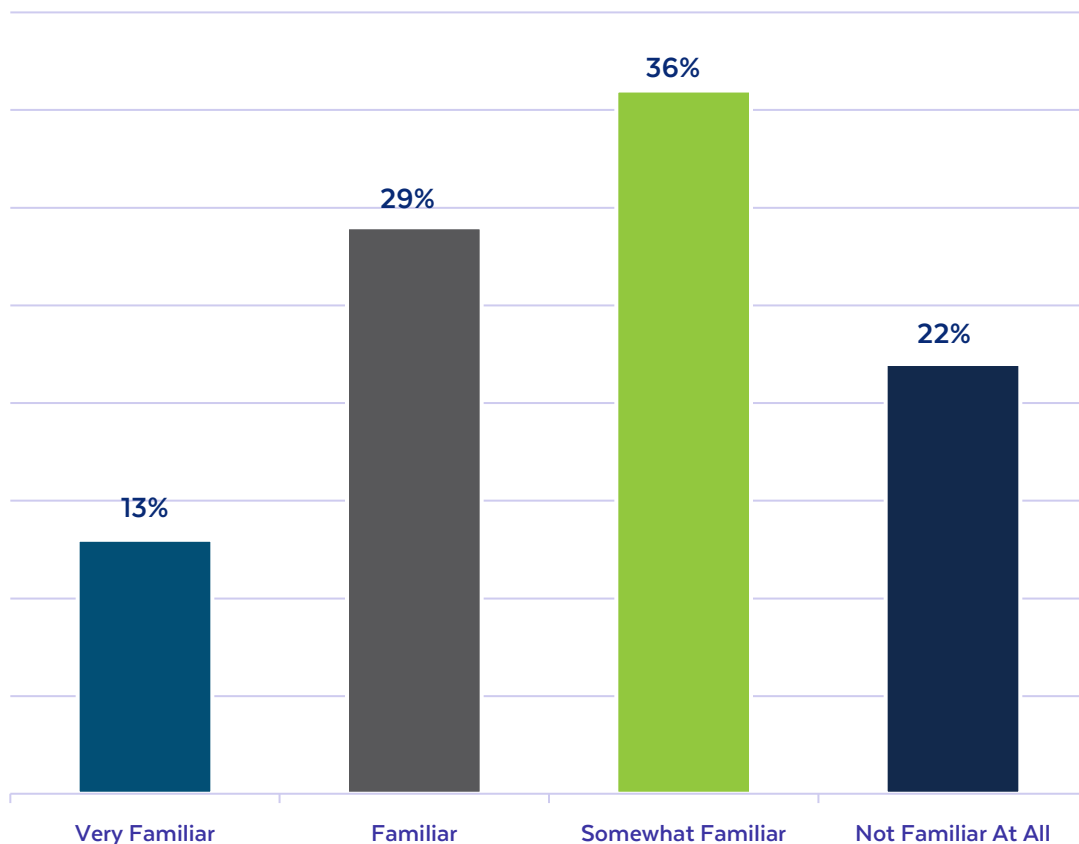
LAGERS Contributions



Highest Contribution as a % of Budget: 9.01%

Lowest Contribution as a % of Budget: 0.02%

HOW FAMILIAR ARE YOU WITH THE SAFEGUARDS UTILIZED BY LAGERS TO PROMOTE CONTRIBUTION RATE STABILITY?



One of the objectives of LAGERS' funding policy is to promote stability of contribution rates. There are a couple of ways we accomplish this.

Smoothing Investment Gains & Losses

LAGERS invests employer and employee contributions in a diversified portfolio in order to generate returns that ultimately fund about 65% of the benefits. When the markets are performing well, employer rates may be lowered because of the additional funding from investments. Likewise, employers may have to pay more for benefits when the funding from investments is below expectations. Markets are unpredictable; so any investment gains or losses from a single year are spread out over a future five year period. This removes some of the market volatility and promotes contribution stability.

1% Cap on Annual Contribution Rate Increases

The maximum annual increase in the contribution rate an employer will experience is 1% of payroll. This helps with budgeting and promotes long-term contribution rate stability. The only exception to the 1% cap on contribution rate increases is when an employer chooses to increase its contributions because of a benefit enhancement.

DO YOU BELIEVE YOUR CONTRIBUTIONS TO LAGERS ARE A FINANCIAL BURDEN TO YOUR ORGANIZATION?

COMMENTS

"It's a necessary burden that is highly prized by our organization."

"Having a quality retirement plan is a key component in retaining employees."

"It may not be an actual burden, but it is a HUGE investment."

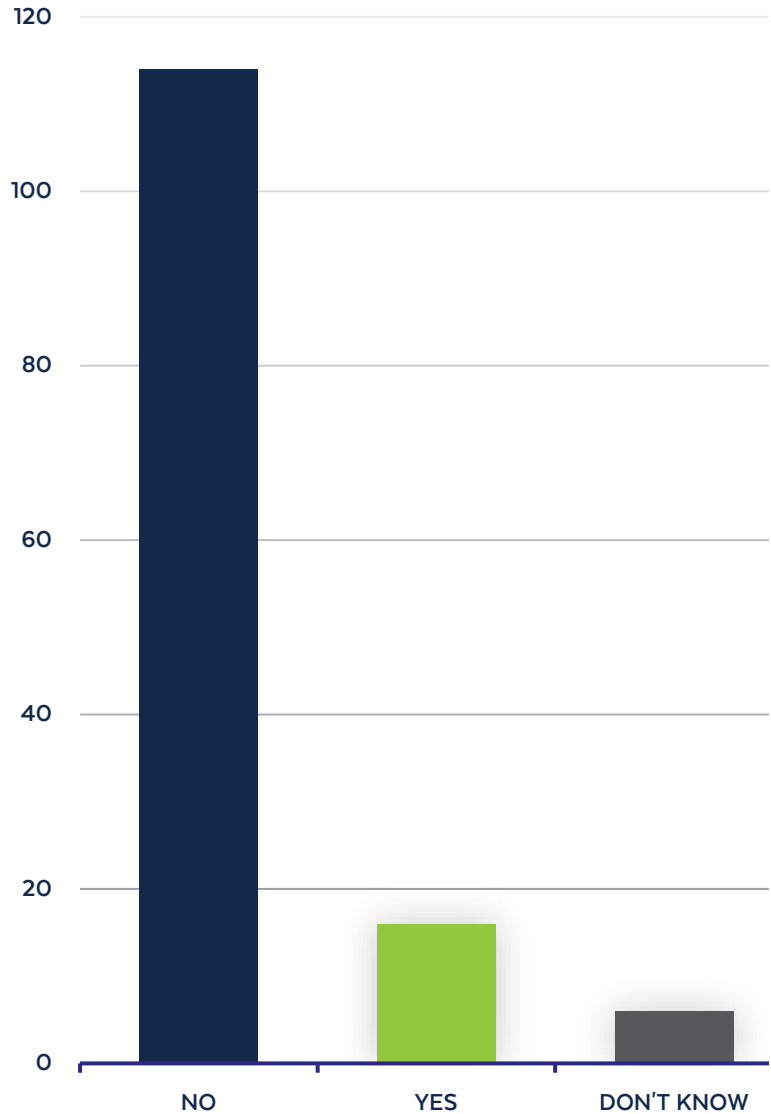
"We view it as a benefit to gain and keep talented employees."

"My board members do [think it's a burden]."

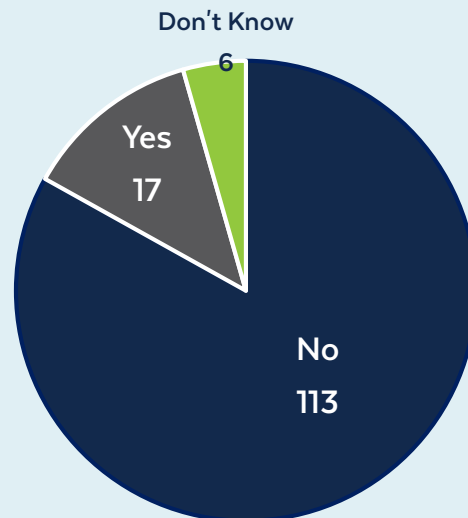
"Yes, but not more so than any other benefits or expenses."

"Any expense to a political subdivision is a burden."

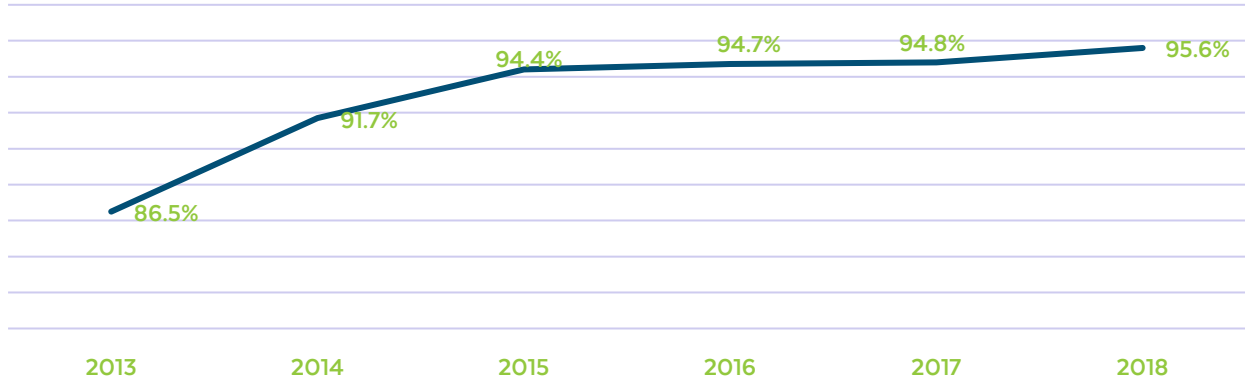
"The plan provides back to communities for the long run in the form of defined payments to retirees [that] will provide benefits back to the community and therefore the taxpayers not to mention the ability to help attract quality employees to provide the services the taxpayers expect."



DOES YOUR ORGANIZATION HAVE ANY DEDICATED TAXES THAT HELP FUND YOUR LAGERS CONTRIBUTIONS?



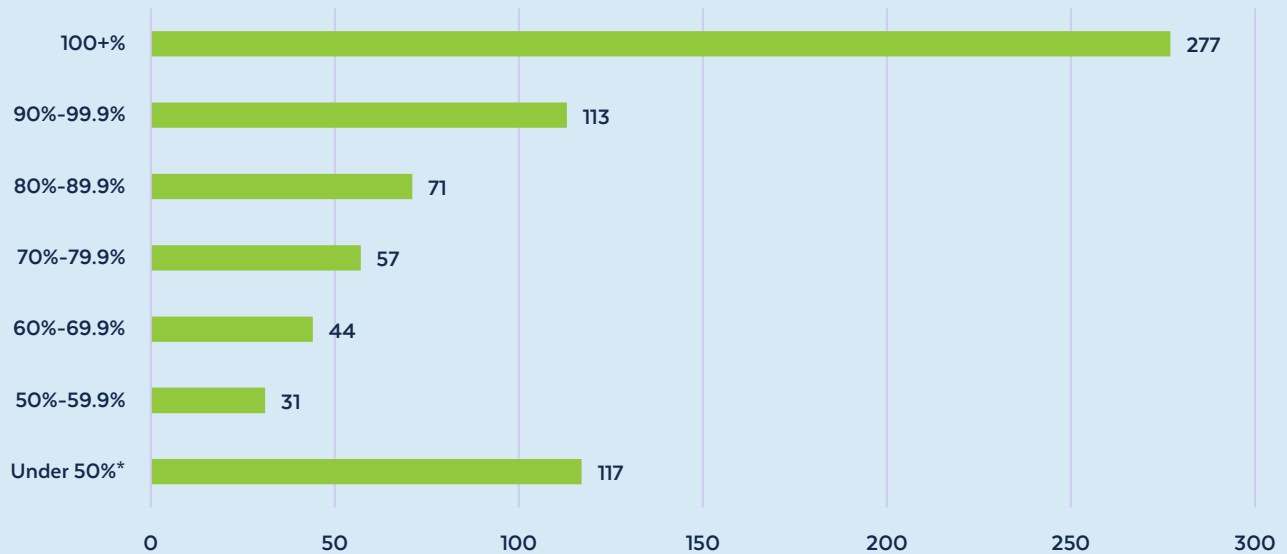
LAGERS FUNDING PROGRESS



LAGERS' 95.6% pre-funded status puts the pension fund in the top 10 of public plans in the United States. Pre-funded status is one way to measure the financial strength of a pension plan and is illustrated by a percentage. This percentage represents the portion of liabilities that are covered by assets. Liabilities are the value of the benefits of all LAGERS members. The amount of money held in trust by LAGERS for member benefits are the assets. LAGERS' goal is to be 100% funded, meaning it would have enough assets on hand today to cover all of its liabilities.

EACH EMPLOYER'S FUNDED STATUS VARIES

Each LAGERS-participating employer has its own pre-funded status. The pre-funded status of all employers combined makes up LAGERS' overall pre-funded status. An average of 15 employers join LAGERS each year. An employer that first joins LAGERS is 0% pre-funded because it has not started making contributions to build its assets. Likewise, any time an employer chooses a benefit enhancement, it increases its liabilities, lowers its pre-funded status, and will systematically fund the enhancement over time. Below is a look at the funded levels of LAGERS-participating employers.

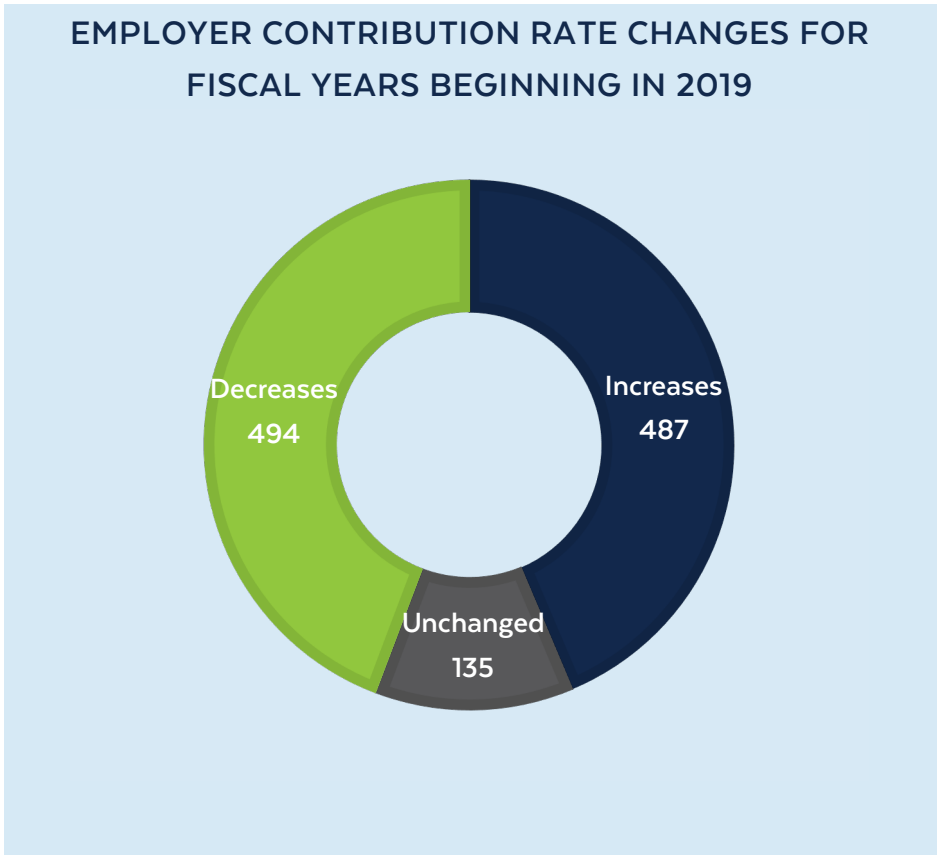


*64 of the 117 employers under 50% pre-funded have joined LAGERS within the last 10 years. Most of these employers enter the system with no assets but will systematically fund the benefits over time.

SUPPLEMENTAL INFORMATION

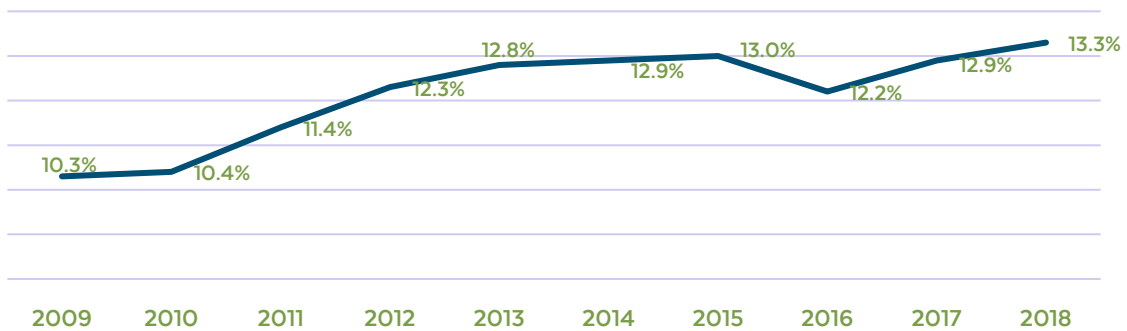
As of February 28, 2018, there were 704 participating employers in LAGERS with 1,116 contribution rates calculated for the various groups within the employers (general, police, fire, utilities).

LAGERS' Board of Trustees adopted new actuarial assumptions for 2016 that continue to put upward pressure on contribution rates. The strong investment performance has offset this pressure to a degree, but 44% of employer contribution rates are increasing in 2019.

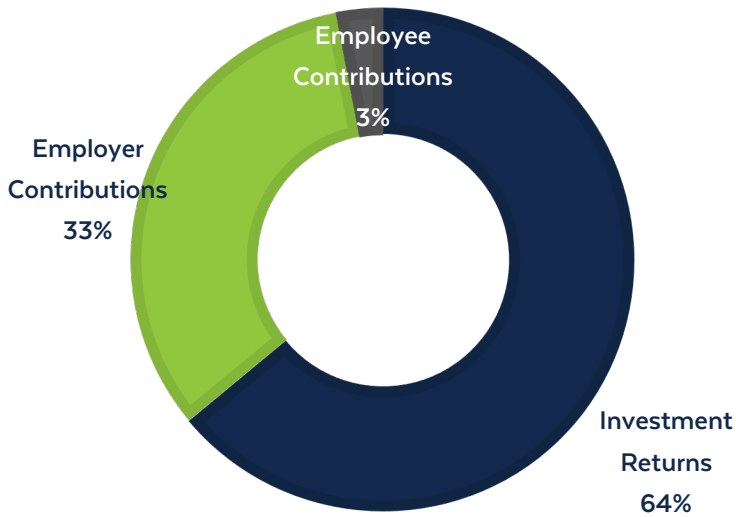


EMPLOYER CONTRIBUTIONS AS A PERCENT OF TOTAL PAYROLL

The following chart shows the most recent ten year history of employer contributions as a percentage of total payroll of all LAGERS employers. For 2018, the total payroll of all LAGERS-participating employers was \$1,616,895,524 and total employer contributions to LAGERS was \$214,888,089, or 13.3%. LAGERS' Board of Trustees adopted changes in actuarial assumptions in 2011 and 2016 that prompted the increases in cost over the last ten year period. These changes ensure member benefits will continue to be secure and properly funded. There has also been a steady trend in benefit enhancements adopted by employers that have increased the percentage of payroll contributed.



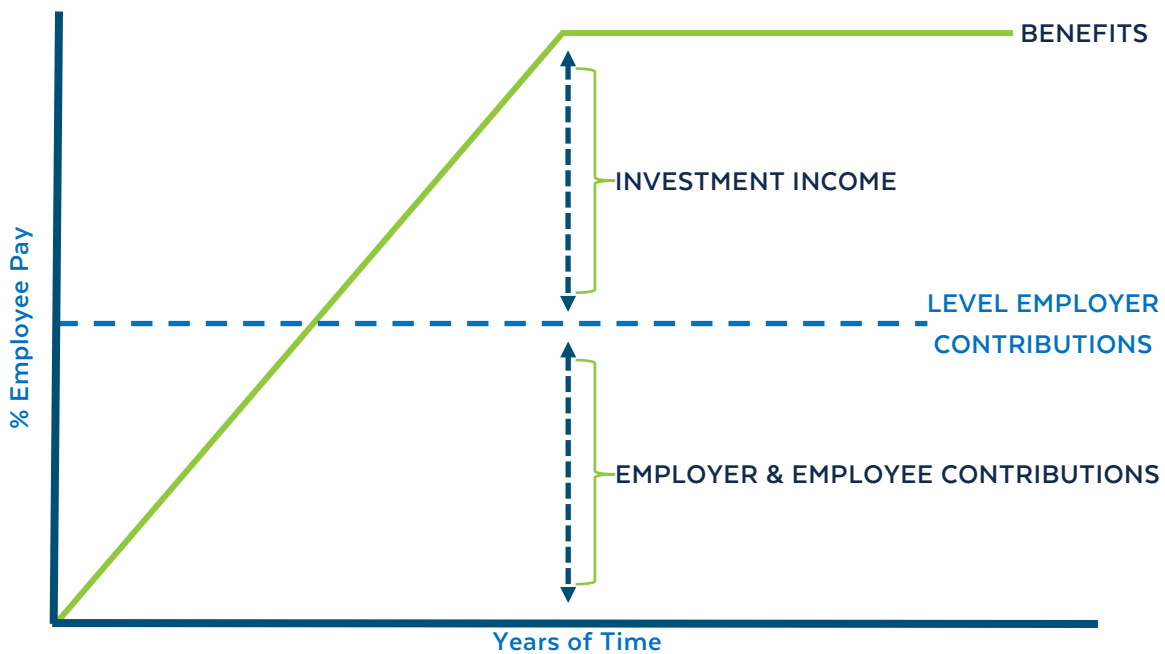
LAGERS' THREE SOURCES OF FUNDING



These funding sources together pay for the benefits for members and beneficiaries as well as the costs for administration of the system. This chart shows the 20-year average of the three sources of funding for the LAGERS system and the portion of funding each source provides.

HOW LAGERS PRE-FUNDS RETIREMENT BENEFITS

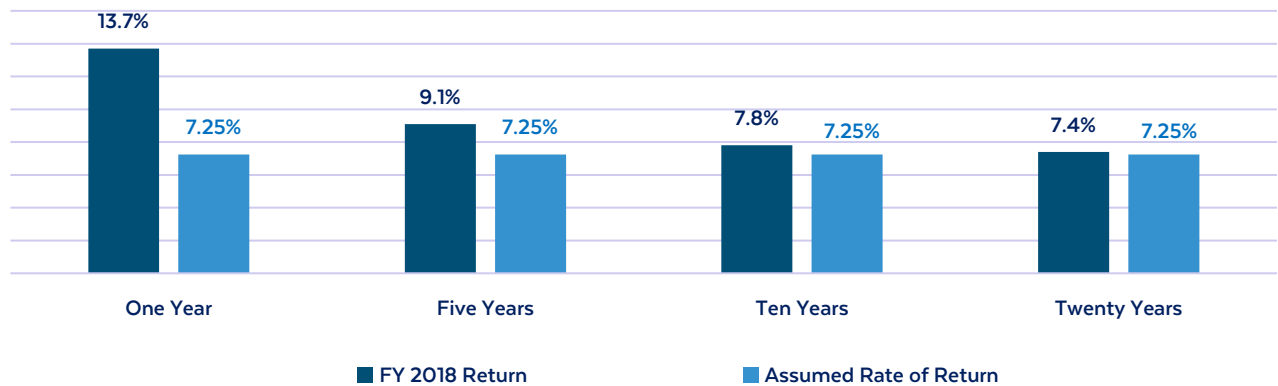
One of the goals of LAGERS' funding policy is to promote intergenerational equity. This means that LAGERS intends for the taxpayers receiving public services to pay for the retirement benefits earned by local government workers from those services so that the funding is not put off to be funded by later generations. The employer contribution rate is designed to remain approximately level from generation to generation.



LAGERS FISCAL YEAR-END FINANCES AT A GLANCE

INVESTMENT RETURNS

as of 6/30/2018



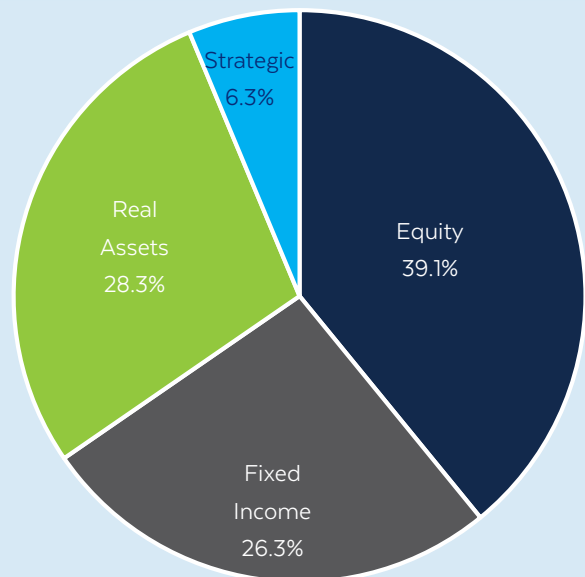
WHAT DOES LAGERS INVEST IN?

Equity - Example (Stocks) An investment in which an investor has a residual claim or interest in the assets of a company, after all liabilities are paid. Its value is driven by the companies' ability to utilize capital in order to create a unique product and or service that can be sold in the market place at a profit.

Fixed Income - Example (Bonds) An investment in which its value is primarily based on a regular stream of cash flows over an agreed upon period of time.

Real assets - Example (Real Estate) An investment which its value is primarily based on the ownership or utilization of a tangible asset or cash flows derived from an agreed upon measure of tangible assets.

Strategic Assets - an investment in which its value is primarily based on its ability to create value beyond traditional asset classes, capitalizing on market dislocations, market timing, and/or unique situations.



Fiscal Year End Plan Value

Beginning Value (6/30/17)	\$6,958,592,384
Payments to Members	-\$309,658,171
Contributions Received	\$223,648,125
Investment Gain/Loss & Expenses	<u>\$853,963,599</u>
Ending Value (6/30/18)	\$7,726,545,937

