



# GETTING IT RIGHT!

The positive impact of LAGERS defined benefit plan on the Taxpayer, Employee, Employer, and Retiree.



MISSOURI LOCAL GOVERNMENT  
EMPLOYEES RETIREMENT SYSTEM

# POSITIVE IMPACT OF LAGERS RETIREES LIVING IN MISSOURI

## ANNUAL BENEFITS PAID TO LAGERS RETIREE'S LIVING IN MISSOURI

### Number of Retirees

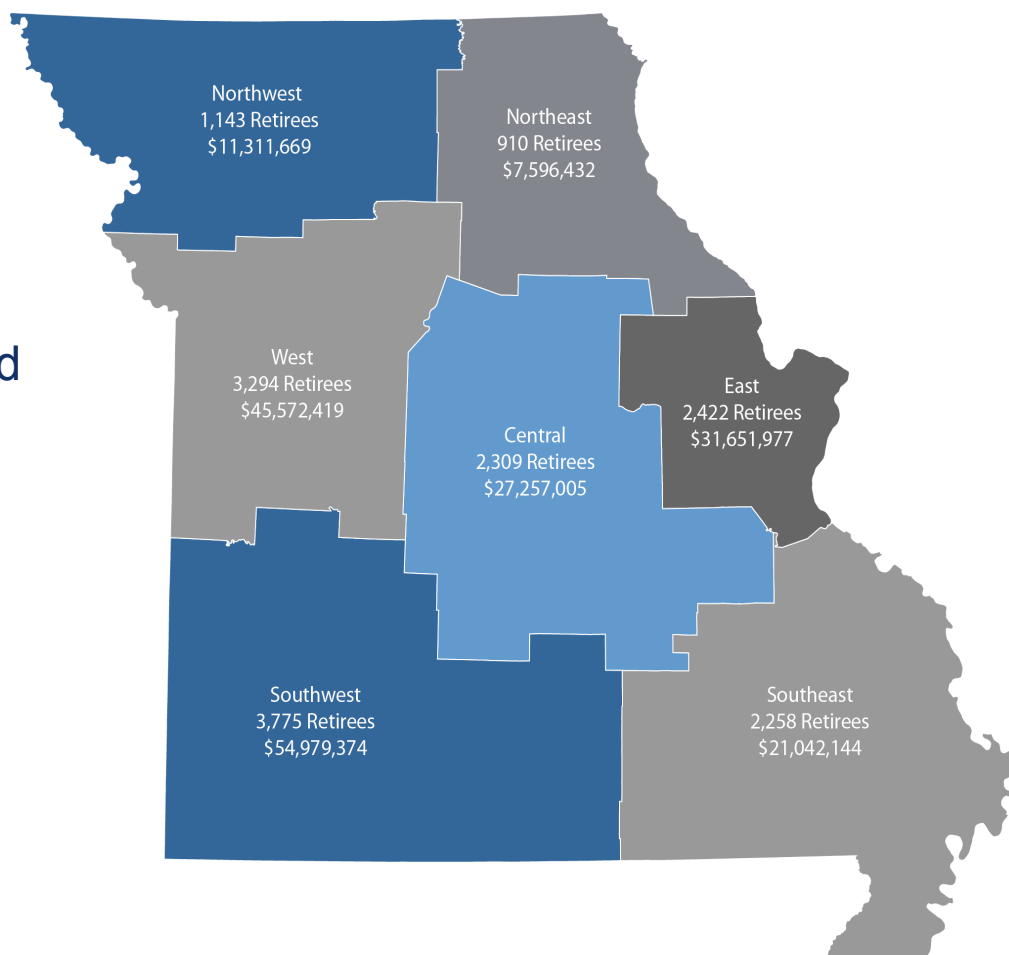
16,111

### Annual Benefits Paid

\$199,411,021

### Economic Impact of Benefits Paid

\$297,122,421




## ABOUT THE ECONOMIC IMPACT

According to the National Institute on Retirement Security (NIRS), each \$1 in state and local pension benefits paid to Missouri residents ultimately supported \$1.49 in total economic output in the state. This “multiplier” incorporates the direct, indirect, and induced impacts of retiree spending, as it ripples through the state economy.

NIRS’ analysis rests on the recognition that expenditures have a “multiplier” effect in a regional or national economy. When money is spent at a local business, that business sees an increase in revenue, thus boosting the economy initially. But that initial purchase generates even more local income, as shop owners will spend more money at other local businesses, purchasing more input goods to make additional products.

Then, those input business owners will also spend more money in the local economy to increase their production, and so on. Additionally, with the increase in revenue, local merchants may hire extra workers, further fueling the local economy. Thus, with each new round of spending, additional revenue is generated, expanding job creation, incomes, total output, and tax revenue to the local community.

A photograph of a middle-aged man with grey hair, wearing a blue t-shirt and yellow firefighter pants, sitting on a wooden structure. He is holding a red and white Coca-Cola cup in his right hand. The background is dark and appears to be a fire-damaged area.

**“My father was a  
firefighter who  
taught me how  
important public  
service is and  
I wanted to  
follow his  
example  
in life and  
work.”**

**Lonnie Brandt**  
Firefighter

41 years of service

# MISSOURI LAGERS QUICK FACTS



## LAGERS IS 86.5% PRE-FUNDED

This number represents the financial soundness of the LAGERS system. The pre-funded ratio is determined by dividing the systems assets by its liabilities. In other words, how much LAGERS has versus how much LAGERS owes. The amount LAGERS “owes” to pay retirement benefits to our members is very similar to a home mortgage. The pre-funded ratio would tell us that the LAGERS “mortgage” is 86.5% pre-funded.

- LAGERS is an efficient, proven system that works well for everyone
  - ⇒ Taxpayers, Employers, Employees, & Retirees
- Non-Profit Public Pension System created by Legislative action of the Missouri General Assembly in 1967
- The majority of LAGERS Pension benefit dollars are spent in the local communities creating reportable revenue throughout the State of Missouri
- LAGERS pays \$210 million in total annual benefits, 95% of which stay in Missouri
- Provides retirement, disability, and survivor benefits for local government employees within the state of Missouri
- LAGERS provides modest, but dependable retirement benefits
  - ⇒ The average retiree receives \$11,811 per year

# THE VALUE OF DEFINED BENEFIT PUBLIC PENSIONS: THE TAXPAYER

**T**here is a common misconception that taxpayers bear all the costs of funding defined benefit public pensions. The truth is, investment return funds the lion's share of benefits and taxpayers receive substantial economic benefits from public pension plans.

## 65% OF LAGERS FUNDING COMES FROM ITS INVESTMENT RETURN

Contrary to popular belief, the majority of public pension funding does not fall on the taxpayer. Approximately 65% of the LAGERS system is funded by the investments of the system's assets. About 32% of LAGERS funding comes from the Employers (taxpayers) and 3% from employee contributions.

## 95% OF THE \$210 MILLION LAGERS PAID IN ANNUAL BENEFITS STAYED IN MISSOURI

A study by the National Institute of Retirement Security found that every dollar invested by Missouri taxpayers into a defined benefit plan produced \$5.43 of total economic output within the state.

Total output is defined as the value of all goods and services produced in the economy. As retirees spend their benefits in local communities, the direct, indirect, and induced economic benefits of that spending ripples throughout Missouri's economy. In fact, every dollar paid to Missouri retirees ultimately supports \$1.49 in total economic activity within the state.

## EXPENDITURES STEMMING FROM STATE AND LOCAL PENSION PLANS SUPPORTED:

- 38,518 Jobs that paid \$1.6 billion in wages
- \$4.9 billion in total economic output.
- \$640.1 million in federal, state, and local tax revenue in the State of Missouri

**“[Providing LAGERS] will really be an important, wonderful and historic step forward for employees, and I think this service for our staff will reflect on the service supplied for our citizens.”**

Mayor Gerry Welch, City of Webster Groves



# THE VALUE OF DEFINED BENEFIT PUBLIC PENSIONS: THE EMPLOYER

A defined benefit plan is the most efficient way to provide employees with a dignified exit from the workforce, to keep lines of promotion open, and to attract and retain quality workers. Our communities deserve nothing less than the best services from qualified public employees.

## 72% OF EMPLOYEES SAY RETIREMENT BENEFITS ARE A RETENTION FACTOR

A defined benefit plan, like LAGERS, is based on salary and length of service, not an account balance. The payoff for the employee is that the longer he or she works for an employer the more he or she will earn in retirement for that service.

A study by the National Institute on Retirement Security found that Defined Benefit Pensions reduce quit rates by as much as 20%.

By retaining employees, defined benefit public pensions save the employer the cost of posting a job opening, hiring a new employee, and training the new employee. As a result, costing the taxpayers less.

**“We will be able to retain current quality staff and recruit new staff.”**

Kevin Lowrance, Administrator  
Audrain County  
Health Department



**Dedicated Kennett Utilities workers up to their necks in mud fixing a broken water main**

## DEFINED BENEFIT PLANS COST 46% LESS THAN DEFINED CONTRIBUTION PLANS TO PRODUCE THE SAME BENEFIT

Defined Benefit Plans, like LAGERS, are proven to be more efficient than 401-type defined contribution plans, because they stretch taxpayer, employer, and employee dollars further. In fact, the cost to deliver the same retirement income to a group of employees is 46% lower in a defined benefit plan than in defined contribution individual account plan. Defined benefit plans are able to achieve this efficiency because they utilize longevity risk pooling, maintain a balanced portfolio, and earn superior investment returns.

# LAGERS MEMBERSHIP

LAGERS maintains a sound retirement system while continuing steady membership growth. LAGERS expects the same stability in providing protected, defined, retirement benefits for all of its members and beneficiaries.

## Active Member Employees

as of June 30, 2013

General	Police Officers	Firefighters	Total
24,989	5,815	2,117	32,921

## Retirees & Beneficiaries

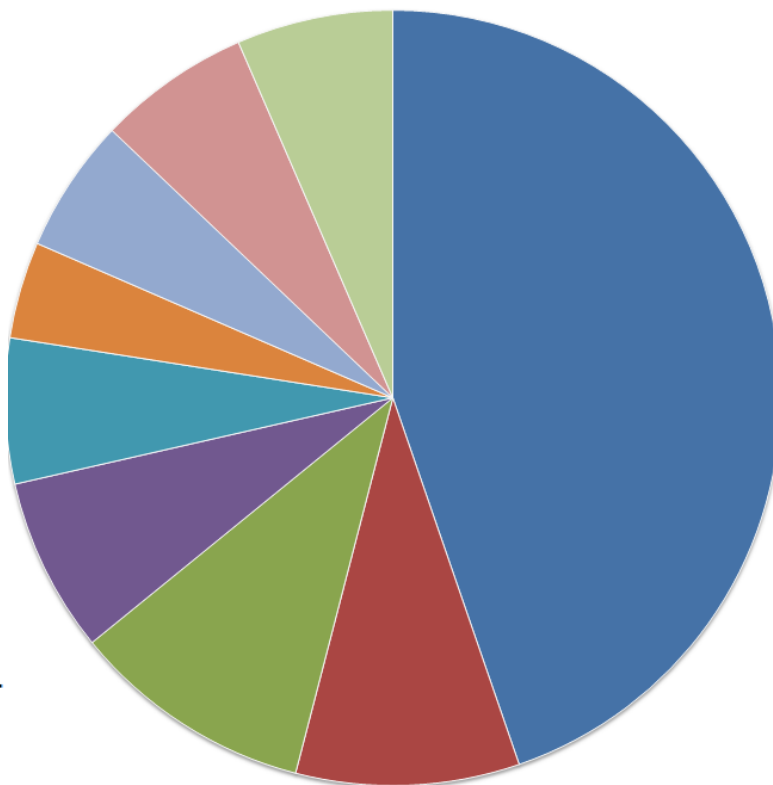
as of June 30, 2013

General	Police Officers	Firefighters	Total
14,048	2,916	887	17,851

## Member Employers

as of June 30, 2013

- Cities, 288
- Counties, 60
- Health Agencies, 65
- Special Districts, 47
- Water Districts, 39
- Road Districts, 26
- Fire Districts, 36
- Emergency Services, 41
- Libraries, 42

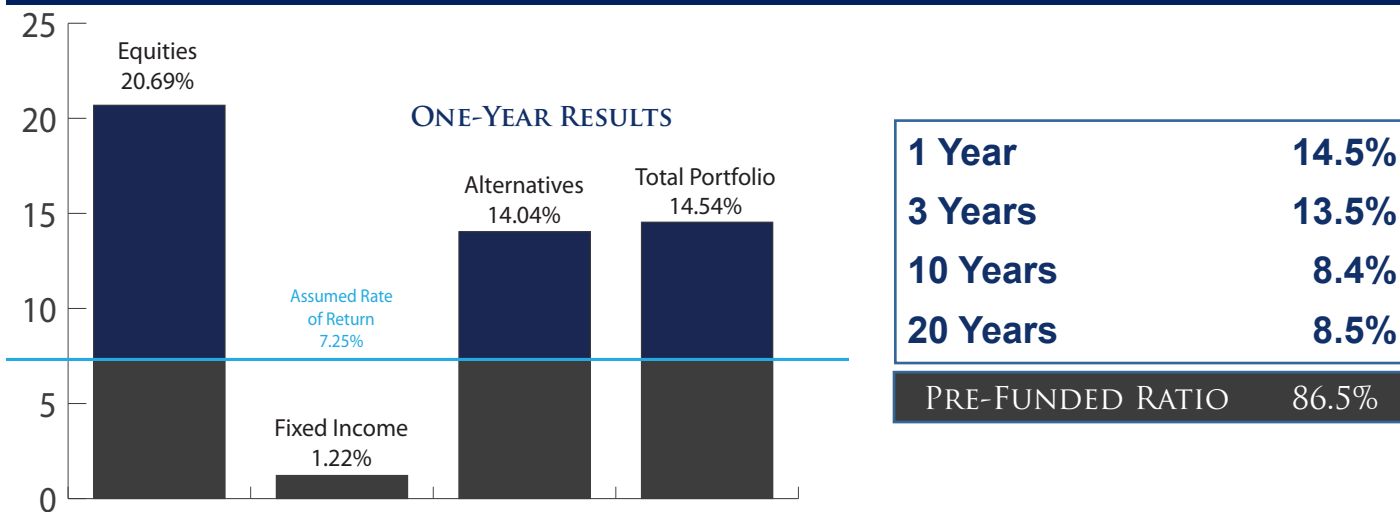


GETTING IT RIGHT!

**86 Missouri local government employers have joined LAGERS in the last 5 years. Two-thirds of those employers switched from an individual investment-type plan to LAGERS defined benefit structure.**

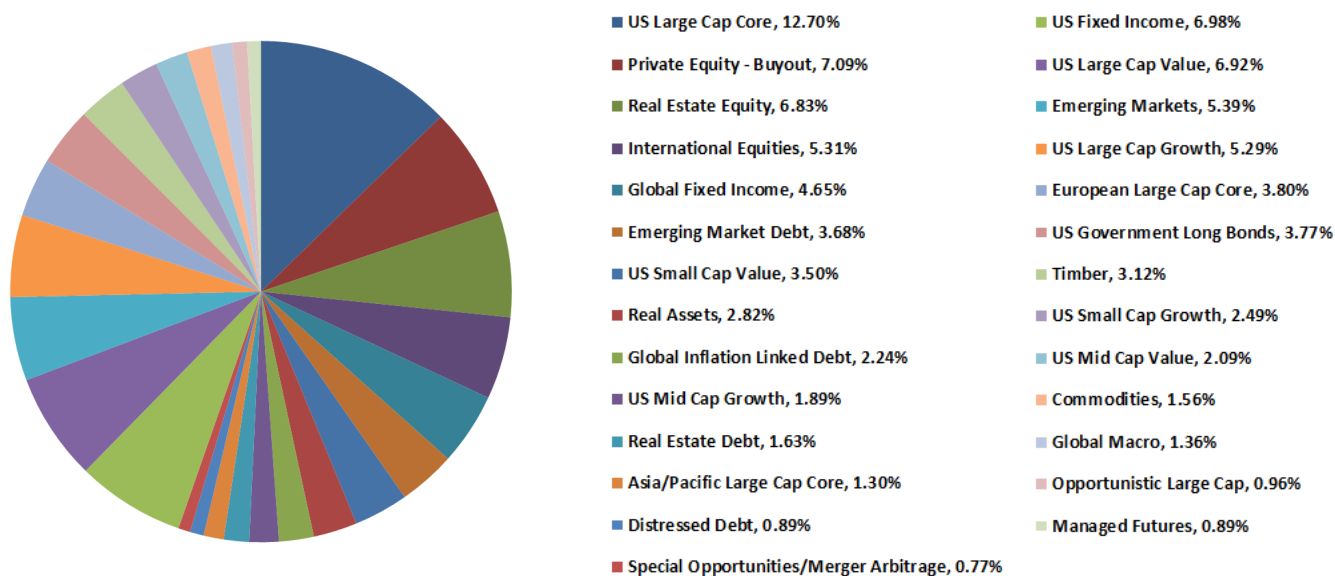
# LAGERS FINANCES AT A GLANCE

## INVESTMENT RETURNS CONSISTENTLY BEAT THE EXPECTED RATE OF RETURN AS OF JUNE 30, 2013



## LAGERS INVESTS IN A DIVERSIFIED PORTFOLIO

ASSET ALLOCATION AS OF JUNE 30, 2013



## LAGERS RETIREES RECEIVE MODEST BENEFITS

AS OF JUNE 30, 2013

Retirees	17,851
Average Annual Benefit	\$11,811
Average Annual Benefit for Retiree with 25-30 years of service	\$25,248

# THE VALUE OF DEFINED BENEFIT PUBLIC PENSIONS: THE RETIREE

**L**AGERS Defined Benefit system provides a clear path to a dignified exit from the workforce. What is received at retirement is earned through years of service, not based upon economic forces beyond control. The more service dedicated to the local government employer, the more the benefit increases.

## POVERTY RATES SIX TIMES HIGHER AMONG HOUSEHOLDS LACKING PENSION INCOME

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Ten percent of Americans age 65 and older live in poverty, according to the U.S. Census Bureau. Guaranteed income from Defined Benefit plans are vital building blocks for retirement security within our local communities and across the nation.

## THE RETIREMENT SAVINGS DEFICIT FOR THE AVERAGE AMERICAN IS \$48,000

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Workers without pensions are approaching retirement age without adequate savings. These workers will either be forced to continue working well into their 70s or rely on government assistance to survive. The Employee Benefit Research Institute (EBRI) recently calculated an average American retirement savings deficit of approximately \$48,000 per person, with an aggregate national retirement savings shortfall of almost \$4.6 trillion, excluding the costs of nursing home or home health care. Adding such costs would increase the shortfall by an average of \$25,317 per individual for married households. These amounts represent the additional individual average amounts needed at age 65 to eliminate expected deficits in retirement.



A photograph of firefighters in full protective gear, including helmets and oxygen tanks, working in a dark, smoky environment illuminated by bright orange fire. The scene is dramatic and emphasizes the importance of safety and security.

# THE VALUE OF DEFINED BENEFIT PUBLIC PENSIONS: THE EMPLOYEE

contribution accounts. According to US News & World Report, workers age 45-54 with 20-29 years of service lost on average 26% of their defined contribution account balance in 2008.

Since 2008, LAGERS has added 86 new member employers. This is attributable to the desire for security in uncertain times.

## DEFINED BENEFIT PLANS ARE PROFESSIONALLY MANAGED

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A recent survey conducted by Financial Finesse, a financial education firm, found that 53% of workers lack a basic knowledge of stocks, bonds, and mutual funds.

Public pension plans typically earn higher returns than individual investment accounts because assets are managed by professionals. The investment plan of LAGERS is a long-term strategy and it is managed by a dedicated, well-trained investment staff.

## EMPLOYEES MUST ALSO PLAN TO SAVE FOR RETIREMENT

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While the income from a defined benefit plan may provide a substantial monthly retirement benefit, it should not be an employee's sole source of income for retirement.

The current average annual LAGERS benefit is \$11,811, a modest but reliable allowance.

LAGERS provides a protected base from which, along with Social Security and personal savings, employees may build their retirement security.

Employees covered under defined benefit plans, like LAGERS, have the peace of mind knowing they are earning a benefit that will directly reflect their working career. The more an employee works, the more he or she earns towards a secure retirement benefit.

## DEFINED BENEFIT PLANS REWARD LONGEVITY

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Defined benefit pensions, like LAGERS, reward employees for longer working careers because their retirement benefit is based on their salary and years of service, rather than an account balance. Studies have shown that defined benefit plans reduce quit rates by 20%.

## LAGERS PROVIDES PROTECTION IN VOLATILE MARKETS

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Defined benefit plans, like LAGERS, protect employees from the inevitable swings in the markets because benefits are based on a formula.

During the tumultuous economic climate of 2008, millions of Americans lost thousands in their defined

# PENSION MYTHS

## MYTH: EMPLOYEES PREFER 401(K)-TYPE INVESTMENT PLANS OVER DEFINED BENEFIT PENSIONS

A recent survey by Merrill Lynch found that 82% of employees would be willing to give up 5% of their salary if it meant having dependable income during their retirement years. Likewise, 80% of employees believe that a guaranteed monthly retirement benefit is a 'must have' according to a survey by State Street Global Advisors. Eighty-six Missouri local government employers have joined LAGERS in the last 5 years. Two-thirds of those employers switched from an investment type plan to LAGERS defined benefit structure.

## MYTH: PENSIONS MAKE RETIREES RICH

The annual benefit for an average LAGERS retiree is about \$11,800. A worker that dedicates her career to local government service in Missouri can expect to receive a little more than \$25,000 per year from LAGERS. Dependable, steady monthly income, but hardly lucrative.

## MYTH: DEFINED BENEFIT PENSIONS HIDE THEIR TRUE COSTS BY USING UNREALISTIC ACCOUNTING METHODS

This is referring to the return that pension plans assume they will make on their investments. Investment income matters, as investment earnings account for a majority of pension funding. A shortfall in long-term expected investment earnings must be made up by higher contributions or reduced benefits.

Funding a pension benefit requires the use of projections, known as actuarial assumptions, about future events. One actuarial assumption is the investment experience. This must be a realistic figure to ensure that members and employers (the other sources of funding) are not being undercharged or overcharged. If the assumption is too low, member and employer contributions must increase, if the assumption is too high, shortfalls in the investment performance would have to be made up by higher contributions or reduced benefits.

LAGERS investment return assumption is 7.25%. This is based on historical returns as well as a recent asset liability study projecting returns 30 years into the future. LAGERS' 20 year return is 8.5% and its return since inception is 8.79%. LAGERS is very comfortable with its assumptions and the rates charged to employers and members.

## MYTH: PENSIONS COST TOO MUCH

A recent report from the National Association of State Retirement Administrators found that contributions made by state and local governments for defined benefit pension plans accounted for only 3.1% of total spending. The average LAGERS employer pays about 10% of an employee's pay to fund the benefits. Defined benefit plans remain the most efficient way to provide employees with a dignified exit from the workforce, keep lines of promotion open, and to attract and retain quality workers. Our communities deserve nothing less than the best services from qualified public employees.

## MYTH: THERE IS A PUBLIC PENSION CRISIS IN AMERICA

There is a retirement crisis in America, not a public pension crisis. The truth is that most public pension plans in the U.S. are working well. At the same time, many Americans do not have enough money saved to support themselves during retirement.

- The average retirement savings deficit is \$48,000 per person, more if you include health and long-term care costs.
- The total savings deficit of Americans ages 32-64 is between \$5.2 and \$7.9 trillion.
- 75% of American voters are worried they will not have enough money for a secure retirement.
- In 2007, half of all households ages 55-64 had less than \$98,000 saved for retirement.

# GETTING IT RIGHT!

## **"Government Service . . .**

must be attractive enough to lure our most talented people.

It must be challenging enough to call forth our greatest efforts.

It must be interesting enough to retain their services.

It must be satisfying enough to inspire single-minded loyalty and dedication.

It must be important enough to each individual to call forth reserves of energy and enthusiasm."

~ President John F. Kennedy's message to Federal Service  
published in the Civil Service Journal, 1961

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