

## **Proposed Legislation for 2018**

### **New Hires**

- **DECREASE vesting to 10 years of service and age 55.**
- **Members who leave service prior to age 55 defer the receipt of their benefit until they reach age 55.**
- **Members leaving service before vesting receive the refund of their contributions without interest.**
- **“Early Retirement” for DROP participation at 20 years of creditable service without reduction of benefit.**
- **Increase average final compensation to three (3) years**
- **Increase member contributions to 9% pre-tax**
- **No return of member contributions at retirement**
- **No re-entry after DROP participation**
- **Cap service retirement at 70%**
- **Cap COLA at 25%**
- **Change DROP interest rate to the 10-year Treasury Bill rate as of September 30 plus 1% not to exceed 6%**
- **No special advisor benefit “\$10 bill” for member or surviving spouse**

### **All Members**

- **Change the actuarial method from the Aggregate Method to Entry Age Normal (EAN) and include the poison pill Hancock language.**
- **Increase member’s contribution rate to 8%, PRE-TAX.**
- **Remove the mandatory retirement age**
- **An offset against disability benefits in excess of 125 % of the member’s annual salary at the time of disability retirement**
- **Change quorum requirement from six members to a majority of the seated board members**

## 2018 LEGISLATIVE PACKAGE REVIEW

These are the changes proposed for current members in order to sustain the Defined Benefit Plan currently in place. The bill was never heard but was sponsored to generate conversations within the legislature.

The current proposal has changed slightly. There are two changes which are numbered in the text.

1. Increase member contribution to 8 % pre-tax for current active members, and to 9% pre-tax for new hires. We sought an IRS/Legal opinion as to whether members could “opt-out” of the pre-tax requirement. Opt-outs are not allowed. There is a table within this message that shows the benefit of the pre-tax strategy by increasing take home income on every check. Also in this package is a comparison of pension benefits between PRS, St Louis County and MSHP.
2. Vesting at ten (10) years for New Hires, deferring the receipt of benefits to age 55. New hires who serve 20 years may elect to enter the DROP, but there is no DROP re-entry for new hires.

These two changes were requested by the City in order to support the legislation. Their view was that it was the only item in the whole package that a previous cost study noted increased pension costs. Under current state law, such a cost increase could not go into effect until the System reached a funding level of 80%; the current funding level as of 9/30/16 is 78.8%.

The measure was voted on at the board meeting on December 20. While not palatable to the trustees, the long term goal of sustaining the System through benefit reform was felt to be the most important issue.

Elimination of mandatory retirement at age 65.

An offset against disability benefits in excess of 125% of the member’s annual salary at the time of disability retirement. This would apply to any injury reported after the effective date of the legislation.

Change the actuarial accounting method from “Aggregate Method” to “Entry Age Normal Method”. This is an administrative change required by Governmental Accounting Standards Board.

The above changes also impact all new hires as well as specific changes for new hires only. None of the changes exclusive to new hires will have any impact on anyone who is a member of the system before the effective date of the legislation.

### NEW BUSINESS

Over the course of the summer and fall, trustees met with legislators from the City of St. Louis, St. Louis County and all contiguous counties in the area. The legislators were supplied with fact sheets and historical data concerning the PRS. The sessions were well received and elicited much conversation and very good questions. The trustees felt that these lawmakers were ready to listen and could see the need for change.

We are now in the position to finalize our work. The bill itself is being scrutinized for any possible errors on many fronts. Once it is in the final form we will seek sponsors and co-sponsors for the package. Our current timetable will have the bill filed after January 15, 2018 for the 2018 Session.

This is the point where we need your help to make your pension and your future safe and sustainable. We will be coming to roll calls to answer questions in the future. The entire package is on the PRS website. Gather as much information as you can and use the links below to contact your elected state legislators. Identify yourselves as constituents, identify any organizations you belong to and ask your reps to support this package to ensure the pensions you and your family deserve.

[http://www.senate.mo.gov/LegisLookup/default.aspx/leg\\_lookup.aspx](http://www.senate.mo.gov/LegisLookup/default.aspx/leg_lookup.aspx)

<http://www.house.mo.gov/legislatorlookup.aspx>



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## MEMO

**DATE:** January 17, 2017

**TO:** Board of Trustees  
The Police Retirement System of St. Louis

**FROM:** Robert B. Offerman, CPA

We have prepared the attached exhibits showing the income tax and cash flow analysis of the legislative proposal to increase Member contributions to 8% from the current 7% and change the Member contribution to be pretax vs. the current after tax.

Summary of cash flow from attached exhibits:

<u>Member's Status</u>	<u>Current Provision 7% After Tax</u>	<u>Legislative Proposal 8% Pretax</u>	<u>Net Additional Cash Flow To Member</u>
Married with 2 dependents:			
Contribution to PRS	\$ 58,291	66,618	(8,327)
Income tax (Fed, MO, StL)	216,151	198,060	18,091
Total Paid	<u>\$ 274,442</u>	<u>264,678</u>	<u>9,764</u>
Single with 0 dependents:			
Contribution to PRS	\$ 58,291	66,618	(8,327)
Income tax (Fed, MO, StL)	159,346	138,058	21,288
Total Paid	<u>\$ 217,637</u>	<u>204,676</u>	<u>12,961</u>

What happens when the Member receives a lump-sum at retirement?

1. The Member can keep the lump-sum distribution for their personal use and pay income tax at their then current rate based on their total taxable income level in the year of retirement. The income tax liability will vary based on each individual Members' personal/family tax situation.
2. The Member can rollover 100% of the lump-sum distribution to a traditional IRA. The IRA will grow tax-free based on the Member's choice of investment type. Required minimum distributions (RMD) would begin at age 70½ based on the Member's joint life expectancy with the named beneficiary.
3. The Member can rollover 100% of the lump-sum distribution to a traditional IRA and then rollover the traditional IRA to a ROTH IRA. The rollover would be taxable in the year completed. The ROTH IRA can then grow tax free for the remainder of the Member's lifetime, no RMD. When distributions are taken from the ROTH IRA by the Member, they would be 100% tax free.



# The Police Retirement System of St. Louis

Analysis of After Tax Contribution (current provision)

	8th yr	9th yr	10th yr	11th yr	12th yr	13th yr	14th yr	15th yr	16th yr	17th yr	18th yr	19th yr	20th yr	Total
<b><u>Married with 2 dependents</u></b>														
Officer with 7 years:														
City of St. Louis	\$ 55,000	55,000	56,375	57,784	59,229	60,710	62,227	63,783	65,378	67,012	68,687	70,405	72,165	
Wage increase - 2.5%	-	1,375	1,409	1,445	1,481	1,518	1,556	1,595	1,634	1,675	1,717	1,760	1,804	
PRS after tax cont. - 7%	(3,850)	(3,946)	(4,045)	(4,146)	(4,250)	(4,356)	(4,465)	(4,576)	(4,691)	(4,808)	(4,928)	(5,052)	(5,178)	58,291
Spouse:														
Any employer	40,000	40,000	41,000	42,025	43,076	44,153	45,256	46,388	47,547	48,736	49,955	51,203	52,483	
Wage increase - 2.5%	-	1,000	1,025	1,051	1,077	1,104	1,131	1,160	1,189	1,218	1,249	1,280	1,312	
Total income w/o pretax cont.	95,000	97,375	99,809	102,305	104,862	107,484	110,171	112,925	115,748	118,642	121,608	124,648	127,764	
Itemized deductions - +2%	(12,600)	(12,852)	(13,109)	(13,371)	(13,639)	(13,911)	(14,190)	(14,473)	(14,763)	(15,058)	(15,359)	(15,667)	(15,980)	
Exemptions - +2%	(16,200)	(16,524)	(16,854)	(17,192)	(17,535)	(17,886)	(18,244)	(18,609)	(18,981)	(19,360)	(19,748)	(20,143)	(20,546)	
Taxable income	<u>\$ 66,200</u>	<u>67,999</u>	<u>69,846</u>	<u>71,742</u>	<u>73,688</u>	<u>75,686</u>	<u>77,737</u>	<u>79,843</u>	<u>82,004</u>	<u>84,223</u>	<u>86,501</u>	<u>88,839</u>	<u>91,239</u>	
Income tax liability:														
Federal	\$ 9,011	9,274	9,551	9,836	10,129	10,506	11,019	11,544	12,094	12,644	13,219	13,794	14,394	
Missouri	3,545	3,638	3,731	3,828	3,935	4,055	4,178	4,305	4,434	4,567	4,704	4,845	4,988	
City of St. Louis	950	974	998	1,023	1,049	1,075	1,102	1,129	1,157	1,186	1,216	1,246	1,278	
Total income tax liability	<u>\$ 13,506</u>	<u>13,886</u>	<u>14,280</u>	<u>14,687</u>	<u>15,113</u>	<u>15,636</u>	<u>16,299</u>	<u>16,978</u>	<u>17,685</u>	<u>18,397</u>	<u>19,139</u>	<u>19,885</u>	<u>20,660</u>	216,151
Total cash paid for PRS cont. & Income taxes	<u>\$ 17,356</u>	<u>17,832</u>	<u>18,325</u>	<u>18,833</u>	<u>19,362</u>	<u>19,992</u>	<u>20,764</u>	<u>21,555</u>	<u>22,376</u>	<u>23,206</u>	<u>24,067</u>	<u>24,937</u>	<u>25,837</u>	<u>274,442</u>
<b><u>Single with 0 dependents</u></b>														
Officer with 7 years:														
City of St. Louis	\$ 55,000	55,000	56,375	57,784	59,229	60,710	62,227	63,783	65,378	67,012	68,687	70,405	72,165	
Wage increase - 2.5%	-	1,375	1,409	1,445	1,481	1,518	1,556	1,595	1,634	1,675	1,717	1,760	1,804	
PRS after tax cont. - 7%	(3,850)	(3,946)	(4,045)	(4,146)	(4,250)	(4,356)	(4,465)	(4,576)	(4,691)	(4,808)	(4,928)	(5,052)	(5,178)	58,291
Total income w/o pretax cont.	55,000	56,375	57,784	59,229	60,710	62,227	63,783	65,378	67,012	68,687	70,405	72,165	73,969	
Itemized deductions - +2%	(6,300)	(6,426)	(6,555)	(6,686)	(6,819)	(6,956)	(7,095)	(7,237)	(7,381)	(7,529)	(7,680)	(7,833)	(7,990)	
Exemptions - +2%	(4,050)	(4,131)	(4,214)	(4,298)	(4,384)	(4,472)	(4,561)	(4,652)	(4,745)	(4,840)	(4,937)	(5,036)	(5,136)	
Taxable income	<u>\$ 44,650</u>	<u>45,818</u>	<u>47,016</u>	<u>48,245</u>	<u>49,507</u>	<u>50,800</u>	<u>52,127</u>	<u>53,489</u>	<u>54,885</u>	<u>56,318</u>	<u>57,788</u>	<u>59,296</u>	<u>60,843</u>	
Income tax liability:														
Federal	\$ 6,963	7,250	7,550	7,850	8,175	8,500	8,825	9,163	9,513	9,875	10,238	10,613	11,000	
Missouri	2,268	2,338	2,410	2,484	2,559	2,637	2,717	2,798	2,882	2,968	3,056	3,147	3,240	
City of St. Louis	550	564	578	592	607	622	638	654	670	687	704	722	740	
Total income tax liability	<u>\$ 9,781</u>	<u>10,152</u>	<u>10,538</u>	<u>10,926</u>	<u>11,341</u>	<u>11,759</u>	<u>12,180</u>	<u>12,615</u>	<u>13,065</u>	<u>13,530</u>	<u>13,998</u>	<u>14,482</u>	<u>14,980</u>	159,346
Total cash paid for PRS cont. & Income taxes	<u>\$ 13,631</u>	<u>14,098</u>	<u>14,583</u>	<u>15,072</u>	<u>15,591</u>	<u>16,115</u>	<u>16,645</u>	<u>17,191</u>	<u>17,756</u>	<u>18,338</u>	<u>18,926</u>	<u>19,533</u>	<u>20,158</u>	<u>217,637</u>

note: used 2015 tax rates

# The Police Retirement System of St. Louis

Analysis of Pretax Contribution (legislative proposal)

	8th yr	9th yr	10th yr	11th yr	12th yr	13th yr	14th yr	15th yr	16th yr	17th yr	18th yr	19th yr	20th yr	Total
<b><u>Married with 2 dependents</u></b>														
Officer with 7 years:														
City of St. Louis	\$ 55,000	55,000	56,375	57,784	59,229	60,710	62,227	63,783	65,378	67,012	68,687	70,405	72,165	
Wage increase - 2.5%	-	1,375	1,409	1,445	1,481	1,518	1,556	1,595	1,634	1,675	1,717	1,760	1,804	
PRS pretax cont. - 8%	(4,400)	(4,510)	(4,623)	(4,738)	(4,857)	(4,978)	(5,103)	(5,230)	(5,361)	(5,495)	(5,632)	(5,773)	(5,918)	66,618
Spouse:														
Any employer	40,000	40,000	41,000	42,025	43,076	44,153	45,256	46,388	47,547	48,736	49,955	51,203	52,483	
Wage increase - 2.5%	-	1,000	1,025	1,051	1,077	1,104	1,131	1,160	1,189	1,218	1,249	1,280	1,312	
Total income	90,600	92,865	95,187	97,566	100,005	102,506	105,068	107,695	110,387	113,147	115,976	118,875	121,847	
Itemized deductions - +2%	(12,600)	(12,852)	(13,109)	(13,371)	(13,639)	(13,911)	(14,190)	(14,473)	(14,763)	(15,058)	(15,359)	(15,667)	(15,980)	
Exemptions - +2%	(16,200)	(16,524)	(16,854)	(17,192)	(17,535)	(17,886)	(18,244)	(18,609)	(18,981)	(19,360)	(19,748)	(20,143)	(20,546)	
Taxable income	<u>\$ 61,800</u>	<u>63,489</u>	<u>65,223</u>	<u>67,004</u>	<u>68,831</u>	<u>70,708</u>	<u>72,635</u>	<u>74,613</u>	<u>76,644</u>	<u>78,728</u>	<u>80,869</u>	<u>83,066</u>	<u>85,322</u>	
Income tax liability:														
Federal	\$ 8,351	8,599	8,861	9,131	9,401	9,686	9,971	10,271	10,744	11,269	11,806	12,356	12,919	
Missouri	3,321	3,407	3,496	3,586	3,680	3,775	3,873	3,991	4,113	4,238	4,366	4,498	4,634	
City of St. Louis	906	929	952	976	1,000	1,025	1,051	1,077	1,104	1,131	1,160	1,189	1,218	
Total income tax liability	<u>\$ 12,578</u>	<u>12,935</u>	<u>13,309</u>	<u>13,693</u>	<u>14,081</u>	<u>14,486</u>	<u>14,895</u>	<u>15,339</u>	<u>15,961</u>	<u>16,638</u>	<u>17,332</u>	<u>18,043</u>	<u>18,771</u>	198,060
Total cash paid for PRS cont. & Income taxes	<u>\$ 16,978</u>	<u>17,445</u>	<u>17,932</u>	<u>18,431</u>	<u>18,938</u>	<u>19,464</u>	<u>19,997</u>	<u>20,569</u>	<u>21,322</u>	<u>22,133</u>	<u>22,964</u>	<u>23,816</u>	<u>24,689</u>	264,678
<b><u>Single with 0 dependents</u></b>														
Officer with 7 years:														
City of St. Louis	\$ 55,000	55,000	56,375	57,784	59,229	60,710	62,227	63,783	65,378	67,012	68,687	70,405	72,165	
Wage increase - 2.5%	-	1,375	1,409	1,445	1,481	1,518	1,556	1,595	1,634	1,675	1,717	1,760	1,804	
PRS pretax cont. - 8%	(4,400)	(4,510)	(4,623)	(4,738)	(4,857)	(4,978)	(5,103)	(5,230)	(5,361)	(5,495)	(5,632)	(5,773)	(5,918)	66,618
Total income	50,600	51,865	53,162	54,491	55,853	57,249	58,680	60,147	61,651	63,192	64,772	66,392	68,051	
Itemized deductions - +2%	(6,300)	(6,426)	(6,555)	(6,686)	(6,819)	(6,956)	(7,095)	(7,237)	(7,381)	(7,529)	(7,680)	(7,833)	(7,990)	
Exemptions - +2%	(4,050)	(4,131)	(4,214)	(4,298)	(4,384)	(4,472)	(4,561)	(4,652)	(4,745)	(4,840)	(4,937)	(5,036)	(5,136)	
Taxable income	<u>\$ 40,250</u>	<u>41,308</u>	<u>42,393</u>	<u>43,507</u>	<u>44,650</u>	<u>45,822</u>	<u>47,025</u>	<u>48,259</u>	<u>49,525</u>	<u>50,823</u>	<u>52,156</u>	<u>53,523</u>	<u>54,925</u>	
Income tax liability:														
Federal	\$ 5,863	6,125	6,388	6,675	6,963	7,250	7,550	7,863	8,175	8,500	8,838	9,175	9,525	
Missouri	2,004	2,067	2,133	2,199	2,268	2,338	2,411	2,485	2,561	2,638	2,718	2,800	2,885	
City of St. Louis	506	519	532	545	559	572	587	601	617	632	648	664	681	
Total income tax liability	<u>\$ 8,373</u>	<u>8,711</u>	<u>9,053</u>	<u>9,419</u>	<u>9,790</u>	<u>10,160</u>	<u>10,548</u>	<u>10,949</u>	<u>11,353</u>	<u>11,770</u>	<u>12,204</u>	<u>12,639</u>	<u>13,091</u>	138,058
Total cash paid for PRS cont. & Income taxes	<u>\$ 12,773</u>	<u>13,221</u>	<u>13,675</u>	<u>14,157</u>	<u>14,646</u>	<u>15,139</u>	<u>15,650</u>	<u>16,180</u>	<u>16,713</u>	<u>17,265</u>	<u>17,836</u>	<u>18,412</u>	<u>19,008</u>	204,676

note: used 2015 tax rates

# PENSION SYSTEMS COMPARISON

	St Louis PRS	St. Louis County Retirement	Missouri State Patrol
Benefit Description			
Vesting Period	20 Years	5 Years *	10 Years
Contribution	7 % - Refunded	None *	4 % Not Refunded
Retirement Age	20 Years, any age Mandatory at 65	Rule of 80* Age Plus Years of Service Mandatory 70 1/2	10 Years at 55 Mandatory at 60
Retirement Benefit	40 % at 20 Years 75 % at 30 Years	1.6 % per year * Time X Mult X Average final comp	1.79 % per year Time X Mult X Average Final Comp
Average Final Comp	2 Year Average	Best 3 years of last 360 months	3 Year average
Cost of Living Adjust	30 % Max 3 % annual cap	At direction of County Council	80 % of CPI - U annually
Social Security	No	Yes	Yes
Spousal Benefit	Yes	Yes- Discounted Member Benefit	Yes- Discounted Member Benefit
Disability	Ordinary rate X yrs LOD 75% or 100%	Worker's Comp Civilian Job at Civilian Pay if avail	Paid Disability Insurance 70% with no offset, 90 % with 1 for 1 offset First 24 months cannot earn more than 80% Ends at age 65 unless disabled after 65
		* Current Propsals in County Council	
		Increase vesting to 7 Years	
		Increase member contribution from 0 to 4 %	
		Reduce multiplier from 1.6 to 1.4 per year of service	
		Adopt "Rule of 85" for retirement	
		Increase age of "early retirement to 57	