Annual Presentation and Resetting the Contribution Rate

Government and Finance Committee
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In order to maintain its actuarial soundness, a pension plan needs to do three things:

- Carefully manage its liabilities
- Earn its actuarially assumed rate of return
- Receive in-full the calculated total Actuarially Required Contribution (ARC)

Liability Management: DERP and the City have been exceptionally prudent here:

Historical
- New tiers of benefits established in 2004 and 2011
- No ad hoc COLAs since 2002
- No increases in health insurance benefits since 2002

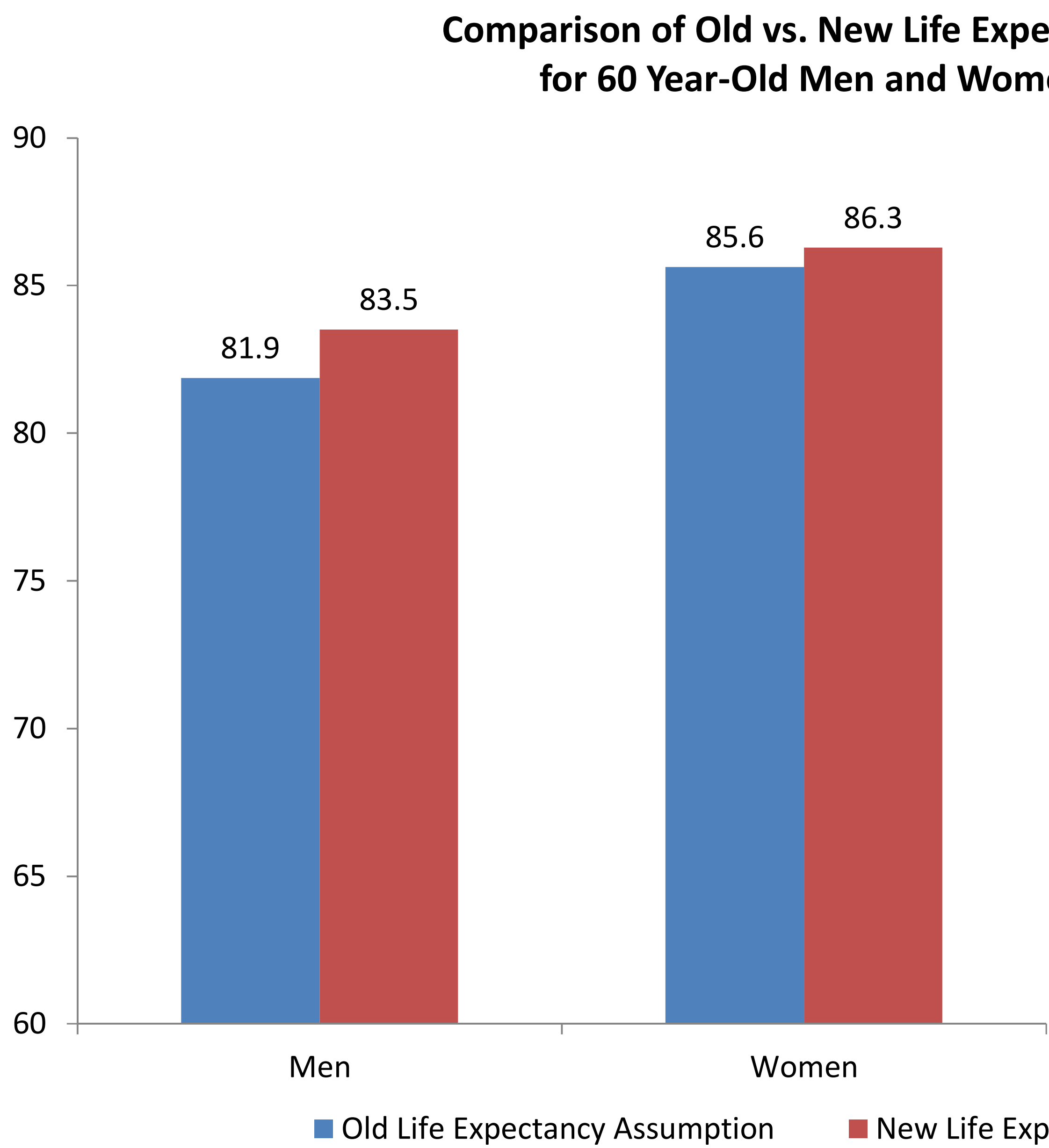
Current
- Adopted new mortality tables reflecting longer life expectancies for <u>all</u> DERP participants
- Adopted level percent of pay amortization methodology

New Mortality Tables

- In accordance with actuarial standards of practice, our actuary recommended and the Retirement Board approved, moving to more conservative mortality tables that take into account the expectation that there will continue to be improvements in life expectancy. This impacted the actuarial liability for every single DERP participant, including all current employees, those former employees with vested benefits, and all retirees and their beneficiaries.

- Recognizing future improvements in life expectancy now, is a conservative and prudent measure, but it has a cost. The pension liabilities increased by approximately $100 million, resulting in higher amortization, and Normal Cost, the cost of benefits earned this year, also increased.

- See detail on next slide …

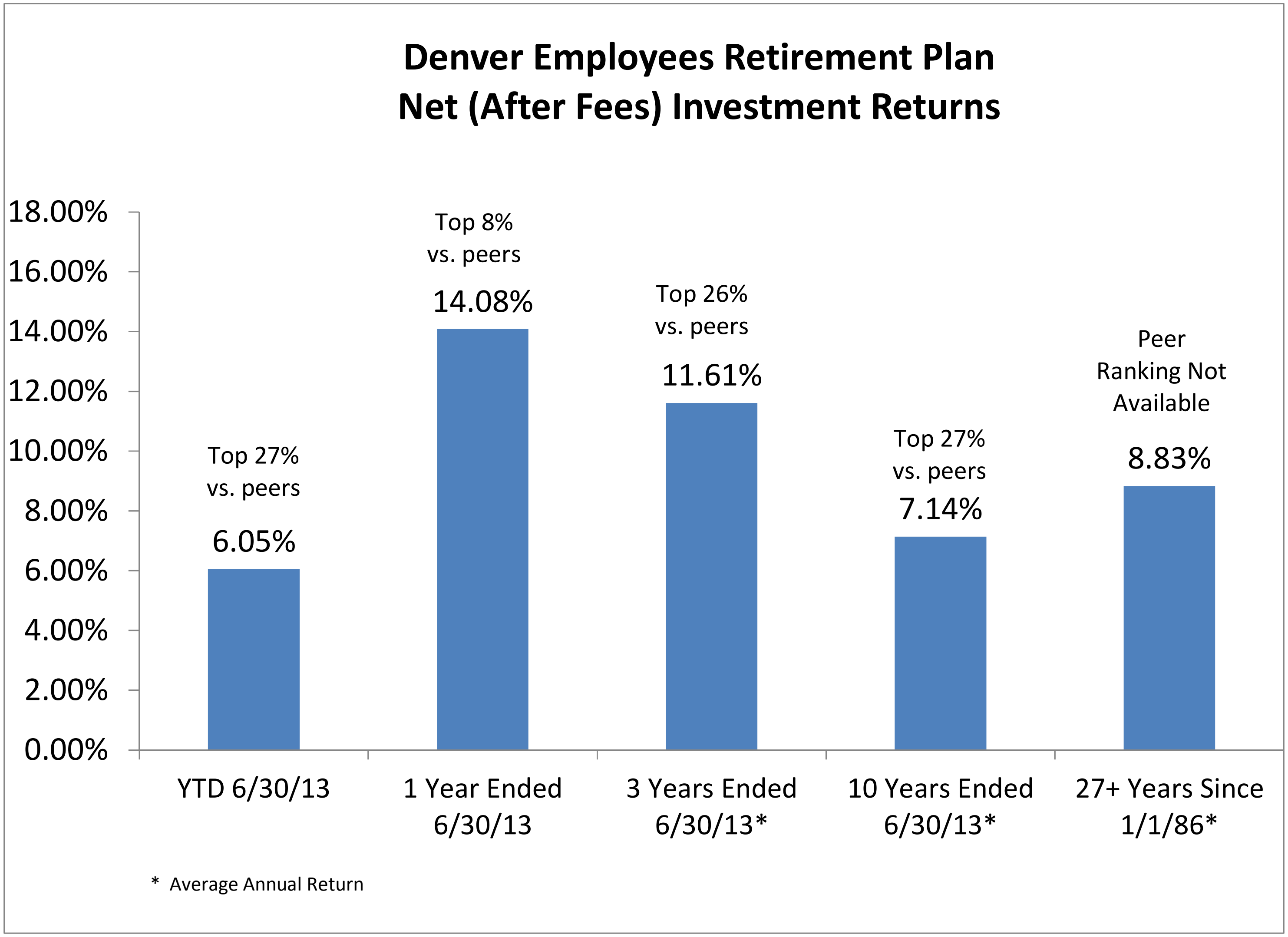


These increases may not look large, but they are very significant. Age 60 is very close to the average age that we begin paying out benefits. An increase of 1.6 years for men and .7 years for women means that we expect to be paying out benefits to all 20,000 DERP participants that much longer than previously assumed, which was approximately 22 years for men and 25.6 years for women. Liabilties and Normal Cost both increased as a result.

Adopting "Level Percent of Pay Closed-Term" Amortization Methodology

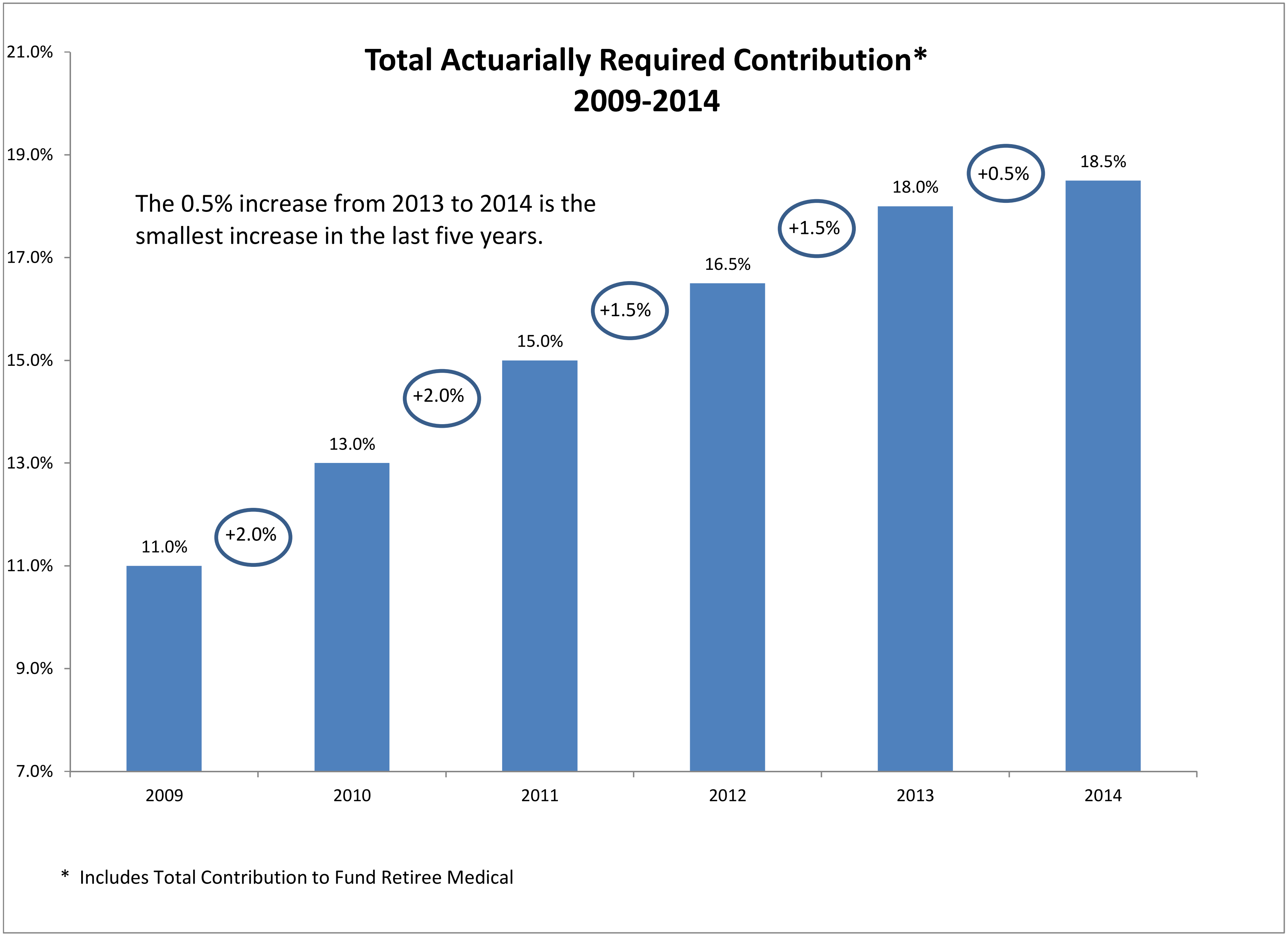
- Up until this year, we amortized our unfunded liability using what is termed "level dollar" methodology. We also utilized an "open 30-year term" which meant that every year we calculated our amortization over a new 30-year period.
- Open 30-year terms are very common, but most pension plans utilize a methodology termed "level percent of pay" in lieu of "level dollar."
- "Level percent of pay" is based on the premise that as total City payroll increases annually, amortization is calculated so that it retains the same proportional relationship to total payroll.
- The Retirement Board also approved moving to a closed 30-year term, which is more conservative.
- Switching to this amortization methodology offset the impact on the contribution rate associated with longer life expectancies .

Earnings: In both the short- and the long-term, we've achieved strong returns:



DERP's Funded Position and Actuarially Required Contribution

- Despite very strong performance on the investment side in 2012, DERP's retirement plan funded position decreased from 81.2% to 76.4%, for two reasons:
  - Impact of higher liabilities associated with longer life expectancies
  - Continued recognition of investment losses from 2008 and 2011
- As a result, the actuarially required total contribution, including retiree medical, is increasing from 18.0% to 18.5%, which is the smallest increase in the last five years.


Total Actuarially Required Contribution*
2009-2014
The 0.5% increase from 2013 to 2014 is the smallest increase in the last five years.
21.0%
19.0%
17.0%
15.0%
13.0%
11.0%
9.0%
7.0%
11.0%
+2.0%
13.0%
+2.0%
15.0%
+1.5%
16.5%
+1.5%
18.0%
+0.5%
18.5%
2009
2010
2011
2012
2013
2014
* Includes Total Contribution to Fund Retiree Medical

Favorable Findings Regarding DERP from the Pew Charitable Trusts:

- Pew examined 61 cities' public pension funds (for the largest city in each state, and all other cities with populations greater than 500,000)
- Report issued in January, 2013
- Denver was mentioned 8 times, including:
  - One of only 24 cities which had a funded level of more than 80% at the time; only 9 plans had funded levels higher than Denver's

Pew Report Favorable Findings, continued…

- Only 16 cities, including Denver, were considered consistent "top performers" on key variables
- Only Los Angeles had a better-funded status for its retiree health care fund than Denver
- DERP was specifically mentioned in the section of the Report on reforms to benefit formulas for new employees, for shifting the minimum retirement age from 55 to 60 and for changing the Rule of 75 to the Rule of 85

Recommendation by City Administration Regarding Cost-Sharing of Increased Contribution to DERP

- As noted in the Mayor's 2014 Budget Transmittal Letter, the Administration has prepared the Budget with an assumption and recommendation that the 0.5% increase in the ARC will be split 40/60 between the City and the employees.
- As a result:
  - City share would increase from 11.00% to 11.2%
  - Employee share would increase from 7.0% to 7.3%
- Effective first full pay period after January 1, 2014

Summary

- We are recommending that the total contribution be increased from 18.0% to 18.5%.
  - We conservatively and prudently adopted new assumptions reflecting longer life expectancies for all participants, which increased the liability and added cost
  - Assets had another strong year which helped
  - We adopted a new amortization methodology which offsets the higher cost associated with longer life expectancies

"***Contribution requirements in future years depend primarily upon investment returns in 2013 and beyond, and the ability of the Plan to continue to fully receive the total actuarially required contributions.***"

Gabriel Roeder Smith & Company

(DERP's Independent Actuary)