

Via Electronic Mail

May 6, 2024

Board of Pension Trustees
City of Kansas City, Missouri Employee's Retirement System
12th Floor, City Hall
414 East 12th Street
Kansas City, Missouri 64106

***Re: Kansas City Employees' Retirement System
Cost Statement for Proposed Legislative Changes***

Dear Members of the Board:

As requested, we are providing a cost statement under Section 105.665 of the Missouri Revised Statutes relating to proposed legislative changes. These changes are described in the document dated March 28, 2024, and titled "KCERS_2024 Pension Cost Study Analysis_20240328s.pdf" which details the results of our analysis (the "Analysis") and which is included with this letter. Since the Analysis was completed, it was decided that the effect of adding the Judges only, not the Elected Officials, from the Analysis would be included in this cost statement. We are also including with this letter the Actuarial Valuation Report for the Kansas City Employees' Retirement System as of May 1, 2023 (the "Valuation"), which includes some of the information required by Section 105.665.

The following is provided in support of the proposed changes to the Kansas City Employees' Retirement System as required by Section 105.665.

- (1) The level normal cost of plan benefits currently in effect, which cost is expressed both in estimated annual dollars and as a percent of active employee payroll;

Please refer to Table V-2 of the Valuation for the normal cost as a percent of active employee payroll. The annual dollar amount of the level normal cost currently in effect is \$19,744,946.

- (2) The contribution for unfunded accrued liabilities currently payable by the plan, which cost is expressed both in estimated annual dollars and as a percent of active employee payroll and shall be over a period not to exceed thirty years;

Please refer to Table V-2 of the Valuation for the cost as a percent of active employee payroll. The annual dollar amount of the contribution for unfunded accrued liabilities is \$25,783,335 for the fiscal year ending April 30, 2025. The amortization period is 20 years.

- (3) The total contribution rate expressed both in estimated annual dollars and as a percent of active employee payroll, which contribution rate shall be the total of the normal cost percent plus the contribution percent for unfunded accrued liabilities;

Please refer to Table I-1 of the Valuation.

- (4) A statement as to whether the legislative body is currently paying the total contribution rate as defined in subdivision (3) of this subsection;

It is our understanding that the City of Kansas City intends to pay the amount of contribution indicated in item (3).

- (5) The plan's actuarial value of assets, market value of assets, actuarial accrued liability, and funded ratio as defined in section 105.660 as of the most recent actuarial valuation;

Please refer to Table I-1 of the Valuation.

- (6) The total post-change contribution rate expressed both in estimated annual dollars and as a percent of active employee payroll;

The fiscal year ending April 30, 2025, total post-change estimated contribution rate is 20.26% of active employee payroll, or \$38,916,721.

- (7) A projection of at least ten years of the current plan provisions compared to the proposed change from the proposed effective date of such change including the total annual contribution requirements expressed both in estimated annual dollars and as a percent of active employee payroll, the actuarial value of assets, the market value of assets, the actuarial accrued liability, and the funded ratio as defined in section 105.660 except that such projection shall not apply to employers within the retirement system established in sections 70.600 to 70.755, but in lieu thereof shall include a prospective schedule of at least ten years containing current provision-estimated employer contributions as a percent of payroll and estimated annual dollars, proposed provision-estimated employer contributions as a percent of payroll and estimated annual dollars, and the resulting difference. Such schedule shall also contain the estimated difference between the actuarial accrued liability and actuarial value of assets for each scenario;

Please refer to attachments of this letter.

- (8) A statement as to whether such additional contributions are mandated by the proposed change;

It is our understanding that the contributions shown in the projections would be required to be contributed by the City of Kansas City.

- (9) A statement as to whether or not the proposed change would in any way impair the ability of the plan to meet the obligations thereof in effect at the time the proposal is made;

We do not believe that the proposed changes would impair the ability of the plan to meet its obligations currently in effect.

- (10) 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 shall be those assumptions used in preparing the most recent periodic actuarial valuation for the plan, unless the nature of the proposed change is such that alternative assumptions are clearly warranted, and shall be made and stated with respect to at least the following:

- (a) Investment return;
- (b) Pay increase;
- (c) Mortality of employees and officials, and other persons who may receive benefits under the plan;
- (d) Withdrawal (turnover);
- (e) Disability;
- (f) Retirement ages;
- (g) Change in active employee group size;

Please refer to Appendix B of the Valuation.

- (11) The actuary shall certify that in the actuary's opinion the assumptions used for the valuation produce results which, in the aggregate, are reasonable;

In our opinion, the actuarial assumptions in Appendix B of the Valuation are reasonable for purposes of the Valuation and the Analysis.

- (12) A description of the actuarial funding method used in preparing the valuation including a description of the method used and period applied in amortizing unfunded actuarial accrued liabilities.

Please refer to Appendix B of the Valuation.

Data, Methods, and Assumptions

In performing this analysis we referred to the data, assumptions, actuarial methods and plan provisions used in the May 1, 2023 actuarial valuation of the System. Please refer to the full May 1, 2023 actuarial valuation report for summaries of the data, assumptions, actuarial methods and plan provisions used in this analysis. Please refer to the Analysis for details of the proposed plan provision changes.

In preparing this letter, we relied on information (some oral and some written) supplied by the Employees' Retirement System staff. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23.

Future results may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the assumptions, changes in assumptions, and changes in plan provisions or applicable law.

Cheiron utilizes ProVal, an actuarial valuation software leased from Winklevoss Technologies (WinTech) to calculate liabilities and project benefit payments. We have relied on WinTech as the developer of ProVal. We have reviewed ProVal and have a basic understanding of it and have used ProVal in accordance with its original intended purpose. We have not identified any material inconsistencies in assumptions or output of ProVal that would affect this report.

Certification

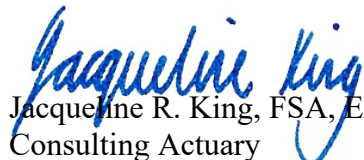
This letter and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter. This letter does not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.


This letter was prepared exclusively for the Employees' Retirement System for the purpose of providing information required under Section 105.665 of the Missouri Revised Statutes. This letter is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

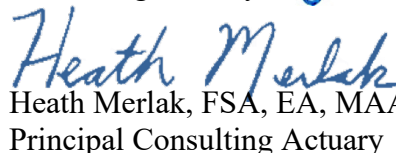
We are available to answer any questions on the material in this letter or to provide explanations or further details as appropriate. Please let us know if you have any questions or need any further information. We can be reached at 877.243.4766, extension 1118, 1030 or 1143, or via electronic mail at jking@cheiron.us, smcelhaney@cheiron.us or hmerlak@cheiron.us respectively.

Sincerely,

Cheiron


Jacqueline R. King, FSA, EA, MAAA
Consulting Actuary


Stephen T. McElhaney, FSA, EA, MAAA, FCA
Principal Consulting Actuary


Heath Merlak, FSA, EA, MAAA, FCA
Principal Consulting Actuary

Attachments

ATTACHMENT

Projection (Baseline)						
Fiscal Year Beginning May 1,	Actuarially Determined Contribution		Value of Assets		Actuarial Liability	Funded Ratio
	Dollars	% Payroll	Actuarial	Market		
2023	\$30,359,843	19.73%	\$1,260,175,559	\$1,160,655,852	\$1,558,059,334	80.88%
2024	38,799,237	20.30%	1,263,538,727	1,183,674,163	1,584,060,507	79.77%
2025	41,771,153	21.27%	1,276,460,874	1,212,369,561	1,613,908,423	79.09%
2026	44,473,611	22.04%	1,293,611,440	1,242,178,161	1,642,076,198	78.78%
2027	46,919,912	22.63%	1,314,310,328	1,273,035,122	1,668,574,031	78.77%
2028	49,168,875	23.08%	1,338,220,752	1,305,097,399	1,693,645,745	79.01%
2029	51,265,263	23.42%	1,364,953,923	1,338,372,432	1,717,337,422	79.48%
2030	53,237,345	23.67%	1,393,942,031	1,372,610,385	1,739,390,040	80.14%
2031	55,140,462	23.86%	1,425,206,980	1,408,088,334	1,760,035,992	80.98%
2032	56,989,262	24.00%	1,458,773,668	1,445,035,955	1,779,409,811	81.98%

Projection (Analysis)						
Fiscal Year Beginning May 1,	Actuarially Determined Contribution		Value of Assets		Actuarial Liability	Funded Ratio
	Dollars	% Payroll	Actuarial	Market		
2023	\$30,359,843	19.73%	\$1,260,175,559	\$1,160,655,852	\$1,558,483,533	80.86%
2024	38,916,721	20.26%	1,263,772,942	1,183,908,378	1,584,652,022	79.75%
2025	41,883,040	21.22%	1,276,896,552	1,212,805,239	1,614,679,313	79.08%
2026	44,596,408	21.99%	1,294,234,703	1,242,801,424	1,643,039,400	78.77%
2027	47,052,252	22.58%	1,315,144,754	1,273,869,548	1,669,743,474	78.76%
2028	49,288,276	23.02%	1,339,288,349	1,306,164,996	1,695,034,609	79.01%
2029	51,391,699	23.36%	1,366,260,462	1,339,678,971	1,718,965,376	79.48%
2030	53,392,697	23.62%	1,395,507,575	1,374,175,928	1,741,271,455	80.14%
2031	55,279,074	23.80%	1,427,070,023	1,409,951,377	1,762,180,705	80.98%
2032	57,133,361	23.94%	1,460,927,171	1,447,189,458	1,781,827,041	81.99%

Via Electronic Mail

March 28, 2024

Board of Pension Trustees
City of Kansas City, Missouri Employee's Retirement System
12th Floor, City Hall
414 East 12th Street
Kansas City, Missouri 64106

Re: Kansas City Employees' Retirement System – 2024 Actuarial Cost Study

Dear Members of the Board:

The City Manager's Office has requested an estimate of the impact of potential plan changes for the Kansas City Employees' Retirement System (ERS). The purpose of this letter is to present the analysis of the proposed changes and the fiscal impact for the ERS. This letter is for the use of the Kansas City Employees' Retirement System Board.

Summary of the Actuarial Cost Study

It is our understanding that the proposed changes in the Plan are to add the Mayor, 12 City Council members, and 6 Judges to the ERS. All of these individuals would be added as Tier 2 members with the same benefits as current Tier 2 members, with the exception of 3 of the judges who would be added as Tier 1 members with the same benefits as current general Tier 1 members.

The mayor, 12 City Council members and the 3 Judges that enter the ERS as Tier 2 members would be added as new entrants on a go forward basis only (i.e. no prior service or benefits credits upon their date of entry to the ERS).

The 3 Judges that enter the ERS as Tier 1 members would be treated as rehires, hence retaining the service and benefits that they previously earned in the ERS prior to the closing of the previous Elected Officials' Plan, and the contributions that they contributed that have not been refunded to them.

The study assumes that none of these individuals will be eligible to purchase prior service. The list of individuals added to the ERS in this study are provided in Exhibit I in the attachment to letter.

Fiscal Impact of Adding Members to the ERS

The Actuarial Liability and Unfunded Actuarial Liability (UAL) as of May 1, 2023 is expected to increase by approximately \$424,000. The employer normal cost rate as a percentage of payroll is expected to increase by 0.02%, however, the UAL contribution rate as a percentage of payroll is expected to decrease by 0.14%, due to the increase in expected payroll. This resulted in a total decrease of 0.12% for the actuarially determined City contribution rate under the Board's funding policy for fiscal year ending 2025, but an increase of approximately \$218,000 for the Actuarially Determined Contribution (ADC) dollar amount for fiscal year ending 2025.

The Actuarial Liability impact is zero for the elected official group since none of them have prior service or benefits from the ERS, and hence have no accrued liability at the time of entry into the ERS. This group does however have a Normal Cost and Present Value of Future Benefits.

Detailed results of the analysis are shown in Exhibit II in the attachment to letter.

Data, Methods, and Assumptions

In performing this analysis we referred to the data, assumptions, actuarial methods and plan provisions used in the May 1, 2023 actuarial valuation of the System. Please refer to the full May 1, 2023 actuarial valuation report for summaries of the data, assumptions, actuarial methods and plan provisions used in the valuation.

In preparing this letter, we relied on information (some oral and some written) supplied by ERS staff. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23.

For this analysis, we have assumed that the changes outlined in this letter, if implemented, would have taken effect on the most recent valuation date, May 1, 2023. Although the actual effective date, if enacted, would likely be after this assumed implementation date, we believe the estimated cost impact shown here would be reasonable.

Future results may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the assumptions, changes in assumptions, and changes in plan provisions or applicable law.

Cheiron utilizes ProVal, an actuarial valuation software leased from Winklevoss Technologies (WinTech) to calculate liabilities and project benefit payments. We have relied on WinTech as the developer of ProVal. We have reviewed ProVal and have a basic understanding of it and have used ProVal in accordance with its original intended purpose. We have not identified any material inconsistencies in assumptions or output of ProVal that would affect this report.

Certification

This letter and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter. This letter does not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.

This letter was prepared exclusively for the Employees' Retirement System for the purpose described herein. This letter is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

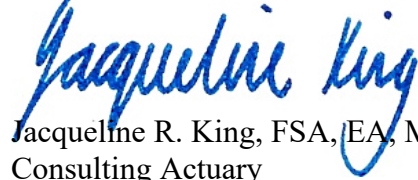
March 28, 2024

Page 3

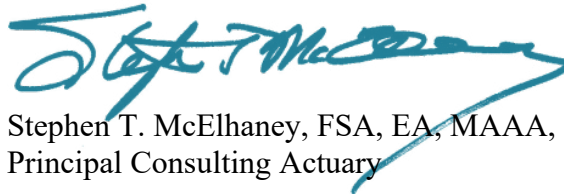
We are available to answer any questions on the material in this letter or to provide explanations or further details as appropriate. Please let us know if you have any questions or need any further information. We can be reached at 877.243.4766, extension 1118, 1030 or 1143, or via electronic mail at jking@cheiron.us, smcelhaney@cheiron.us or hmerlak@cheiron.us respectively.

Sincerely,

Cheiron



Jacqueline R. King, FSA, EA, MAAA
Consulting Actuary



Stephen T. McElhaney, FSA, EA, MAAA, FCA
Principal Consulting Actuary



Heath Merlak, FSA, EA, MAAA, FCA
Principal Consulting Actuary

Attachments

**ATTACHMENT
EXHIBIT I**

Proposed Additional Members		
Name	Position	Tier
Lucas, Quinton	Mayor	Tier 2
O'Neill, Kevin	City Council Member	Tier 2
Willett, Nathan	City Council Member	Tier 2
French, Lindsay	City Council Member	Tier 2
Rogers, Wes	City Council Member	Tier 2
Patterson-Hazley, Melissa	City Council Member	Tier 2
Robinson, Melissa	City Council Member	Tier 2
Rea, Crispin	City Council Member	Tier 2
Bunch, Eric	City Council Member	Tier 2
Curls, Darrell	City Council Member	Tier 2
Parks-Shaw, Ryana	City Council Member	Tier 2
Bough, Andrea	City Council Member	Tier 2
Duncan, Johnathan	City Council Member	Tier 2
Peterson, Martina L	Municipal Judge	Tier 2
Marshall, Shayla M	Municipal Judge	Tier 2
Carter, Corey A	Municipal Judge	Tier 2
Wilcher, Todd D	Municipal Judge	Tier 1
Wachal, Courtney A	Municipal Judge	Tier 1
Heffernon, Michael C	Municipal Judge	Tier 1

**ATTACHMENT
EXHIBIT II**

**City of Kansas City, Missouri Employees' Retirement System
Results of Actuarial Cost Study**

	5/1/2023	Impact of Cost Study Additions			5/1/2023 Total
	Valuation	Elected Officials	Judges ¹	Total Change	with Additions
Active Participants	3,016	13	6	19	3,035
Disabled Participants	4	-	-	-	4
Retirees and Beneficiaries	2,789	-	-	-	2,789
Terminated Vested Participants	224	-	(1)	(1)	223
Inactive Participants	1,003	-	-	-	1,003
Total	7,036	13	5	18	7,054
Active Member Payroll					
Tier 1	\$ 97,106,217	\$ -	\$ 448,476	\$ 448,476	\$ 97,554,693
Tier 2	\$ 88,907,648	\$ 1,218,000	\$ 489,246	\$ 1,707,246	\$ 90,614,894
Total	\$ 186,013,865	\$ 1,218,000	\$ 937,722	\$ 2,155,722	\$ 188,169,587
Assets and Liabilities					
Market Value of Assets (MVA)	\$ 1,160,655,852	\$ -	\$ -	\$ -	\$ 1,160,655,852
Actuarial Value of Assets (AVA)	\$ 1,260,175,559	\$ -	\$ -	\$ -	\$ 1,260,175,559
Normal Cost (NC)	\$ 19,744,946	\$ 141,819	\$ 126,949	\$ 268,768	\$ 20,013,714
Present Value of Future Benefits (PVB)	\$ 1,697,402,346	\$ 964,853	\$ 1,392,265	\$ 2,357,118	\$ 1,699,759,464
Actuarial Liability (AL)	\$ 1,558,059,332	\$ -	\$ 424,199	\$ 424,199	\$ 1,558,483,531
Unfunded Actuarial Liability (UAL)	\$ 297,883,773	\$ -	\$ 424,199	\$ 424,199	\$ 298,307,972
Funded Ratio (MVA)	74.49%	0.00%	-0.02%	-0.02%	74.47%
Funded Ratio (AVA)	80.88%	0.00%	-0.02%	-0.02%	80.86%
Contributions as a Percentage of Payroll for Fiscal Year Ending 2025					
Components of Contribution Rate					
Normal Cost Contribution	6.51%	0.01%	0.01%	0.02%	6.53%
Administrative Expense Rate	0.30%	0.00%	0.00%	0.00%	0.30%
Unfunded Actuarial Liability Contribution	<u>13.49%</u>	<u>-0.09%</u>	<u>-0.05%</u>	<u>-0.14%</u>	<u>13.35%</u>
Total Contribution	20.30%	-0.08%	-0.04%	-0.12%	20.18%
Expected Annual Salaries of Active Members	\$ 191,129,246	\$ 1,251,495	\$ 963,509	\$ 2,215,004	\$ 193,344,251
Actuarially Determined Contribution (ADC)	\$ 38,799,237	\$ 100,149	\$ 117,484	\$ 217,633	\$ 39,016,870

¹ Offset by 5/1/2023 valuation results for individuals added in cost study