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CITIZENS SUMMARY

Findings in the audit of the City of Bridgeton Employees Retirement Plan

Background and Summary

The City of Bridgeton Employees Retirement Plan, a defined benefit retirement plan, was established by the City of Bridgeton, Missouri in 1971. The city's Code of Ordinances designate the City Council as the plan's trustee, and the city's Finance Commission assists with oversight of the plan. The plan guarantees monthly payments to eligible members, beginning upon retirement, based on a fixed percentage of members' average annual earnings multiplied by years of credited service. The plan is non-contributory and is funded by annual contributions from the city and plan investment earnings. The plan was closed to new employees hired on or after January 1, 2012.

As of plan year 2015, actuarial studies indicated the plan was only 67 percent funded and had unfunded liabilities of nearly $14 million. Similar to many retirement plans nationwide, the plan's financial condition was significantly impacted by the 2007 to 2009 recession. We identified various internal factors that also negatively impacted the plan's financial condition. Inadequate plan governance and oversight allowed for decisions that were unfavorable to the plan, including insufficient contributions and investment return assumptions higher than actual returns.

Financial Condition

The plan's financial condition is poor primarily because the city has not met annual contribution requirements and investment returns have been historically less than assumed returns. Annual contributions received from the city during the 7-year period from 2009 to 2015, averaged only 60 percent of actuarially determined contribution (ADC) amounts, an average contribution shortfall of $628,000 per year. The failure to provide ADC amounts for a number of years has a compounding effect on the plan's poor financial condition and increases the risk the plan may not be able to pay all future benefit payments owed to members. The city also has not developed formal funding or investment policies. In addition, the city's recent actions to address the plan's poor financial condition were made without timely analysis of the impact and sufficiency of the changes.

Plan Governance

Because the plan is governed by the City Council, the governance structure does not allow representation of varied and balanced interests and provides for an inherent conflict of interest. The City Council, as plan trustee, does not sufficiently monitor and oversee the plan. In addition, the Finance Commission is responsible for oversight of the plan, but did not hold meetings during 2012, 2013, or 2014. The city has not established a plan board member education program and City Council members have not received training concerning their fiduciary responsibilities and duties, as required by state law.

Actuarial Valuations

The city's continued use of a 30-year open amortization method for calculating the annual ADC provides for inequities because costs of current covered employees are shifted to future generations. The city has never obtained an independent actuarial audit or alternative review to ensure the reliability of amounts reported in plan actuarial reports and the reasonableness of the actuarial methods and assumptions used by the plan actuary.

Communication to Key Stakeholders

City officials have not prepared or distributed reports of financial information, including information showing the impact of insufficient contributions on plan financial condition, to key stakeholders such as employees, retirees, and citizens. City officials primarily used a less relevant and misleading funding statistic, rather than the plan's funded ratio, to communicate the plan's financial condition. For example, city officials cited an 83 percent "funded percentage" in 2014 and 2015, when the plan funded ratio was only 64 percent.

In the areas audited, the overall performance of this entity was **Poor**.*

*****The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

Excellent: The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.

Good: The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.

Fair: The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.

Poor: The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

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