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Uniformed Employees Pension Board of Trustees
C/o City of Clayton
10 North Bemiston
Clayton, MO 63105

Funding effect of adding a Deferred Retirement Option Program (DROP)

Dear Board Members:

According to Missouri Revised Statute 105.665: 1. The legislative body or committee thereof which determines the amount and type of plan benefits to be paid shall, before taking final action on any substantial proposed change in plan benefits, cause to be prepared a statement regarding the cost of such change.

The following cost statement employs the methods used in preparing the most recent periodic actuarial valuation for the plan:

- (1) The level normal cost of plan benefits currently in effect, expressed as a percent of active employee payroll is 14.9%
- (2) The contribution for unfunded accrued liabilities currently payable by the plan, expressed as a percent of active employee payroll over a period of 22 years is 7.7%;
- (3) The total contribution rate expressed as a percent of active employees payroll, which contribution rate shall be the total of the normal cost percent plus the contribution percent for unfunded accrued liabilities adjusted with interest is 24.2%;
- (4) The legislative body is currently paying the total contribution rate as defined in subdivision (3) of this subsection;
- (5) The proposed change would increase the cost of retirement benefits to approximately 27% of active employee payroll.
- (6) There is no change to mandated contribution provisions.
- (7) The proposed change would not immediately impair the ability of the plan to meet its obligations with respect to all benefits offered by the Plan thereof in effect at the time the proposal is made;

(8) All assumptions relied upon to evaluate the present financial condition of the plan and all assumptions relied upon to evaluate the impact of the proposed change upon the financial condition of the plan, which are those assumptions used in preparing the most recent periodic actuarial valuation for the plan, are:

- (a) Investment return of 7.00%;
- (b) Pay increases of 3.5%;
- (c) Mortality of employees and officials, and other persons who may receive benefits under the plan is the RP 2000 mortality table;
- (d) Withdrawal (turnover) is based on past experience of the Plan. Sample rates are as follows:
Termination rates are based on service (Select) until five years of employment. After five years of service, they are based on age (Ultimate).

Select

Years of Service	Percent of Police Terminating	Percent of Fire Terminating
0	15%	7.5%
1	10%	5.0%
2	8%	4.5%
3	7%	4.0%
4	6%	3.5%

Ultimate

Sample Ages	Percent of Police Terminating	Percent of Fire Terminating
25	4.83%	2.62%
30	3.62%	2.37%
40	2.82%	2.09%
50	3.83%	2.57%
55	4.82%	2.95%
60	6.03%	3.31%

(e) Disability is based on past experience of the Plan. Sample rates are as follows:

Annual Rates of Disability

Age	Rate
25	0.08%
30	0.08
40	0.20
50	0.49
55	0.89
60	0.00

(f) Retirement rate is For persons age 50 through 59 with less than 10 years of credited service, the rate is 0%. For persons age 51 through 54 with exactly 25 years of credited service, the rate is 50%. For persons age 45 through 50, with exactly 25 years of credited service, the rate is 30%. For all others, the rates are as follows:

<u>Age</u>	<u>Rate</u>
Under 45	0%
45-50	15
51-54	10
55	90
56	30
57	40
58	50
59	60
60 & over	100

(g) There has been no change in active employee group size;

(9) As the Plan actuary I certify that the assumptions used for the valuation produce results which, in the aggregate, are reasonable;

(10) Actuarial Method Used for the Valuation – Entry Age Normal

Normal Cost. Normal cost and the allocation of actuarial present values between service rendered before and after the valuation date were determined using an individual entry-age actuarial cost method having the following characteristics:

The annual normal costs for each individual active Member, payable from date of hire to date of retirement, are sufficient to accumulate the value of the Member's benefit at the time of retirement;

Each annual normal cost is a constant percentage of the Member's year-by-year projected covered pay.

The excess of accrued assets over actuarial accrued assets was amortized as a level percent-of-payroll over a closed period, currently 22 years.

(11) The proposed change would increase the cost of retirement benefits. We expect the total recommended contribution rate to increase from the current amount of \$1.3M to approximately \$1.5M.

Respectfully submitted,



Traci M. Christian, EA, MAAA