WORK SESSION MEETING
AGENDA
CITY OF CREVE COEUR
CITY COUNCIL
300 NORTH NEW BALLAS RD
FEBRUARY 8, 2021
6:00 PM

CALL TO ORDER

ROLL CALL

DISCUSSION ITEMS

1. **Approval of November 23, 2020 City Council Work Session Meeting Minutes**

2. **Legacy Pension Plan Matters**
   Summary: The City has received requests from retirees for a cost of living adjustment (COLA) and a spousal pop-up to the Legacy Retirement Plan, for discussion with City Council.

   Because the number of Active employees is decreasing due to this being a closed Plan, staff would like to discuss changes in the Board of Trustees for the Plan. In addition, staff would like to clarify the voting members of the Board of Trustees per the current Plan document.

Pursuant to Section 610.022 RSMo., the City Council could, at any time during the meeting, vote to close the public meeting and move to closed session to discuss matters relating to litigation, legal actions and/or communications from the City Attorney as provided under Section 610.021(1) RSMo. and/or personnel matters under Section 610.021(13) RSMo. And/or employee matters under Section 610.021(3) RSMo. and/or real estate matters under Section 610.021(2) or other matters as permitted by Chapter 610.

Posted: ___________________________ posted 02/19/2021
Deborah Ryan, MPCC
City Clerk

WORK SESSION MEETING
MINUTES
CITY OF CREVE COEUR
CITY COUNCIL
300 NORTH NEW BALLAS RD
NOVEMBER 23, 2020
6:00 PM

CALL TO ORDER

A regular meeting of the City Council of the City of Creve Coeur was called to order by Mayor Glantz at the City Council Chamber, 300 North New Ballas Rd, City of Creve Coeur Government Center, Creve Coeur, MO 63141 on Monday, November 23, 2020 at 6:00 PM.

Council Member, Ward 2 Ellen Lawrence
Council Member, Ward 3 Robert Hoffman
Council Member, Ward 4 Scott Saunders
Council Member Ward 4 Dan Tierney
Council Member, Ward 1 Alexis Travers
Council Member, Ward 1 Heather Silverman
Council Member Ward 2 Nicole Greer

Council Member, Ward 3 Charlotte D'Alfonso **-- Absent**

ROLL CALL

DISCUSSION ITEMS

1. Approval of November 9, 2020 City Council Work Session Meeting Minutes

The vote on the motion being 6 ayes and 0 nays, motion carried.

RESULT:	**ACCEPTED [UNANIMOUS]**
MOVER:	Heather Silverman, Council Member, Ward 1
SECONDER:	Scott Saunders, Council Member, Ward 4
AYES:	Lawrence, Hoffman, Saunders, Tierney, Silverman, Greer
ABSENT:	D'Alfonso, Travers

2. City of Creve Coeur Actuarial Valuation as of July 1, 2020

Mike Zweiner, Actuarial for the Employee Pension Board reviewed the Actuarial Report dated July 1, 2020, items discussed:

- The actuarially determined employer contribution amount decreased slightly from last year, but is relatively the same at $1,230,482 as of July 1, 2020
- The funding ratio that most people look at is 85%, which is slightly higher than most Missouri Pension Plans
- The interest rate of return was 2.3%, which is well below the Plan's assumed rate of return of 6.75%
- 3 graphs were displayed regarding the funding requirements over the next 15 years

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assuming 4%, 5% and the Plan's rate of 6.75%, showing how much more the payments increase with a lower interest rate of return

Council Member Hoffman asked is there is a suggested number safer than 6.75%

Mike Zweiner stated in today's world, that is nearly impossible to get and asked what is the Council's comfort level with risk.

Council Member Hoffman stated he would rather see the assumption lowered.

Council Member Lawrence stated post 2025, contributions are going to have to be higher.

Mayor Glantz stated the Pension Board should make a recommendation to Council with what they are comfortable with.

RESULT:	**ITEM DISCUSSED**

3. Cost of Living Adjustment

Mark Perkins stated he wanted to bring to the Council's attention regarding a request from retirees for an increase. The plan does not allow for COLA.

Mike Zweiner stated these are budgetary requests and what can the city afford.

Mark Perkins stated no numbers have been ran, but with stagnate revenues currently trying to provide basic services.

Council Member Hoffman stated consider having this discussion at a later time, as we don't want to make a decision like this in a five minute discussion.

Adjourned at 7:00 pm

RESULT:	**ITEM DISCUSSED**

City Council
300 North New Ballas Rd
Creve Coeur, MO 63141

Meeting: 02/08/21 06:00 PM
Department: City Council
Category: Report
Prepared By: Lori Obermoeller
Department Head: Lori Obermoeller

SCHEDULED

STAFF REPORT

Legacy Pension Plan Matters

The City has received requests from retirees for a cost of living adjustment (COLA) and a spousal pop-up to the Legacy Retirement Plan, for discussion with City Council.

Because the number of Active employees is decreasing due to this being a closed Plan, staff would like to discuss changes in the Board of Trustees for the Plan. In addition, staff would like to clarify the voting members of the Board of Trustees per the current Plan document.

MEMORANDUM

DATE: February 2, 2021

TO: Mark Perkins, City Administrator

FROM: Lori Obermoeller, Director of Finance

CC: Pension Board Members

SUBJECT: Discussion Items for the Retirement Plan for Employees of the City of Creve Coeur for the Council Work Session on 2-8-21

The purpose of the Council Work Session is to discuss the following items and to determine if any changes to the Plan should be made at this time:

- Cost of Living Adjustment (COLA) – one-time issue based on years since retirement or across-the-board COLA
- Spousal Pop-Up
- Pension Board Members

The following paragraphs will provide some information on each one of these topics to aid in the work session discussion.

<u>COLA</u>

Seven retirees have emailed the City regarding a request for a COLA for the Retirement Plan for Employees of the City of Creve Coeur (the "Plan"). These emails were recently shared with the Pension Board, and while the Board did discuss them, they felt like it was not the Pension Board's place to discuss a COLA since it is a change to the Plan benefits.

On January 1, 2002 there was a one-time COLA provided to retirees who had retired prior to January 1, 2001. The amount was 1.75% times the number of full years since the participant's retirement date. The City made a one-time payment of $252,000 to the Pension Fund to cover the estimated cost of the COLA.

State Statute prohibits municipalities from making pension benefit enhancements unless the Plan is at least 80% funded and will not be less than 75% after such adoption. Because the Plan wasn't over this 80% funded ratio until these past 2 years, a COLA wasn't even possible. As of the 2020 Actuarial Report, the Plan is currently 85% funded.

The Pension Board has authorized the following changes to the Actuary effective with the July 1, 2021 actuarial report:

- Decrease the interest rate assumption from 6.75% to 6.0%, which will increase the Unfunded Actuarial Liability (UAL) by about $2.85M, which increases the Actuarially Determined Contribution (ADC) by $330-338K annually.
- Change the Mortality table to Pub-2010, which is the most current table available, which will increase the UAL by about $800K, and increase the ADC around $90K
- Extend the amortization period on the pre 2015 UAL bucket from 4 years to 8 years, which will decrease the ADC by about $420K

The reason for the third change was to balance the cost increases from the assumption changes so the City's ADC would remain at about $1.25M. However, all of these changes cause the funded ratio to decrease from 85% to about 73-74%.

So once the actuarial report is prepared this fall with these changes, a COLA will not be possible because the Plan will fall below 80% funded ratio. So, if a COLA is going to be considered, it must be implemented before August 2021.

The City had the actuary from Conduent in 2017 prepare the costs of a COLA (attached letter from Conduent from 2/22/17). As you can see, the cost to the City at that time for a 1% COLA for each full year since the participant's retirement date was going to be approximately $140K annually. The cost to have our current actuary from Milliman update this study would be about $1,000 (attached memo from Milliman dated 1/22/21).

LAGERS offers a COLA. The maximum is 4%, but it is based on the CPI-U each year. This past year it was .6% and it has hovered around 1-1.5% for the last 10 years.

Spousal Pop-Up

Also brought up at the Pension Board meeting is something called a "spousal pop-up," which a few retirees have also requested. Currently the Plan does not allow for a spousal pop-up. A pop-up occurs when the retiree, who chooses a spousal option, has a spouse who passes away before the retiree, then the monthly benefit will pop-up to the unreduced normal option. This benefit can be added at no cost to the City by just adding 3 additional options to the participant, but it will only apply to those who have not retired, or about 30 active and 20 inactive participants.

LAGERS applies a pop-up automatically. It is not an option a participant can choose, which means the spousal options available to the participant have been reduced to account for this option even if the participant doesn't want it.

Board Members

Currently the Plan describes the Board of Trustees in section 1.04 as follows:

> Board of Trustees means the committee comprised of a City Council member (to be nominated by the Mayor and ratified by the City Council), one (1) City Finance Committee member (to be designated by the Finance Committee), two (2) Plan Participants (to be elected by vote of Participants), three (3) residents of the City (to be nominated by the Mayor and ratified by the City Council and one or more of such residents may be members of the City Finance Committee), the City Administrator (ex-officio) and the City Finance Director (ex-officio).

> Effective for members appointed after the September 12, 2001, each member of the Board of Trustees, other than the City Administrator and Finance Director, shall serve for a term of three (3) years, up to a maximum of three (3) consecutive terms. In the event of the resignation or removal of a member, the new member's term shall be established to complete the unexpired term of the former member. In no event shall any member of the Board of Trustees serve for more than nine (9) consecutive years.

Neither the City Administrator, nor the Finance Director have ever been treated as voting members. However, the Plan document reads like they should be voting members. Staff would like to discuss these positions being voting members and/or clarifying the Plan document on whether or not they should be voting members. Some of the benefits of having these positions as voting board members are as follows:

- These members can provide valuable input due to their knowledge in this area
- These members have experience with the operations of the Plan
- These members already have a fiduciary responsibility to the City, employees and the taxpayers
- These members have a better overview of all of those involved (the City, the employees and the taxpayers)

Staff would also like to discuss the Plan Participants that are elected by Participants. In the past, this has always been Active Participants, but because the pool of Active Participants is getting smaller each year and there has been some thought of adding a retiree member, we would like to discuss allowing retirees to fall under this option since they are actually Participants of the Plan. Things to consider for nominating a retiree is where they live or if they will be able to attend regular board meetings.

I know this is a lot of information, but this should help provide some knowledge into each topic of discussion.

CONDUENT
231 South Bemiston Avenue
Suite 400
St. Louis, MO 63105

February 22, 2017

VIA EMAIL

Mr. Dan Smith
Director of Finance
City of Creve Coeur
300 N. New Ballas Road
Creve Coeur, MO 63141

Dear Dan:

At your request, we have prepared a cost study for a possible COLA increase to in-payment participants of the Retirement Plan for Employees of the City of Creve Coeur. This letter will document our analysis.

Background

The last COLA for retirees and beneficiaries was effective January 1, 2002, providing a 1.75% increase for each full year since the participant's retirement date. A similar increase structure is considered for this analysis, applying a flat percentage increase for each full year since the later of the participant's retirement date and July 1, 2001 (the cutoff date used in the prior increase). The analysis assumes that the increase would be through June 30, 2017 and be effective July 1, 2017. A 1.00% multiplier was used for this analysis, which allows for easy scaling of the result to fit your budget.

Analysis

The estimated impact of this possible COLA was measured using the July 1, 2016 valuation data. The affected population is comprised of 66 retired participants as well as 2 beneficiaries in-payment status. As of July 1, 2017, applying a COLA as described above is estimated to increase liabilities by $1.4 million. This change would directly increase the plan's unfunded liability and, when amortized over 15 years, would increase the annual employer cost by approximately $140,000 annually.

Actuarial Certification

The economic and demographic assumptions as well as the participant data used for this analysis are as summarized in our July 1, 2016 valuation report.

Future actuarial measurements may differ significantly from current measurements due to plan experience differing from that anticipated by the economic and demographic assumptions, changes expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions, applicable law or regulations. An analysis of the potential range of such future differences is beyond the scope of this project.

The results were prepared under the supervision of Wendy Ludbrook, a Fellow of the Society of Actuaries and a Member of the American Academy of Actuaries, who has met the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

If you have any questions, please feel free to contact me.

Sincerely,

Wendy Ludbrook

Wendy Ludbrook, FSA., EA, MAAA
Senior Consultant, Retirement Consulting Actuary

Milliman

500 N. Broadway, Suite 1750
St. Louis, MO 63102
314-231-3031 Fax 314-231-0249
www.milliman.com

MEMORANDUM

TO: Lori Obermoeller

FROM: Michael Zwiener MZ

DATE: January 22, 2021

RE: ***Pension Plan – Potential Benefit Modifications***

This memo is to follow up on a couple of topics raised at the Pension Board meeting earlier this week as well as our subsequent telephone call. The potential for benefit improvements in two different areas has been raised as a topic. This memo is meant to provide a bit of background, provide an educated guess as to what specifically is being requested and a general idea of actuarial study fees that would be involved if any of this is pursued.

A. COLA

A COLA (cost of living adjustment) is a tool to help preserve the purchasing power of a retiree's monthly benefit from the effects of inflation. At the point of retirement, a member's benefit is based on their recent pay levels and is therefore generally in line with price/inflation levels at that point in time. The longer a retiree is in pay status, the greater the impact of inflation simply due to the passage of time. For example, the monthly benefit of a retiree who retired 20 years ago has endured the impact of inflation for 20 years while the member who retired last year is essentially current.

With this as a background, we can see that there is an infinite number of ways to design a COLA feature. One approach would be the type of arrangement analyzed and priced by Conduent in their February 22, 2017 correspondence to the City. (copy attached) Briefly, they analyzed a benefit increase of 1% for each year that a retiree has been receiving benefits. Thus, a member who retired in 2005 would receive a 16% increase while a member who retired in 2019 would receive a 2% increase. This is efficient from a theoretical standpoint as the members whose benefits have suffered inflationary erosion the longest have the larger adjustments. The downside is cost – Conduent indicated this improvement would require plan funding to increase $140,000/yr. for 15 years. Presumably, it would cost at least as much if implemented today. Cost containment measures could be designed in - obvious ones include cutting the 1% to 0.5% or setting a maximum possible adjustment to say 8 or 10%.

Milliman

At the other end of the complexity spectrum, a simple, across-the-board adjustment, e.g. 2%, could be made to the benefits of all retirees. This is simple and less costly. However, it fails in materially addressing the loss in purchasing power experienced by long time retirees.

Note that all of the above is based on the premise that any change is applicable to retirees existing on a particular date, e.g. July 1, 2021. It would have no impact on members not yet retired.

B. Pop-Up Benefit

The Plan's Normal Form of benefit is a Ten Years Certain and Life Annuity (we'll designate this as 10CL for the discussion here). When a member retires and his/her service and pay is applied to the benefit formula, the resulting monthly dollar amount is paid in the 10CL form.

The Plan offers optional forms of payment that a member may irrevocably chose among at the point of retirement. The three under discussion here are the three Joint and Survivor Annuity (J&S) options. These three options provide a lifetime benefit to the member as well as a surviving spouse benefit in an amount of 50%, 66 2/3% or 100% of the original benefit in the event the member predeceases the spouse.

The Plan provides that these optional forms of payment are to be of equal actuarial value to the 10CL Normal Form of payment. This is accomplished by reducing the J&S monthly benefits by an amount that "pays" for this surviving spouse death benefit protection.

An example is by far the most efficient means to illustrate how this works.

Assume a married member retires today. Application of the benefit formula to his/her service and pay history produces a monthly benefit of $1,000. This amount will by definition be paid in the Plan's 10 CL Normal Form.

However, the member may choose an alternative J&S form of payment. Depending on the unique combination of the member's and spouse's ages, the actuarially equivalent forms turn out as follows:

J&S 50	$975
J&S 66 2/3	$960
J&S 100	$940

Milliman

If our member chose the J&S 50 alternative, he/she would receive $975 for life. If the member predeceases the spouse, the spouse would receive 50% of $975 for the remainder of their life.

Which finally brings us to the Pop-Up. Assume the member chose the J&S 50 form of payment. Payments of $975 commence. Then assume the spouse dies. Under current plan rules (no Pop-up) the member continues to receive $975 until death. Under the Pop-Up, the member's benefit would instead "Pop-Up" to the unreduced $1,000 Normal form of payment.

So we can see that there is a potential for a higher benefit amount to be paid than under current plan provisions so there is obviously some type of cost involved. If the member "pays" for the Pop-Up protection it is done by adjusting the initial monthly benefit amount. Referring back to the above example, the member would now have 6 J&S options instead of the current 3 (dollar amounts are for illustration only):

	Without Pop-Up	With Pop-Up
J&S 50	$975	$962
J&S 66 2/3	$960	$945
J&S 100	$940	$923

Alternatively, the Plan could simply absorb the cost of the Pop-Up so the Member would continue to receive the $975/960/940 amounts in the above example.

Finally, I heard a comment at the Pension Board meeting about extending the Pop-Up coverage, to current retirees. This would essentially require the Fund to absorb any associate cost since current retirees have already been through the benefit election process.

C. Costs

I have written all this out as there are many potential variations possible under either of these proposals. I've laid out what I would specifically look at in a study. Alternatively, this provides an opportunity for interested parties to comment, ask for modifications and so on. The general idea is to avoid having the Fund and/or City incur the time and expense of performing an analysis that "misses the mark".

Regarding the COLA, we would essentially update the 2017 Conduent study using current member data. The 1% annual increase is a good idea as it allows for simple scaling, e.g. ½% annual increase costs 50% of a 1% increase. We would also cost a couple of other simple modifications such as a maximum benefit increase. The cost would be in the $750-$1,000 range.

Regarding the Pop-Up, we would determine the benefit reduction factors that would be involved for a sampling of retiree/spouse ages. We would also determine the annual cost impact to the Fund if the fund has to absorb any costs. The cost for this sub-project would be in the $600 - $750 range.

Any analysis of extending the Pop-Up factor to existing retirees would be on a time and expense basis. The reason I cannot quote a fixed fee (at least at this time) is I am unsure if all data is readily available. For example, for a member who retired in 2002, electing the J&S50 form of payment, does record of the 10CL payment form still exist? Will there be any retroactive aspects to explore such as someone who could have gotten the Pop-Up if it had been in place a year or two ago? And so on.

After you have had an opportunity to review this memo, please contact me with any questions. We are available to commence work upon authorization to do so.

Enclosure

CONDUENT

231 South Bemiston Avenue
Suite 400
St. Louis, MO 63105

February 22, 2017

VIA EMAIL

Mr. Dan Smith
Director of Finance
City of Creve Coeur
300 N. New Ballas Road
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The results were prepared under the supervision of Wendy Ludbrook, a Fellow of the Society of Actuaries and a Member of the American Academy of Actuaries, who has met the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

If you have any questions, please feel free to contact me.

Sincerely,

Wendy Ludbrook

Wendy Ludbrook, FSA., EA, MAAA
Senior Consultant, Retirement Consulting Actuary