The Board of the Denver Employee Retirement Plan (DERP) proposes changes to the DERP Benefit Plan for New Hires effective January 1, 2011. On October 7, 2010 DERP representatives presented a "Completive Analysis of DERP Benefits" to the Board of the Career Service Authority (CSA).

Members/leaders of AFSCME Local 158, representing city employees were present at the meeting and have some concerns and questions regarding the proposed changes and their impact not only on city employees but the long term impact on the city and its ability to deliver governmental services, in an effective and efficient manner to the citizens and residents of Denver.

We believe that until these concerns and questions (and others that may arise) are fully addressed, a rash move to implement changes without a thorough vetting and investigation my prove counter productive and lead to the oft problematic 'rule of unintended consequences'; we subscribe to the wise carpenter's dictum: measure twice, cut once.

Below are some issues, questions and concerns that that should be fully answered and addressed before any sweeping changes to the employee retirement plan are implemented.

- CSA Director Dolan noted at the briefing, that the pension is one of the top three motivators for employee morale and productivity and is an important benefit for recruitment and retention. This can have a direct and significant impact on the ability of the city to provide the best, most efficient and cost-effective governmental services. The Mayor has stated that Denver strives to the best and employ the best and brightest employees since Denver residents deserve no less.
- In the Total Compensation Committee meetings, Steven Hutt, Executive Director of DERP was consulted about the plan design. No mention was made of upcoming plan changes. Conversely; he confirmed the Rule of 75, which is now suddenly being considered for change to Rule of 80.
- In the Mayor's 9-15-2010 letter to City employees and Council, it was announced that "the Plan will required increased contributions of an additional 2 percentage points *to maintain the fiscal health of the Plan*. The contribution will be split equally between the City and Employees" (emphasis added). What changed since September 15 that such drastic additional changes are now proposed?
- DERP noted that as part of their analysis, they looked at what has been happening nationwide; however, no national data, private or public was presented.
- How does the DERP Plan for CSA Employees compare to the safety employees'
- The last briefing to Council in October 2009 showed the drop in the funding ratio or Actuarial Valuation of Assets (AVA) from 98% in 2007 to 92% in 2008. What was it at the end of 2009 after the S&P returned 26.5% in 2009 and is up 5.65 for the year to date as of 10-13-2010? What is the current funding ratio for DERP as of 2010?
- What portion of the alleged shortfalls in plan funding is attributable to DERP investments, and what portion is attributable to the DROP program?
- With no plan changes and assuming various returns; 5%, 8%; what will be the projected funding ratio in the several years (3 years, 5 years, and 10 years).
- DERP stated that they use a 24 month smoothing curve in their analysis. What is the industry standard for such analysis?
- What average salary increase does DERP use in their actuarial analysis?
  How does this compare with actual city salary average wage increases?
- What is the value proportion of contributions to benefits for DERP and other public pension plans? Example: Under DERP, an employee with 25 years experience hired before 2005 earns

2% per year of retirement and will have a retirement benefit of 50% (2x25=50%) of their average last 3 years' salary while an employee hired after 2005 earns 1.5% per year of service and will have a retirement benefit of 37.5% (1.5x25=37.5%) of the average of their last 3 years' salary, but a PERA employee with 25 years will have a 62.5% benefit (2.5x25=62.5%). How does DERP's value compare with the contribution rates put into the Plan? In order to earn 1.75% per year of service with the City of Aurora, or 2.5% per year of service under PERA what contributions are required?

- Page 3 of the DERP PowerPoint presentation shows that the "Formula Multiplier" is currently 1.5%, the lowest of other Colorado Public Pension Plans noted. Vesting would change from 5 years to 7 years. What would be the anticipated impact on the City's ability to attract new employees under the new plan?
- Was staggered-vesting considered? i.e., 10% for year 1, 20% for year 2, 30% for year 3, 40% for year 4 and 100% at year 5? Why is there a 5 year all-or-nothing and now proposed to be 7 year all-or-nothing? How does this help to entice employees as a recruitment tool?
- Has an age-based contribution level been evaluated? Some plans are structured such that an employee starting with the agency at a younger age pays less into the plan than an employee starting at a later age since the younger employee will put in more years to earn the same benefit than an employee who starts later and works fewer years.
- Health Care: in 2014, retirees will be eligible for health care under the Obama Plan. What is the value of that reduction in health cares costs to DERP?
- Many pension plans are dropping health care benefits to mitigate losses in the plan funding ratio. The proposed changes result in an estimated future annual contribution reduction (30-year projection) of 1.71%. Was modifying the health care benefit in light of the nation-wide health care changes considered as an alternative?
- Exactly what is the "Social Security Make-Up Benefit"? How would eliminating this help DERP retirees? What additional burdens would it place on Social Security, if any?
- What is the dollar-cost and present value of the proposed changes and how do these compare with DERP's current funding? (this was requested by CSA Board members in the 10-7-2010 briefing but no clear answer was given).
- Was the recent implantation of PTO factored into the actuarial considerations?

<u>Recommendation:</u>
1. Government Affairs and Finance Committee should refer the proposed changes to the Total Compensation Committee to be evaluated, perhaps in consultation with an outside independent specialist or consultant

2. No changes should be implemented until a complete, thorough, apples-to-apples independent analysis is completed.

Measure twice, cut once.