

OUTLOOK

The System's Future Financial Condition

According to the System's actuary and independent auditor, over the past eighteen months, overlapping with the System's last two Plan Years (through September 30, 2010), global economies have started to show signs of recovery. The System's portfolio was well positioned to take advantage of the positive investment market shifts which resulted in a significant increase in the fair value of the System's investments.

However, as illustrated above, the results of the steep market decline that occurred in 2008 and 2009, which impacted all public and private pension plans, are still being recognized as a result of asset smoothing. Market gains are helping, but the impact of those prior year losses is evidenced in the variation between Actuarial Value of Assets and Market Value of Assets, and the continuing rise in the City's Actuarial Required Contributions – a trend that is projected to extend for several more years.

The System's total future Plan costs will depend on a number of factors:

- The amount of benefits the Plan pays;
- The number of people (Members) paid those benefits;
- The period of time over which those benefits are paid;
- Plan expenses; and,
- The amount earned on any assets invested to pay benefits.

The City is the Plan's Sponsor. As with other cities, counties and states across the country, the impact of the recent global recession is still being felt, and the City is struggling with unprecedented budget challenges. For the City's current FY11 budget, a total of \$74.4M (about 16% of the City's operating budget) had to be allocated to pay pension costs (required contributions and debt service payments), of which \$21M was allocated to pay the System's costs: \$17.5M in ARC, \$3.2M in debt service, and approximately \$260,000 in subsidized administrative costs. As indicated above, these costs will continue to increase over the next few years and will further impact the City's ability to meet its contribution requirements.

The Board of Trustees' top priority is ensuring the System's long-term future stability and growth for the benefit of its Members. The Board has asked its Legislative Committee to examine potential short-term changes on a moving forward basis that would positively impact the System's future costs. These proposed changes will be presented to the Members. Any proposed changes to the System will require legislation before the Missouri General Assembly, and we are asking for support from our Members and the City Administration as we move forward with this effort.