

OFFICE OF THE CITY AUDITOR
PERFORMANCE AUDIT
February 2020

**City Should Educate
Employees to Make
Informed Retirement
Decisions**



CITY OF
KANSAS CITY,
MISSOURI

Office of the City Auditor
21st Floor, City Hall, 414 E. 12th St.
Kansas City, MO 64106

816-513-3300
cityauditor@kcmo.org
@KCMOCityAuditor
KCMO.GOV/CITYAUDITOR

CITY OF FOUNTAINS
HEART OF THE NATION



KANSAS CITY
MISSOURI

Office of the City Auditor

21st Floor, City Hall
414 East 12th Street
Kansas City, Missouri 64106

816-513-3300
Fax: 816-513-3305

February 18, 2020

Honorable Mayor and Members of the City Council:

This audit focuses on whether the city is educating employees to help them make informed retirement decisions.

The city does not have a retirement education program. Although the city's pension plans are important city benefits, efforts to educate employees about the pension plans and retirement are limited; communications about the decisions that must be made at retirement are inadequate; and retirement information is hard to locate and not always accurate.

Retirement decisions are complicated and affect employees' finances for the rest of their lives. Making decisions about retirement requires information and time to consider that information. The only times the city requires employees to meet with or listen to information about retirement is during new employee processing and orientation meetings and when an employee is processed for retirement. When asked about retirement information and education provided by the city, a recent retiree told us, "There is very little advance communication with retirees before they retire, such as things they need to do, what to prepare for."

The city has a responsibility to educate and prepare its employees for retirement. The Government Finance Officers Association recommends government employers educate employees about retirement, provide financial education and retirement planning sessions throughout an employee's career, and offer pre-retirement sessions at least five years before an employee's projected retirement age.

We make recommendations to improve retirement education and establish a single location for electronic retirement information to help employees make informed retirement decisions.

The draft report was sent to the acting director of human resources on January 16, 2020 for review and comment. Her response is appended. We would like to thank Human Resources Retirement Division staff, Local 42, the city's St. Luke's Health Enhancement Coordinator, the city's Nationwide representative, and Cynthia Crawford, MU Extension Professor, for their assistance and cooperation during this audit, and retirees for sharing information about their experience. The audit team for this project was Vivien Zhi and Nancy Hunt.


Douglas Jones
City Auditor

City Should Educate Employees to Make Informed Retirement Decisions

Table of Contents

Introduction	1
Objectives	1
Scope and Methodology	1
Background	2
Employees' Retirement and Firefighters' Pension Systems	2
457 Deferred Compensation Retirement Plan	3
Retirement Division	4
Findings and Recommendations	5
City Does Not Have a Retirement Education Program	5
City Provides Limited Communication on Pension Benefit	5
City Does Not Educate Employees on Retirement Decision Options	5
City Does Not Provide Education on Retirement Healthcare Costs	7
Nationwide Provides Some Education on 457 Plans, PEHP, and Social Security	7
Fountain of Health Offered Retirement Course	8
City Should Better Educate Employees about Retirement	9
Retirement Information Is Hard to Locate and Not Always Accurate	10
Recommendations	11
Appendix A: Acting Director of Human Resources' Response	13

List of Exhibits

Exhibit 1. Retirement Eligibility - Employees' Retirement System	3
Exhibit 2. Retirement Eligibility - Firefighters' Pension System	3
Exhibit 3. Selected Retirement Processing Meeting Decisions	6

Introduction

Objectives

We conducted this audit of the city's efforts to prepare employees for retirement under the authority of Article II, Section 216 of the Charter of Kansas City, Missouri, which establishes the Office of the City Auditor and outlines the city auditor's primary duties.

A performance audit provides "findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability."¹

This report is designed to answer the following question:

- Is the city educating employees to help them make informed decisions about retirement?

Scope and Methodology

Our review focuses on determining whether the city is educating employees to help them make informed retirement decisions. We focused on the Employees' Retirement and Firefighters' Pension systems only. Our audit methods included:

- Interviewing Human Resources Department staff and reviewing city documents related to retirement to understand the city's retirement process and retirement education provided to employees.
- Interviewing recent retirees² and a Local 42 representative to understand their concerns about retirement and how the city educated employees to make informed decisions on

¹ Comptroller General of the United States, Government Auditing Standards (Washington, DC: U.S. Government Printing Office, 2011), p. 17.

² Recent retirees' comments about the retirement process and retirement education are included in the margins of the report.

retirement. We also attempted to interview a representative of Local 500, but the union did not respond to our request.

- Reviewing literature about retirement planning and interviewing a retirement planning expert to identify recommended practices related to retirement planning.
- Reviewing meeting and workshop topics held by the city's 457 plan provider to identify the retirement education it provided to city employees.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. No information was omitted from this report because it was deemed privileged or confidential.

Background

Employees' Retirement and Firefighters' Pension Systems

The Human Resources Department's Retirement Division administers the Employees' Retirement System (ERS) and the Firefighters' Pension System (FPS) plans. Both plans are financed through employee contributions, city contributions, and investment earnings. These plans provide retirement benefits to all full-time city employees and firefighters who have met years of service and age requirements. (See Exhibit 1 and 2.)

Exhibit 1. Retirement Eligibility - Employees' Retirement System

Type of Retirement	Members Employed Prior to 4/20/2014 (Tier 1)	Members Employed on or After 4/20/2014 (Tier 2)
Normal	Age 65 with 5 or more years of service.	Age 67 with 10 or more years of service.
Optional	Age 60 with 10 or more years of service; or years of service plus age equal 80 or more.	Age 62 with 10 or more years of service; or years of service plus age equal 85 or more.
Early	At age 55 and with 10 years of service, pension benefit is reduced 0.5% for each month the effective date is prior to the month following attainment of age 60. At age 60 and with 5 but less than 10 years of service, pension benefit is reduced 0.5% for each month the effective date is prior to the month following attainment of age 65.	At age 57 and completion of 10 years of service, the pension benefit is reduced 0.5% for each month the effective date is prior to the month following attainment of age 62.

Source: Code of Ordinances, Kansas City, Missouri, Sec. 2-1174.

As of April 30, 2019, there were 3,163 currently employed employees in the Employees' Retirement System. About 17 percent of them were eligible for normal or optional retirement during calendar year 2019.

Exhibit 2. Retirement Eligibility - Firefighters' Pension System

Type of Retirement	Members Employed Prior to 4/20/2014 (Tier 1)	Members Employed on or After 4/20/2014 (Tier 2)
Voluntary	25 or more years of service.	27 or more years of service.

Source: Code of Ordinances, Kansas City, Missouri, Sec. 2-1264.

As of April 30, 2019, there were 993 currently employed firefighters in the Firefighters' Pension System. About 14 percent of them were eligible for voluntary retirement during calendar year 2019.

457 Deferred Compensation Retirement Plan

The city contracts with Nationwide Retirement Solutions Inc. (Nationwide) to provide a 457 deferred compensation retirement plan (457 plan). The 457 plan allows all full and part-time, permanent employees an opportunity to supplement their retirement income by putting aside money from each paycheck toward retirement through voluntary participation. Participants may choose between a pre-tax option ("traditional 457 plan"), an after-tax option ("Roth 457 plan"), or a combination of the two. The minimum contribution per pay period is \$25. The city does not make contributions to the plan. About 48 percent of full-time city employees and firefighters participate in the 457 plan.

Retirement Division

In addition to administering the Employees' Retirement System, the Firefighters' Pension System, and the 457 plan, the Retirement Division is responsible for ensuring pension plan assets are safeguarded and invested appropriately, processing employees for retirement, preparing the pension payroll, and helping retirees during health care open enrollment. The division also processes 457 plan paperwork.

The Retirement Division has six staff members. Five positions are funded by the city's Employees' Retirement System and Firefighters' Pension System, and one is funded by the 457 deferred compensation retirement plan.

Findings and Recommendations

City Does Not Have a Retirement Education Program

City Provides Limited Communication on Pension Benefit

"There is very little advanced communication with retirees before they retire, such as things they need to do, what to prepare for."

The only recurring, employer-initiated communication with employees about retirement is the annual Pension Benefit Statement mailed to members of the Employees' Retirement and Firefighters' Pension systems. The statement estimates the employee's base monthly pension benefit as of April 30 for those eligible to retire and for those that are not yet eligible to retire, projects the date when the employee is eligible, and estimates their benefit based on that future date.

The annual pension statement invites employees to stop by the Retirement Division's office on the 10th Floor of City Hall or call. We found, however, when an employee nearing retirement eligibility attempted to set up an appointment to discuss benefit estimates and other retirement questions, she was told to email the Retirement Division with her questions because the division will only meet with employees who are ready to retire.

In October and November 2019, the Retirement Division and Nationwide offered one-hour PEHP³ informational sessions. The materials also included information about the city's pension systems for Tier 1 employees and was uploaded to the division's SharePoint site later. The sessions were primarily promoted for employees who were eligible for retirement or who would be eligible in the coming year.

City Does Not Educate Employees on Retirement Decision Options

"I did not have any idea about the pension. I did not know about the different options that would affect the benefit amount."

The city does not educate employees about the many retirement decisions they need to make. The city's retirement provisions are

³ Post-Employment Health Plan (PEHP) is a tax-free account to pay for qualified health insurance premiums. Only employees who retire under normal or optional retirement and firefighters who retire under voluntary retirement are eligible to participate in PEHP. Employees can only participate in PEHP one time and PEHP can only be funded by unused sick leave and vacation. Local 42 and 3808 members can also use the account for other qualified healthcare expenses, such as co-pays. Local 500 members do not currently participate in PEHP.

complex, and employees need to be adequately educated to make informed decisions.

Employees who are ready to retire are required to schedule a retirement processing meeting with the Retirement Division. Before the meeting, Retirement Division staff will send the employee a retirement procedures letter, but the letter does not explain all the options and decisions employees will have to make at the meeting. Decisions made at the meeting will affect an employee's retirement benefits for the rest of his or her life and may have tax consequences. (See Exhibit 3 for some of the decisions that need to be made.)

Exhibit 3. Selected Retirement Processing Meeting Decisions

"I was confused about how much money I could withdraw as a lump sum from my pension contributions."

- Identification of an exact retirement date.
 - What to do with unused vacation and sick leave.
 - Whether to participate in the PEHP plan, if applicable.
 - Whether to withdraw any employee contributions and interest from the city's pension plan.
 - Whether to participate in the city-sponsored medical, dental, and vision plans.
 - Who to designate as beneficiaries.
 - Whether to select surviving spouse provisions, if applicable.
-

Source: Human Resources Department: ERS Retirement Procedures, FPS Retirement Procedures, Frequently Asked Questions about PEHP, ERS Retirement Systems Overview for Members Employed Prior to April 20, 2014, ERS Retirement System Overview for members Employed On or After April 20, 2014, FPS Overview for Members Employed Prior to April 20, 2014, FPS Overview for Members Employed On or After April 20, 2014; and Code of Ordinances, Kansas City, Missouri, Sec. 2-1099, 2-1100, 2-1175, 2-1176, 2-1253, and 2-1265.

Each decision may involve multiple options. For example, employees about to retire have several options on how to use their unused sick leave and vacation. For members of the Employees' Retirement System and Firefighters' Pension System these options include:

- Converting all or a portion of unused sick leave and/or vacation in 160-hour increments to one month of creditable service; for all members of Firefighters' Pension System and EMS personnel assigned to 24-hour shifts, converting in 215-hour increments to one month of creditable service.
- Receiving all or a portion of unused sick leave and/or vacation as a one-time payout. The conversion rate is 50 percent for sick leave and 100 percent for vacation.

"I was not provided adequate information about converting the money in the 457 plan to a traditional IRA, and the difference between the 457 plan and an IRA."

- Converting all or a portion of unused sick leave and vacation to a 457 plan contribution until the annual maximum is reached. The conversion rate is 50 percent for sick leave and 100 percent for vacation.
- For eligible employees, converting unused sick leave and vacation to the Post-Employment Health Plan (PEHP). The conversion rate is 50 percent for sick leave and 100 percent for vacation.

The city's recently-retired director of finance said he did not know the different options that would affect his pension benefit amount. He met with the Retirement System Executive Officer several times and used an outside professional to assist him in evaluating and selecting his best options. If employees are not educated about the decisions they will be presented with before the retirement processing meeting, they may be unable to make the best decisions and may not be aware of the consequences of their decisions. For example, withdrawal of employee contributions and interest will have tax consequences and will reduce the monthly pension benefit.

City Does Not Provide Education on Retirement Healthcare Costs

"I did not know how much health insurance would cost until the retirement processing meeting."

The city lacks education on retirement healthcare costs. Some city retirees could have 15 or more years to pay for health care before qualifying for Medicare. One retiree told us that he is currently paying over \$750 a month for health insurance, and the insurance premium increased about seven percent from the last fiscal year. The least expensive city insurance option for a non-Medicare eligible employee, spouse, and dependent children is almost \$1,800 per month. Some employees delayed their retirement because of health insurance costs. A recent retiree said he was shocked by healthcare expenses after retirement so he let everyone in his office know how expensive health insurance would be. He thinks the city should tell younger employees to put money away for future health insurance premiums after retirement.

"Health insurance was a shock. I did not find out (how expensive it is) until I decided to retire."

Nationwide Provides Some Education on 457 Plans, PEHP, and Social Security

The city relies on Nationwide to provide education on the 457 plan, PEHP, and social security. The Government Finance Officers Association (GFOA) recommends educating employees about social security and other sources of retirement income and savings. Nationwide annually hosts educational workshops on a topic selected by the city's Deferred Compensation Board. During National Retirement Security Week in 2018 and 2019, Nationwide

held social security workshops.⁴ Nationwide is also the city's PEHP program provider and has conducted PEHP workshops for city employees who are eligible to retire.

Departments may request workshops and individuals may meet with Nationwide representatives to discuss 457 plan retirement planning, account reviews, and asset allocations. Fire union leadership has recognized the need for on-going retirement education. In 2018, almost 80 percent of Nationwide's on-site activities were held at Fire Department locations.

In addition, Nationwide's website offers financial and investment related education and tools, including a retirement planner and a health care estimator. These tools are available to all city employees, including those not currently enrolled in the 457 plan. This availability, however, has not been broadly publicized.

Relying on Nationwide to provide retirement education could be problematic. Nationwide earns fees from city employees' 457 and PEHP accounts. The GFOA warns against the transfer of fiduciary responsibility to employers from an external provider of financial education and advice.⁵ The contract with Nationwide, however, specifically states that Nationwide serves in a non-fiduciary capacity. The city should not rely solely on Nationwide to provide retirement education.

Fountain of Health Offered Retirement Course

The Human Resources Department's Fountain of Health program offered employees the opportunity to participate in an eight-week "How to Get an A in Retirement" online course provided through the University of Missouri Extension during the spring and summer of 2019. A limited number of class registrations were available for employees, with registration fees paid by the city for employees who completed the course. Sixty-five city employees registered and 80 percent completed the course. The course educated employees about financial planning, positive psychology, and recommended practices to build toward well-being in retirement. Course topics included, but were not limited to:

⁴ Nationwide can also offer workshops on health care, long-term care, health savings accounts, women and retirement, and tax efficient retirement income.

⁵ "Best Practices – Educating Employees about the Adequacy of Retirement Benefits", Government Finance Officers Association, September 2016, p. 2.

- Goal setting,
- Identification and tracking of expenses, income, debt, and assets,
- Social Security,
- Pension plans,
- Taxes in retirement,
- Saving and investing,
- Estate planning,
- Changing insurance needs, and
- Positive emotions, engagement, relationships, meaning, accomplishment, forgiveness, and gratitude.

City Should Better Educate Employees about Retirement

The city has a responsibility to educate and prepare its employees for retirement. According to GFOA:

- Government employers and plan administrators should educate employees about retirement,
- Financial education and retirement planning sessions should occur throughout employees' careers, and
- Pre-retirement planning sessions should be offered at least five years before an employee's projected retirement age.

The city does not educate employees on pension system options or retirement healthcare costs. Retirement education should include information on multiple areas. The GFOA recommends that government employers educate employees about:

- Pension plan provisions,
- Social Security,
- Supplemental defined contribution plans,
- A strategy for ensuring benefit adequacy throughout the employee's life, and
- Medical/health care costs.⁶

"I did research on social security all by myself."

The GFOA also recommends that retirement education include information on other concerns employees will face during retirement including health care, long-term care insurance, legal issues, wills, and tax issues.

⁶ "Best Practices – Educating Employees about the Adequacy of Retirement Benefits," pp. 1-2.

"Employees need to be informed about retirement at different stages of life. There should be 'cradle to grave' work-life discussions."

Retirement education should be continuous. The GFOA recommends employers provide financial and retirement planning sessions throughout employees' careers. The only times the city requires employees to meet with or listen to information about retirement is during new employee processing and orientation meetings and when an employee is processed at retirement. Employees at different stages in their lives have different priorities. For younger employees, retirement might not be a priority. However, it is important to educate employees about starting retirement saving in the early years of employment because saving early for retirement means the savings will have more opportunity to grow.

The city does not offer pre-retirement sessions. The GFOA recommends "at a minimum, a plan sponsor should offer pre-retirement planning sessions at least five years before the employee's projected retirement age."⁷ Local 42 holds an annual retirement seminar for their members because the city does not. Seminar topics include retirement, PEHP, healthcare, supplemental income, social security, estate planning, and living wills. The Kansas Public Employees' Retirement System offers financial topics and retirement readiness information for five different groups of employees, including early career, mid-career, late career, pre-retirement, and retirement ready. The state of Missouri also encourages employees within five years of retirement eligibility to attend a pre-retirement seminar.

Recommendation

To ensure employees will be able to make informed decisions about their retirement, the director of human resources should provide employees with comprehensive and continuous retirement education in accordance with the Government Finance Officers Association's recommended practices.

Retirement Information Is Hard to Locate and Not Always Accurate

"The city should communicate to employees about things they need to do before retirement. Lots of people have not thought much about retirement."

Retirement information is hard to locate. The annual pension statement refers employees to additional retirement information and tools on the Retirement Division's intranet site. The intranet site provides links to frequently asked retirement system questions, deferred compensation information, a rule of 80 calculator for Tier 1 employees, and forms and documents on the division's SharePoint site. Some critical information, however, such as pension provisions and PEHP are on the division's SharePoint site not the division's intranet site. Documents listed on SharePoint are hard to find. In addition, neither the division's intranet site nor the SharePoint have a rule of 85 calculator for Tier

⁷ "Best Practices – Educating Employees about the Adequacy of Retirement Benefits," p. 2.

2 employees. Because the city's retirement education is limited and pension benefits vary by employee group, having information in one place and telling employees exactly what pertains to them is critical.

Retirement Division's retirement procedures letter does not reflect the current retirement requirements. When a retiring employee contacts the Retirement Division for retirement processing, the Retirement Division sends the employee a retirement procedures letter advising the retiring employee to visit the Retirement Division on the 10th floor of City Hall "about four weeks (28 days) prior to your last day".⁸ However, some retirement decisions must be made and actions taken 30 to 60 days prior to retirement. One employee had to delay his retirement date because he was unaware that one of his decisions had to have been made earlier.

Some information posted on the division's SharePoint site is inconsistent with actual practices. The PEHP Frequently Asked Questions (FAQs) does not mention that Local 500 does not participate in the program. The FAQs also do not include information that Local 42 and Local 3808 members can use their PEHP account to pay for healthcare related expenses, such as copays and prescriptions, in addition to health insurance premiums.

Recommendation

To ensure employees can easily access complete and accurate retirement information, the director of human resources should establish a single location for electronic retirement information and ensure that retirement information is complete and accurate.

Recommendations

1. The director of human resources should provide employees with comprehensive and continuous retirement education in accordance with the Government Finance Officers Association's recommended practices.
2. The director of human resources should establish a single location for electronic retirement information and ensure that retirement information is complete and accurate.

⁸ Employees' Retirement System Retirement Procedures and Firefighters' Pension System Retirement Procedures, Retirement Division.

City Should Educate Employees to Make Informed Retirement Decisions

Appendix A

Acting Director of Human Resources' Response

City Should Educate Employees to Make Informed Retirement Decisions

CITY OF FOUNTAINS
HEART OF THE NATION



KANSAS CITY
MISSOURI

Inter-Departmental Communication

Human Resources Department

RECEIVED
FEB 06 2020
CITY AUDITOR'S OFFICE

Date: February 6, 2020

To: Douglas Jones, City Auditor

From: Teri Casey, Acting Human Resources Director

Subject: Response to Performance Audit: *City Should Educate Employees to Make Informed Retirement Decisions*

1. *The director of human resources should provide employees with comprehensive and continuous retirement education in accordance with the Government Finance Officers Association's recommended practices.*

Agree. Some of the GFOA's recommended practices are already in place: GFOA recommends that government employers and plan administrators educate employees about retirement income. The Retirement Division provides an introduction to the importance of saving for retirement in the early years of employment and includes information on:

- The City's defined-benefit plan provisions
- The impact of years of service on future defined-benefit amounts
- The possibility that the sum of defined-benefit retirement income and any other income, including Social Security, may not be adequate; therefore, employees may need to add a defined contribution component to their overall strategy and/or reconsider the levels or their defined contribution plan contributions

This is done through onsite enrollment meetings, new employee orientation programs and benefits/wellness fairs.

The Human Resources Department has also provided financial education and retirement planning sessions on the 457 Plan, PEHP, Social Security and retirement wellness. In addition to the 2019 Fountain of Health retirement course "How to Get an A in Retirement," a representative from the University of Missouri Extension who developed the course gave a brief presentation and an interactive quiz at the October 23, 2019, Wellness Fair.

For 2020, we have partnered with MPower Co to provide "A Richer Retirement," which is an 8-week online curriculum-based course designed for those who are starting to plan for retirement. This class is similar to the "How to Get an A in Retirement" and includes weekly assignments requiring reading, online interaction and homework; taking approximately 2 hours per lesson. All lessons include a financial and social/emotional well-being component. We will also have representatives at our April 28, 2020, Wellness Fair from MPower Co and PNC Bank to provide brief presentations on retirement and financial wellness.

However, we agree that employees should receive more education on retirement. To that end, we will:

- Create online retirement training – we believe this can be accomplished using the City's ThinkZoom learning platform
- Add information to both our new employee orientation and our intranet site about:
 - Future Social Security benefits and a link to their website
 - The City's long-term care insurance benefit
 - The City's EAP provides referrals for legal issues employees may face related to retirement including wills, trusts, and tax issues
 - Retiree medical benefits, the associated costs of coverage, and the significant impact of these costs on the adequacy of the retirement benefits

Consistent with GFOA's recommended practices, we would also like to develop a pre-retirement planning session that is targeted to employees with five years remaining before their projected retirement date. However, in order to implement such a program, we would need the City's support to either fund having the training presented by an outside organization or add another staff member as, based on our aging workforce population, conducting these sessions will take a tremendous amount of time.

2. *The director of human resources should establish a single location for electronic retirement information and ensure that retirement information is complete and accurate.*

Agree. The Retirement Division has already taken initial steps to update information on our intranet site. We will continue to review the documents to ensure that the information is accurate and up-to-date and add a Rule of 85 calculator for the Tier 2 employees. Additionally, the letter that is sent to employees who contact the division for retirement processing has been updated to advise employees to visit the Retirement Division about "45-60 days prior to your last day." We agree that documents are difficult to locate on the department's SharePoint site. To that end, we will work with City technical staff to create a single location for electronic retirement information with links to documents.

cc: Earnest Rouse, Acting City Manager