



# MISSOURI LAGERS

**Local Pension Plan Administration Guide**



Providing Retirement Security for Missouri

# ABOUT LAGERS

The Missouri Local Government Employees Retirement System (LAGERS) was created by the 74th Missouri General Assembly in October 1967 and officially opened its doors in April 1968. During its first year of existence, the young system was administered through a contractual agreement with the Missouri Municipal League and added its first full time staff member in 1969.

By June 1969, 70 Missouri local government entities had joined LAGERS with a total of 4,600 members and \$2.1 million in assets. LAGERS is now the largest public pension system for local government employees in the state of Missouri, covering nearly 800 employers, over 35,000 active members, 25,000 retirees, with around \$8 billion in assets and an overall aggregate funding level in excess of the national average. It's safe to say the growth of the system has been anything but sluggish and LAGERS continues to provide a strong, secure platform within local government communities throughout Missouri.

In pursuit of LAGERS' vision of a secure retirement for all, Missouri House Bill 1443 was enacted in 2016 to give local governments with frozen pension plans the option to choose LAGERS as their plan administrator and trustee. This important legislation allows government units to take advantage of LAGERS' size and expertise to ensure these local plans will be sustainable until the last beneficiary is paid.

LAGERS continues steady membership growth each year while maintaining a fiscally sound system and expects nothing but continued stability in providing a protected, defined retirement benefits for all of its members and beneficiaries.



LAGERS' Executive Team: Over 115 years combined pension experience.

# WE BELIEVE IN A SECURE RETIREMENT FOR ALL



## Our vision drives all that we do.

Our vision is what we hope to achieve, our mission is why we exist, and our values are the beliefs that we hold dear. Our vision is lofty, but it is something toward which we strive everyday.

# ENABLING STATUTE

## 70.621 Revised Statutes of Missouri

70.621. Political subdivisions may opt to have LAGERS administer prior non-LAGERS retirement plan, when, procedure. — 1. In the event a political subdivision has a plan in effect for all or part of its employees similar in purpose to the Missouri local government employees' retirement system, and in the further event such a political subdivision is an employer in the system, at the request of the political subdivision the board of the system may, at its sole discretion, enter into an agreement with such an employer whereby the system assumes all duties and responsibilities of operating the employer's prior plan.

2. After making the necessary changes to the statute, city ordinance, city charter, or governing documents of the employer's prior plan and upon receiving a concurring resolution from the board of trustees of the prior plan after a simple majority vote of the active employees of the prior plan, such employer may enter into an agreement with the board of the system to operate the employer's prior plan so long as an election has been made to cover new employees under section 70.630. Upon entering into such agreement, the employer shall irrevocably delegate and cede all operational duties and responsibilities to the system. Upon entering into such an agreement, the board of the system shall become the governing board of the employer's prior plan. The employer's prior plan shall be administered as a frozen prior plan by the system and shall continue to operate under its existing governing documents in all other respects.

3. Where an agreement authorized by this section is entered into by an employer and the system, the employer shall continue to have sole responsibility for the full funding of its prior plan including all related expenses. If any employer fails to make any payment due under the prior plan, the provisions of section 70.735 shall apply.

4. The system shall formulate and adopt rules and regulations for the government of its own proceedings relating to this section and for the administration of this section, as the board may deem necessary.

## Eligibility to Affiliate a Local Plan with LAGERS

1. The employer sponsor of the local plan must be a political subdivision of the state of Missouri with the authority to tax.
2. The local plan must be a frozen defined benefit pension plan where no new members are being enrolled into the plan (new hires would be enrolled in LAGERS) and/or benefit accruals have been frozen as of a specific date.
3. The employer sponsor of the local plan must have LAGERS-covered employees. If the employer is not currently participating in LAGERS, or if the employee group that is covered by the local plan is not currently participating in LAGERS, the employer must begin LAGERS participation for this group of employees prior to LAGERS accepting administration of the local plan.
4. The employer sponsor of the local plan must demonstrate a commitment to fully funding the required contributions determined by LAGERS.
5. The local plan must make changes to its plan document as prescribed by LAGERS.
6. The LAGERS Board of Trustees may deny affiliation with any local plan for any reason.

# LAGERS ROLE IN LOCAL PLAN ADMINISTRATION

As plan administrator LAGERS would:

- Administer the benefits of the local plan as defined in the final plan document. The local plan document cannot be amended after LAGERS assumes administrative duties.
- Process and distribute retirement benefit payments and all other distributions.
- Interpret the plan document and make decisions about how the provisions apply to members, retirees, and beneficiaries of the local plan.
- Process employer and employee contributions for funding of the plan.
- Provide all actuarial, legal, and compliance services.

As plan trustee LAGERS would:

- Assume fiduciary responsibility to act in the best interest of the members and beneficiaries of the local plan.
- Invest the local plan assets according to LAGERS' investment policy.
- Ensure the local plan is trending toward 100% funding by requiring the contributions be paid in full.

In choosing to affiliate a local pension plan with LAGERS, you would be getting more than a third party administrator.

LAGERS staff would not only administer the plan, but LAGERS Board of Trustees would become the trustees of the local plan and fiduciary responsibility would be passed to LAGERS.

# PROCESS TO AFFILIATE LOCAL PLAN WITH LAGERS

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## **EMPLOYER MUST HAVE LAGERS-PARTICIPATING EMPLOYEES**

Before LAGERS would consider affiliating with a local plan, the employer must cover or be willing to cover the local plan employee group in LAGERS. For example, a city must have police officers and firefighters already participating in LAGERS before LAGERS would assume administration of a local plan that covers the city's police officers and firefighters.

## **LAGERS STAFF WILL COMPLETE AN IN-DEPTH REVIEW OF THE LOCAL PLAN DOCUMENT**

LAGERS staff, including legal counsel, will review the local plan document and identify any items suggested and/or required to be changed. The local plan document cannot be amended after LAGERS assumes administrative duties, so this is an important step. Options for employee coverage under LAGERS plan provisions will also be identified if the employer is not currently participating in LAGERS. Depending on the provisions of the local plan, an employer may have the following options for covering employees under LAGERS:

- Only employees hired after a specific date will be enrolled in LAGERS. All other employees will remain covered under the local plan.
- All employees will be covered under LAGERS and will begin accruing service in LAGERS after a specific date. Service prior to that date will remain covered under the local plan.
- All employees will be covered under LAGERS with all service after a specific date and all service before that date converted to LAGERS. Liabilities and assets from the local plan would be transferred to LAGERS. The local plan would then have only retirees and former vested members. This option is not available to all local plans because of the risk of impairing benefits.

## **LAGERS STAFF WILL REVIEW THE LOCAL PLAN'S FINANCIAL AND ACTUARIAL DATA**

LAGERS will request the most recent financial and actuarial reports from the local plan. LAGERS will also review reports prepared by the Joint Committee on Public Employee Retirement. The purpose of reviewing this information is to determine if the local plan is in a position to meet all of its obligations now and into the future.

## **THE LOCAL PLAN REQUESTS A VALUATION FROM LAGERS' ACTUARY**

This valuation will determine the required contributions should the local plan affiliate with LAGERS. The figures in the valuation will be based on LAGERS' actuarial assumptions and the funding policy for local plans adopted by LAGERS' Board of Trustees. LAGERS will need information about the local plan participants and the plan's most recent market value of assets in order to complete the valuation. The valuation will show a separate required contribution for each employee group (general, police, and fire). A follow-up valuation may also need to be completed prior to affiliation with LAGERS to account for changes in plan participant statuses and plan assets.

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## **THE ACTIVE PARTICIPANTS OF THE LOCAL PLAN MUST VOTE IN FAVOR OF AFFILIATING WITH LAGERS**

If there are active participants accruing service in the local plan, those participants must have the opportunity to vote on whether they want the employer to affiliate their local plan with LAGERS. The local plan may move forward with the process if a simple majority of the active participants vote in favor of the affiliation. If the local plan does not have any active participants (retirees and vested former members only), a vote of the membership is not required.

## **LOCAL PLAN PENSION BOARD MAKES A FORMAL RECOMMENDATION TO THE EMPLOYER'S GOVERNING BODY**

The pension board of the local plan must vote in favor of the affiliation with LAGERS and sign the joinder agreement along with the governing body. The governing body of the employer (e.g., city council) may then adopt the joinder agreement to finalize the affiliation. Upon entering into such agreement, the employer will irrevocably delegate and cede all operational duties and responsibilities of the local plan to LAGERS.

## **LOCAL PLAN PROVIDES PARTICIPANT DATA TO LAGERS**

After the Joinder agreement is signed, LAGERS will need three full months before issuing the first payments to local plan retirees. LAGERS has created a user-friendly online portal the employer will use to input participant data. Information about all retirees, beneficiaries, active, and vested former members will be required. LAGERS will also need any other original paper or electronic documents related to plan participants. This step must be completed before LAGERS can make payments to retirees.

## **LAGERS WILL NEED THE FOLLOWING ITEMS FROM THE LOCAL PLAN**

- Name and address of each retiree or survivor. LAGERS will send a welcome letter to each benefit recipient so this information will be expected as soon as possible.
- Paper copy or electronic copy of all employee files
- Copy of previous years' tax forms for each benefit recipient (1099-Rs)
- Copy of completed Certification of Marriage for each benefit recipient, if applicable
- Data entry by local plan must be completed one month prior to first benefit payment date.

## **THE LOCAL PLAN WILL TRANSFER ALL PLAN ASSETS TO LAGERS**

The local plan assets will become a part of LAGERS' portfolio and will be invested according to LAGERS' investment policy.

# FUNDING THE LOCAL PENSION PLAN

## Key Elements of the Local plan Actuarial Funding Policy

### ACTUARIAL (FUNDING) VALUE OF ASSETS METHOD

The annual investment gains or losses of LAGERS' portfolio will be smoothed over a future five year period in calculating the local plan's Actuarial Value of Assets. However, Actuarial Value of Assets shall not diverge from the Market Value of Assets by more than 20%.

### AMORTIZATION METHOD

The amortization period associated with each amortization base for a local plan will be a closed period of years. For local plans that have active participants, the initial Unfunded Actuarial Accrued Liability (UAAL) will be amortized over a closed 20 year period. For local plans that only have retirees and vested former members, the initial UAAL for a new employer joining LAGERS will be amortized over a closed 15 year period. Annual changes in the Unfunded Actuarial Accrued Liability (UAAL) due to actuarial gains or losses or from changes to actuarial assumptions will be amortized over a closed 15 year period. For local plans that only have only retirees and vested former members, changes in the UAAL due to actuarial gains or losses for each annual actuarial valuation or from changes to actuarial assumptions will be amortized over a closed 10 year period.

### FUNDING TARGET & EMPLOYER CONTRIBUTION RATES

- The targeted funded ratio for the local plan shall be 100%.
- The actuarial experience of all the local plan's members will only affect the actuarial valuation results of the local plan's employee group.
- For each employee group (e.g., police), if there are both LAGERS members and local plan members, separate employer contribution rates will be computed. The employer contribution rate for a local plan valuation group will be expressed as a dollar amount.
- In order to encourage stability in the employer contribution rates, LAGERS-participating employer rates cannot increase by more than 1% of payroll from year-to-year. This will still be the case if an employer has both LAGERS-covered employees and a local plan administered by LAGERS. The only exception to this is when the local plan first affiliates with LAGERS. At that point, if the LAGERS contribution rate has an uncapped component, the LAGERS rate will increase to the uncapped figure.
- Each year after local plan's affiliation with LAGERS, for purposes of the 1% of payroll maximum contribution increase, the LAGERS contribution rate will continue to be subject to this limit. LAGERS will also extend some protection to the local plan contributions as well. A combined employer contribution rate expressed as a percentage of the LAGERS participant payroll plus local plan participant payroll will be determined. Both the LAGERS group's employer contribution rate and the combined employer contribution rate shall be subject to the 1% of payroll contribution increase.

## FUNDING TARGET & EMPLOYER CONTRIBUTION RATES, CONTINUED

- If a local plan has no active members and the actuarial accrued liability for the local plan is no greater than a threshold established by LAGERS' Board of Trustees, the plan may be funded as such:
  - If the local plan has a positive Unfunded Actuarial Accrued Liability (UAAL), a fixed payment schedule may be established over a reasonable number of years not to exceed 15 years.
  - Any actuarial experience (positive or negative) will be borne by LAGERS and will not change the required local plan payments.

THE LOCAL PLAN WOULD BE SUBJECT TO SECTION 70.735 OF THE REVISED STATUTES OF MISSOURI, WHICH STATES:

If any political subdivision fails to make any payment due the system for a period of sixty days after the payment is due, the political subdivision shall become delinquent and the amount of the delinquency shall constitute a first lien on the funds of the political subdivision, and the [LAGERS] board is authorized to compel payment by application for a writ of mandamus; and, in addition, such delinquency shall be certified by the board to the state treasurer and director of the department of revenue. Until such delinquency, together with regular interest, is satisfied, the state treasurer and director of the department of revenue shall withhold all moneys due the political subdivision from the state.

## ASSUMPTION CHANGES

The actuarial assumptions used for investment return, wage inflation and mortality shall be those last adopted by LAGERS' Board of Trustees based on the most recent experience study and upon the advice of LAGERS' actuary. All other necessary actuarial assumptions shall be established based upon the professional judgement of the actuary and may be subject to LAGERS Board approval. The actuarial assumptions can be updated during the five-year period if significant plan design changes or other significant events occur, as advised by the actuary.

## EMPLOYEE CONTRIBUTIONS

Employee contribution account balances will be transferred to LAGERS. LAGERS will collect employee contributions as prescribed in the final local plan document form active employees.

## INVESTMENT RETURNS

Local plan assets will be invested with the rest of the LAGERS portfolio according to LAGERS investment policy. The current assumed rate of return assumption is 7.25%. In years when returns exceed the assumption, interest will be credited to the local plan in the same manner as all other LAGERS participating employers.

## FEES ASSOCIATED WITH LAGERS ADMINISTRATION OF A LOCAL PLAN

### Local Plan, No Active Participants

Fee Type	Amount	Due	Frequency
LAGERS' system programming	\$6,000	Deducted from plan assets at time of asset transfer	Once
Initial Actuarial Valuation	\$2,500 Per Dept. General, Police, Fire	Actuary will bill plan directly	Once
Follow-Up Initial Actuarial Valuation	Range of \$500-\$1,500. Based on number of plan participants.	Actuary will bill plan directly	Once
Annual Actuarial Valuation	\$2,500* Per Dept. General, Police, Fire	Actuary will bill plan directly	Annually
Annual GASB Report	\$2,500*	Actuary will bill plan directly	Annually
Administrative Expenses	Approximately \$100 annually per participant	Deducted from plan assets during interest crediting process	Annually
Investment Expenses	Approximately 1.26% of Assets (5-Yr Avg.)	Deducted from plan assets during interest crediting process	Annually

\*Local plan will pay this fee until all retirees are transitioned to LAGERS' benefit reserve fund.

### Local Plan, Active & Retired Participants

Fee Type	Amount	Due	Frequency
LAGERS' system programming	\$10,000	Deducted from plan assets at time of asset transfer	Once
Additional System Programming, if needed	TBD	Deducted from plan assets at time of asset transfer	Once
Initial Actuarial Valuation	Estimated* \$6,500-\$8,500 Per Dept. (General, Police Fire)	Actuary will bill plan directly	Once
Annual Actuarial Valuation	Estimated* \$6,500-\$8,500 Per Dept. (General, Police Fire)	Actuary will bill plan directly	Annually
Annual GASB Report	Estimated* \$3,200-\$4,250	Actuary will bill plan directly	Annually
Administrative Expenses	Approximately \$100 annually per participant	Deducted from plan assets during interest crediting process	Annually
Investment Expenses	Approximately 1.26% of Assets (5-Yr Avg.)	Deducted from plan assets during interest crediting process	Annually

\*May exceed upper end of range depending upon the number of valuation groups and the complexity of the plan provisions.

# FREQUENTLY ASKED QUESTIONS

## **WILL THE ASSETS FROM THE LOCAL PENSION PLAN BE COMMINGLED WITH LAGERS' ASSETS?**

All funds contributed to LAGERS, including funds from local plans, are pooled together into one portfolio for investment purposes and are managed according to LAGERS investment policy. Local plan assets and liabilities will be accounted for and actuarially valued separately, but will not be invested differently than other assets within LAGERS.

## **WHAT ACTUARIAL ASSUMPTIONS WILL BE USED FOR THE LOCAL PENSION PLAN?**

Local pension plans will adopt LAGERS actuarial assumptions and will fund the plan based upon LAGERS' local plan funding policy.

## **WHAT WILL HAPPEN TO THE LOCAL PENSION BOARD?**

The local pension board will cede all rights and responsibilities for plan administration, investments and plan document interpretation to LAGERS' Board of Trustees. LAGERS will also be assuming the fiduciary responsibility of the local pension plan.

## **CAN A MEMBER OF A FROZEN LOCAL PENSION PLAN BEGIN DRAWING A BENEFIT FROM THAT PLAN WITHOUT TERMINATING EMPLOYMENT AND BE EMPLOYED IN A LAGERS-COVERED POSITION AT THE SAME TIME?**

Yes, if the local plan document allows in-service distributions. A participant of a frozen local plan could begin drawing a monthly benefit from the local plan, continue employment, and be accruing service in LAGERS. A local plan participant could also terminate employment, begin drawing a benefit from the local pension plan and re-employ in a LAGERS-covered position with a different employer.

## **LAGERS RETIREES ARE ELIGIBLE FOR AN ANNUAL COST OF LIVING ADJUSTMENT (COLA). WOULD THE RETIREES OF THE LOCAL PLAN ALSO BE ELIGIBLE FOR THIS COLA?**

No. LAGERS will pay, or not pay, COLAs to the local plan retirees as prescribed in the final local plan document.

