

EXECUTIVE SUMMARY

Pension Changes for Newly-Hired Employees; Changes in DERP Governance

The following modifications to the Denver Employees Retirement Plan, which will only be applicable to members first employed on or after July 1, 2011, would result from the enactment of this bill:

1. Increase the Average Monthly Salary (AMS) period used in calculating the retirement benefit from 36 months to 60 months.

Current Ordinance language states that the average salary to be used in the calculation of a member's retirement benefit is the highest consecutive 36 months of credited service. The proposed language would increase the number of consecutive months used in that calculation to 60 months. The AMS was 60 months (5 years) until 1992, at which time it moved to the 36-month-period currently in the Ordinance, so this change would return the Plan back to that calculation. The anticipated savings in future required annual contributions is estimated to be 0.30%.

2. Institute a retirement benefit whereby employees can retire from the Plan with an unreduced benefit at the age of 60 or later, where the employee's age and years of service (earned while an active member) equal or exceed the sum of 80.

Currently, a member can retire as early as age 55 and receive an unreduced benefit if the member's age and years of credited service (earned while an active employee) equal or exceed the sum of 75. This is commonly known as the Rule of 75. The proposed language would change the Rule of 75 to a Rule of 80 and would raise the age at which a member could qualify for this benefit from age 55 to age sixty 60. The Plan previously had a Rule of 88 (where a member had to attain the minimum age of 55, and their years of credited service needed to equal or exceed the sum of 88 when added to their age, e.g. at age 55 the member must have had 33 years of credited service). The anticipated savings in future required annual contributions is estimated to be 0.23%.

3. a. Increase the minimum retirement age to 60

Currently, any member (active or deferred) can retire and begin drawing a benefit from the Plan at age 55. As described in item #2 above, if the member has enough credited service that, when added to his/her age, as an active member, the total equals or exceeds the sum of 75 the member can retire with an unreduced benefit. However, if a member does not have enough credited service to receive an unreduced benefit, he/she can still begin to receive a retirement benefit at or after the age of 55, although that benefit is reduced by a percentage which is dependent upon the age at which the member retires. The minimum retirement age was 60 for members of the Plan until 1975, when it was reduced to age 55. The proposed amendment would raise the age at which a member can retire to age 60, thus returning this provision to its historical level.

- b. Increase the Early Retirement Reduction Factors to 6% per year.

Currently, as described in item #3a (above), a member can retire at age 55, and if he/she does not qualify for an unreduced benefit, his/her benefit is reduced by a set amount of 3% per year for each year of age that the member is under the age of 65. This equates to a maximum reduction of 30%, if the member retires at age 55. In conjunction with increasing the early retirement age to age 60, the reduction factors also need to be amended. The proposed amendment retains the 30% maximum reduction if a member retires at the earliest age possible without qualifying for an unreduced benefit, but the reduction factors are increased to better reflect the actuarial cost to the Plan for member's receiving a benefit prior to attaining the normal unreduced benefit age. The reduction factors were amended in 1986 from a progressive table to the flat percentages currently provided for in the Ordinance.

The anticipated savings in future required annual contributions is estimated to be 0.86% for the combined changes in item #3a and #3b.

4. Eliminate the Social-Security Make-up Benefit

Currently, the Ordinance contains a provision whereby retired members (other than those members who are receiving a disability retirement benefit), upon attaining the age of 62 (or later if the member retires after age 62) are eligible to receive a "Social Security make-up benefit" which is permanently added to their base retirement benefit. The amount of the make-up benefit depends upon the member's year of birth, the number of years the member contributed to Social Security (up to a maximum of 35 years) and his/her estimated primary Social Security benefit. This complicated benefit is not well-understood by the membership, nor is it a benefit that many members are aware of or could use in calculations to estimate their future DERP benefit. It is not a benefit which can be included in the Plan's estimates for retirement which are provided to members. This benefit was not offered to members until 1996. It is anticipated that by removing this benefit for newly-hired employees, the estimated savings in future required annual contributions would be 0.33%.

5. Require the 5-year vesting period to be met by all employees in order to qualify for a benefit.

Currently, a member is considered vested with the Plan after 5 years of credited service, or immediately upon reaching age 65 regardless of how much credited service the member has. Theoretically, a member could begin to work for the employer at age 64, and be entitled to a full-unreduced retirement benefit after working for only 1 year or less. The norm among pension plans is to require all members, regardless of age, to vest in the plan before becoming entitled to a retirement benefit. This benefit was added to the Plan in 1988. Prior to its addition, all members had to meet the service requirement for vesting before becoming entitled to a retirement benefit. The

requested amendment returns the Plan back to its original terms regarding the vesting requirement. The anticipated estimated savings in future required annual contributions would be 0.02%.

6. Modify the composition of the Retirement Board to specify that the Retirement Board shall include 1 current-employee member and either 1 retired member or 1 deferred retired member at all times. Additionally the DERP Advisory Committee would be increased by 1 member to be appointed by the Career Service Board.

Current Ordinance language states that the Retirement Board consists of 5 members appointed by the mayor for staggered six-year terms and removable only for cause. The proposed language would retain those provisions, but would state that 1 member appointed by the Mayor shall be a current-employee member of the Plan and 1 member shall be either a retired member or a deferred retired member of the Plan. Additionally, all 5 appointments by the Mayor would be subject to City Council approval.

Current Ordinance language also states that the Advisory Committee is composed of 3 members elected by the membership. The proposed language would increase the Advisory Committee to 4 members, with the fourth member being appointed by the Career Service Board. The Career Service Board appointment would be required to be either a Career Service Board member or a staff member of the Career Service Authority. The term of this fourth Advisory Committee member would be the same as for the other Advisory Committee members, which is 3 years.