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August 26, 2020

Ms. Melissa Rackers
Chief Financial Officer
Missouri Local Government
Employees Retirement System
701 West Main Street
Jefferson City, MO 65102

Re: Supplemental Actuarial Valuation – Benefit Multiplier Provision

Dear Melissa:

Enclosed are the results of a supplemental actuarial valuation to measure the financial effects of retirement benefit changes for members of the LAGERS Staff Retirement Plan.

Sincerely,

Mita D. Drazilov, ASA, FCA, MAAA

MDD:rmn
Enclosure

One Towne Square | Suite 800 | Southfield, Michigan 48076-3723

LAGERS Staff Retirement Plan
Supplemental Actuarial Valuation
as of June 30, 2019

Requested By:	Ms. Melissa Rackers, Chief Financial Officer Missouri LAGERS
Date:	August 26, 2020
Submitted By:	Mita D. Drazilov, ASA, FCA, MAAA and Judith A. Kermans, EA, FCA, MAAA

This report contains the results of a supplemental actuarial valuation of a proposed change to the benefit multiplier for members of the LAGERS Staff Retirement Plan.

The date of the valuation was June 30, 2019. This means that the results of the supplemental valuation indicate what the June 30, 2019 valuation would have shown if the proposed changes had been in effect on that date. Supplemental valuations do not predict the results of future actuarial valuations. (Future activities can affect future valuation results in an unpredictable manner.) Rather, supplemental valuations give an indication of the probable effect of the **change only** on future valuations without comment on the complete end result of the future valuations.

This report was prepared at the request of LAGERS and is intended for use by LAGERS and those designated or approved by LAGERS. This report may be provided to other parties only in its entirety and only with the permission of LAGERS. This report should not be relied on for any purpose other than the purpose described above. GRS is not responsible for unauthorized use of this report.

Mita D. Drazilov and Judith A. Kermans are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

The signing actuaries are independent of the plan sponsor.

The valuations were based upon data furnished by LAGERS for the June 30, 2019 actuarial valuation. Actuarial methods and assumptions were the same as those used in the annual actuarial valuation as of June 30, 2019. In particular:

- The assumed rate of interest was 5.50%;
- The valuation method was the Entry Age Actuarial Cost Method; and
- Wage inflation is assumed to be 3.25% per year.

LAGERS Staff Retirement Plan
Supplemental Actuarial Valuation
as of June 30, 2019

A brief summary of the active member data used in this valuation is shown below. Payroll in excess of the Internal Revenue Code (IRC) Section 401(a)(17) compensation limits are excluded from the annual payroll.

Active Member Data				
	Annual	Averages		
Number	Payroll	Pay	Age	Service
34	$ 3,222,280	$ 94,773	43.1 yrs	10.0 yrs

The contribution rate for the fiscal year beginning July 1, 2020 as a percent of covered payroll for members of the LAGERS Staff Retirement Plan is as follows:

	Percents of Active Member Payroll		
Employer Contributions for	Valuation Results	Adjusted Valuation Results*	Increase/ (Decrease)
Current Service Cost			
Service Allowances	19.26%	19.13%	(0.13)%
Death Benefit Allowances	0.36	0.36	0.00
Disability Allowances	0.74	0.74	0.00
Total	20.36%	20.23%	(0.13)%
Prior Service Cost#	12.04	12.42	0.38
Employer Contribution Rate	32.40%	32.65%	0.25%

	Valuation Results	Adjusted Valuation Results*	Increase/ (Decrease)
Actuarial Accrued Liabilities	$ 18,879,856	$ 19,032,771	$ 152,915
Present Value Future Benefits	24,841,258	25,296,348	455,090

** Includes new assumption to reflect potential promotions from within the organization.*

 # Determined based on multiple UAAL bases, please see page 6 of the annual valuation for additional details.

Proposal – Modify Provisions regarding Benefit Multiplier

Present Provisions:

Annual Retirement Benefit – Benefit equals credited service multiplied by 2.0% of Final Average Salary (FAS). Compensation in excess of the IRC Section 401(a)(17) compensation limits is excluded for benefit calculation purposes.

Proposed Provisions:

Annual Retirement Benefit – Benefit equals credited service multiplied by 2.0% of Final Average Salary (FAS). Notwithstanding anything to the contrary, in the case of a member with earnings for any year in excess of the limit in IRC Section 401(a)(17), the benefit multiplier applied to the Final Average Salary shall be increased from 2.0% to the percent that would result in an amount of life allowance equal to the life allowance that would result by multiplying 2.0% by the member's Final Average Salary without regard to the limit of IRC Section 401(a)(17).

Actuarial Analysis – The following illustrates the computed change in the employer contribution for the fiscal year ending June 30, 2019 that would result from the proposed change on a level cost basis as a percent of active member payroll if increases in the unfunded actuarial accrued liabilities are amortized over a 20-year period:

Increase/(Decrease) from Adjusted Valuation Results in	
Current Service Cost	3.86 %
Prior Service Cost (20-year amortization)	4.11
Employer Contribution Rate	**7.97 %**
Increase/(Decrease) in	*($ in thousands)*
Actuarial Accrued Liabilities	$2,117.77
Present Value Future Benefits	$3,254.51

Comment 1 — The adjusted valuation results as of June 30, 2019 and supplemental actuarial valuation results include a new assumption to reflect potential promotions from within the organization. It was assumed that one current plan member would be promoted to the position of Executive Director and one plan member would be promoted to the position of Chief Investment Officer. These two members were assumed to retire under the same compensation structures as the members currently holding those two positions. This assumption is not meant to suggest that these promotions will happen. If promotions occur differently than assumed, the costs of the proposed benefit provisions would be different. The inclusion of this assumption was discussed with LAGERS Staff prior to the issuance of this report.

Comment 2 — For the adjusted valuation results as of June 30, 2019 and supplemental actuarial valuation purposes, it was assumed that the IRC Section 401(a)(17) compensation limits would increase by 3.25% annually.

Comment 3 — For each UAAL amortization base, it is assumed that the annual UAAL amortization payment would increase by 3.25% annually.

Comment 4 — The cost for this benefit change is very dependent upon future salary increases. If hiring practices in the future differ from those of the past, the cost for this provision could increase or decrease. The cost shown is based on the age, service and salary characteristics of the present group, unless otherwise noted.

Comment 5 — We are not attorneys and are not qualified to opine on whether the proposed benefit provision would cause the plan not to receive qualified status in accordance with the Internal Revenue Code (IRC). We suggest that a determination letter be received from the IRC to determine whether the proposed benefit provision would result in the plan receiving qualified status.

Comment 6 — IRC Section 415(b) limits the amount of benefits that can be paid from a defined benefit plan. The 2020 calendar year annual employer provided dollar limit for a retiree aged 62 is $230,000. The dollar limit for members who retire at younger ages and/or who have lump sum payments is yet lower. A review of the proposed provisions for compliance with Federal, State or local laws or regulations, including IRC Section 415, was outside the scope of this assignment.

Comment 7 — If you have reason to believe that the information provided in this report is inaccurate, or is in any way incomplete, or if you need further information in order to make an informed decision on the subject matter of this report, please contact the authors of the report prior to making such decision.

Comment 8 — No statement in this report is intended to be interpreted as a recommendation in favor of the changes, or in opposition to them.

Comment 9 — This report is intended to describe the financial effect of the proposed plan changes on the Retirement Plan. Except as otherwise noted, potential effects on other benefit plans were not considered.

Comment 10 — Unless otherwise noted, it was assumed that the proposed changes would not affect probabilities of retirement, withdrawal, disability, etc. for the individuals affected by the proposed provisions. If the proposed changes do affect employee behavior, the cost of the proposed changes may be different than shown.

Comment 11 — Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Due to the limited scope of the actuary's assignment, the actuary did not perform an analysis of the potential range of such future measurements.

Comment 12 — This calculation is based upon present and proposed plan provisions that are outlined in the report. If you have reason to believe that the assumptions that were used are unreasonable, that the plan provisions are incorrectly described, that important plan provisions relevant to this proposal are not described, or that conditions have changed since the calculations were made, you should contact the authors of this report prior to relying on information in the report. Also, in the event that more than one plan change is being considered, it is very important to remember that the results of separate actuarial valuations cannot generally be added together to produce a correct estimate of the combined effect of all of the changes. The total can be considerably greater than the sum of the parts due to the interaction of various plan provisions with each other, and with the assumptions that must be used.