



General Government & Finance Committee Summary Minutes

Wednesday, June 01, 2011 10:30 AM City & County Building, Room 391

Members Present: Boigon, Brown, Faatz, Lehmann, Robb
Members Absent: None
Other Council Present: Nevitt

Committee Staff: Debra Bartleson

Bill Requests

BR11-0412 Approves revisions to the Denver Employees Retirement Plan (DERP) for new employees which includes increasing the minimum retirement age to 60, instituting a Rule of 85 for unreduced benefits, increasing the Average Monthly Salary calculation from 3 years to 5 years, eliminating the social security make-up benefit, and requiring a five-year vesting period for all employees; effective July 1, 2011. In addition, the legislation will add one additional member to the Advisory Committee appointed by the Career Service Board.
Ed Scholz, Manager of the Department of Finance; Steve Hutt, Executive Director of DERP

Steve Hutt and Rich Harris, Denver Employee Retirement Plan (DERP), Tom Migaki, Budget & Management and DERP Boardmember, and Ed Scholz, Manager of Finance, explained the proposed changes to the DERP plan for new hires and what must be done to maintain the plan's actuarial soundness. Some of the former Total Compensation Committee members and new representatives - Councilmember Lehmann, Chris Lujan, Career Service Authority (CSA), and Patty Klinge, CSA Boardmember reconvened with DERP to propose changes to the DERP plan in order to manage its long-term liabilities. The proposed changes include: new hire benefits to lower future pension costs of future employees, DERP structural board changes, IRS clarifications, and removing obsolete language in ordinance. Mr. Hutt said the DERP and CSA boards collectively endorse the recommendations. He

noted that CSA included in the most recent employee survey questions related to pension benefits to get employee feedback on future contribution increases to keep the plan whole. He reported that 66% of employees were either neutral or supportive of actions to keep the plan whole.

The new hire changes include (see attachment):

- 1) Increase Average Monthly Salary (AMS) calculation period to five years from three years;
- 2) Institute a Rule of 80 (age 60 minimum, plus 20 years of service) from Rule of 75;
- 3) 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;
- 4) Eliminate Social Security make-up benefit; and
- 5) Require full vesting period (five years) to be met by all employees, including short-term employees who reach age 65 prior to completion of five years of service.

Mr. Hutt noted that the new hire proposals would be effective July 1, 2011, and there is no revenue attributed to these changes, but over time there will be savings of \$7.9 million. Councilmember Faatz asked why the Rule of 85 (\$2 million savings) was changed to Rule of 80, in addition to other changes such as the vesting period. Mr. Hutt said some of the changes were pulled by the Administration because they yielded insufficient savings. Collectively, the proposals represent savings to the General Fund and a gradual increase toward greater solvency of the pension fund over 30 years. DERP needs to proceed with caution based on the anticipated contribution in dollars. Councilmember Faatz said she prefers vesting to increase to 7 years from five.

Mr. Lujan said recruitment and retention factors impacted some of the final decision-making, and that the CSA Board was conflicted regarding the Rule of 75 changes as well. Mr. Scholz said the DERP proposals and current plan follow common practices. The proposals attempt to balance the needs/desires of many generational groups. Councilmember Robb said she would rather not revisit the same issues in three to four years, and would prefer to be proactive in these issues rather than catching up later.

Councilmember Boigon said as of January 1, 2011 the DERP plan is 85% funded. She noted that Denver is different from PERA, and stated that the DERP Board and its staff have managed the plan responsibly. Councilmember Robb said her concern is raising the General Fund contribution which is taxpayer supported which also means that other funding areas could be impacted as well. Saving in future years on these proposals are critical, she added.

Mr. Scholz said staff is advocating the Administration proposals before the Committee. He is not sure at this time how some of the changes would impact the budget, but he is confident that the proposals will create future savings.

Councilmember Brown agrees with Councilmembers Faatz and Robb regarding the change to the Rule of 75 benefit. Councilmember Nevitt stated he couldn't support more than what is being proposed today. Councilmember Boigon stated she supports the proposals without changes.

Mr. Hutt indicated that the ordinance will also change the composition of the Retirement Board to require that one board member be an employee and one board member be either a retired member or deferred retired member of the Plan, and appointments to the Board would require Council approval. In addition, it would amend the DERP Advisory Committee to add a fourth member, selected by the Career Service Board. Mr. Lujan said the CSA Board was in favor of changing the composition of the Board. Councilmember Faatz said she is fine with the Advisory Committee proposal, but she feels that the Council approval for appointments is not warranted and she doesn't like the appearance of political influence.

Councilmember Robb asked why this was proposed. David Broadwell, City Attorney, said that in the last few years Council confirmations have been added to appointment legislation, and generally, Mayoral appointments have been straight-forward in last decades. Councilmember Nevitt does not believe that confirmation of Council would be politicizing the Board. He believes that the Board needs to attract people with skill sets that will help to keep the plan sound, and he does not believe that political board appointments would risk the solvency of the Plan.

Councilmember Boigon proposed various votes for amendments to the ordinance to change the Rule of 80, vesting period, DERP Board, and confirmation of DERP Board appointments, as follows:

Bill Request 11-0412 was approved for filing as amended by the following motions:

A motion offered by Councilmember Robb, duly seconded by Councilmember Faatz, to amend the retirement benefit proposals for new hires effective July 1, 2011, to Institute a Rule of 85 for unreduced benefits, carried by the following vote:

AYES: Brown, Faatz, Lehmann, Robb(4)
NAYS: Boigon, Nevitt(2)
ABSENT: (None)
ABSTAIN: (None)

A motion offered by Councilmember Faatz, duly seconded by Councilmember Brown, to amend the retirement benefit proposals for new hires, to institute a vesting change from 5 to seven years, failed by the following vote:

AYES: Brown, Faatz(2)
NAYS: Boigon, Lehmann, Nevitt, Robb(4)
ABSENT: (None)

ABSTAIN: (None)

A motion offered by Councilmember Faatz, duly seconded by Councilmember Robb, to approve the five-member DERP Board structure, to have one employee and one retiree on the board, failed by the following vote:

AYES: Brown, Nevitt(2)

NAYS: Lehmann, Faatz, Robb(3)

ABSENT: Boigon (Councilmember Boigon left before the vote was taken.)

ABSTAIN: (None)

A motion offered by Councilmember Faatz, duly seconded by Councilmember Robb, to approve the board proposal to require City Council confirmation for the Mayoral appointments to the board, failed by the following vote:

AYES: Nevitt(1)

NAYS: Brown, Faatz, Lehmann, Brown(4)

ABSENT: Boigon (Councilmember Boigon left before the vote was taken.)

ABSTAIN: (None)

A motion offered by Councilmember Faatz, duly seconded by Councilmember Robb, to approve the Advisory Committee composition to increase the Committee by a fourth member appointed by the Career Service Board, carried by the following vote:

AYES: Brown, Faatz, Lehmann, Nevitt, Robb(5)

NAYS: (None)

ABSENT: Boigon (Councilmember Boigon left before the vote was taken.)

ABSTAIN: (None)

BR11-0413 Approves a 1.5 percent increase to the DERP plan based on a recent actuarial study to meet the Annual Required Contribution (ARC). The additional contribution will increase from 15 percent to 16.5 percent, of covered employees' salary for retirement contributions, to be split (0.75%) equally between the City and current employees. The increase will be effective January 1, 2012.

Ed Scholz, Manager of the Department of Finance; Steve Hutt, Executive Director of DERP

Mr. Hutt said DERP has experienced positive earnings in 20 of the last 25 years. In 2010, DERP's investments have returned 14.4% after fees. The ARC (Actuary Required Contribution) is calculated annually by an independent actuary, to determine the amount needed to pay down the unfunded liability and the cost of one more year of service credit for all employees. The calculation for 2011 showed that an additional 1.5% was needed for ARC. Mr. Hutt said unexpected Sheriff pay increases and overtime paid are a few factors that drove the ARC higher. Splitting the increase between the City and employees results in the City contribution to increase from 9.5% to 10.25% and employees' contribution increases from 5.5% to

6.25%. The effective date for these increases is January 1, 2012. (See attachment.)

A motion offered by Councilmember Nevitt, duly seconded by Councilmember Faatz, to file a bill to approve a 1.5% contribution increase to the DERP plan, to be split equally by the City and current employees (0.75%), carried by the following vote:

AYES: Faatz, Lehmann, Nevitt, Robb(4)

NAYS: (None)

ABSENT: Boigon, Brown(2) (Councilmember Brown left before the vote was taken.)

ABSTAIN: (None)

BR11-0414 Approves an ordinance to amend outdated language and references in the Denver Employee Retirement Plan Sections 18-402 through 18-430 of the Denver Revised Municipal Code.

Ed Scholz, Manager of the Department of Finance; Steve Hutt, Executive Director of DERP

Mr. Hutt explained that the final proposal is to amend the DERP ordinance to insert language requested by the IRS, remove obsolete language, clarify various sections of the ordinance, and to bring existing language into conformance with long-standing practices of the Plan.

A motion offered by Councilmember Faatz, duly seconded by Councilmember Nevitt, to file a bill amending outdated language and references, and bringing DERP governing ordinance into conformance to current IRS requirements, carried by the following vote:

AYES: Nevitt, Faatz, Lehmann(3)

NAYS: (None)

ABSENT: Boigon, Brown, Robb(3) (Councilmember Robb left before vote was taken.)

ABSTAIN: (None)