



Benefit Plan Changes for New Hires

Denver Employees Retirement Plan
Presentation to
Government Affairs and Finance Committee
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In order to maintain its actuarial soundness, a pension plan needs to do three things:

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

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

- No provision for automatic COLAs
- No discretionary lifetime COLAs granted in the last 9 years
- No health insurance benefit increases granted in the last 9 years
- Allowing purchase of service only at full actuarial cost
- Reducing benefits for new hires when appropriate:
 - 2004 – Benefit multiplier moved to 1.5% from 2%
 - 2010 – Exclusion of PTO cash-out from DERP benefit calculation
 - **2011 – Proposed changes for new hires currently being considered**

Liability Management

Proposed DERP Pension Changes for New Hires

Benefit Plan Change For New Entrants Only	Estimated Future Annual Contribution Reduction - 30 Year Projection	Annual Impact on Future City Contributions in 2011 Dollars	Estimated Impact on Average Monthly Benefit and/or Anticipated Behavior	Historical Perspective
Increase Average Monthly Salary (AMS) calculation to 5 years (from 3 years)	-0.30%	-\$1,500,000	Reduction of slightly less than 3% in average monthly benefit, approximately a \$57 reduction from \$1,961 to \$1,904 (2009 new-retiree benefit levels).	Changed AMS from 5 years to 3 years, effective 1/1/92
Institute a Rule of 80 (Age 60 minimum)	-0.23%	-\$1,150,000	Employees working longer to qualify for unreduced benefits. Required service period may lead to more retirements with reduced benefits.	Changed from Rule of 88 to Rule of 75 in 1988
Increase Minimum Retirement Age to 60; and Increase Early Retirement Reduction Factors to 6% annually for ages 60-65 (from 3% annually for ages 55-65)	-0.86%	-\$4,300,000	Employees working longer before being able to begin to receive a retirement benefit. Lower early retirement benefits for employees who retire between ages 60 and 65.	Early Retirement Age changed from 60 to 55 in 1975. Moved Early Retirement Reduction Factors from "progressive" table to "flat 3%" table in 1986.
Eliminate Social Security Make-Up Benefit	-0.33%	-\$1,650,000	Lower average monthly benefits by approximately \$56 from \$1,961 to \$1,905 (2009 new-retiree benefit levels). No anticipated behavioral change as current benefit is not well-understood and is not planned for by potential retirees.	Added 1/1/96
Require full vesting period to be met, rather than automatic vesting, for short-term employees at age 65	-0.02%	-\$100,000	No anticipated behavioral impact. Prospective employees in this demographic are very low in number.	Added 1/1/88
COMPOSITE OF CHANGES	-1.58%*	\$7,900,000		

* Composite of changes is not additive due to actuarial interaction of individual components.

**Retirement Plan Changes Enacted Through 2010
(Including Colorado County Plans)**

State/Plan	Increase Early Retirement Age and/or Reduction Factors	Lengthen AMS Calculation Period	Increase "Rule of X"	Increase Vesting	Reduce Multiplier	Raise Normal Retirement Requirements	Limit Spiking	Require New Plan for New Employees	Restrict Employer Contribution Refunds	Impose Earnings Limit On Pensionable Pay
Arizona	X	X	X						X	
California		X				X				
Colorado	X		X				X		X	
Illinois	X	X		X		X				X
Iowa	X	X		X						
Louisiana		X			X		X			
Michigan Schools		X				X		X		
Minnesota	X			X						
Mississippi			X							
Missouri	X		X	X		X				
New Jersey					X					
NY Teachers					X					
Pennsylvania			X	X	X	X		X		X
Utah		X						X		
Vermont	X		X				X			
Virginia	X	X	X							
Colorado Counties										
Arapahoe County		X		X	X					
El Paso County					X	X				
Adams County	X		X	X						
Most Common Change	Increase early retirement age and/or move reduction factors to/toward actuarial equivalency	From High 3 to High 5	Up from Rule of 80 to...	To 10 years	Various	Normal retirement ages up to 60 and above	Placement of percentage limits	New employees in hybrid plan	Various	Various
DERP Proposed*	Increase early retirement age and move reduction factors to/toward actuarial equivalency	From High 3 to High 5	From 75 to 80	No Change	Already Enacted	To Age 60	Already Enacted			

* Does not include "Meeting Vesting Period Requirement at Age 65" and "Elimination of Social Security Make-up Benefit," which are DERP-specific.