



Denver Employees Retirement Plan

Presentation to City Council

August 25, 2015

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Thom Williams, *Retirement Board Vice-Chair*

What we'll cover:

- DERP Update
- City Council action needed due to recent developments

- **Membership**

- 20,770 members

- 8,489 current employees

- 3,466 deferred vested

- 8,815 retirees

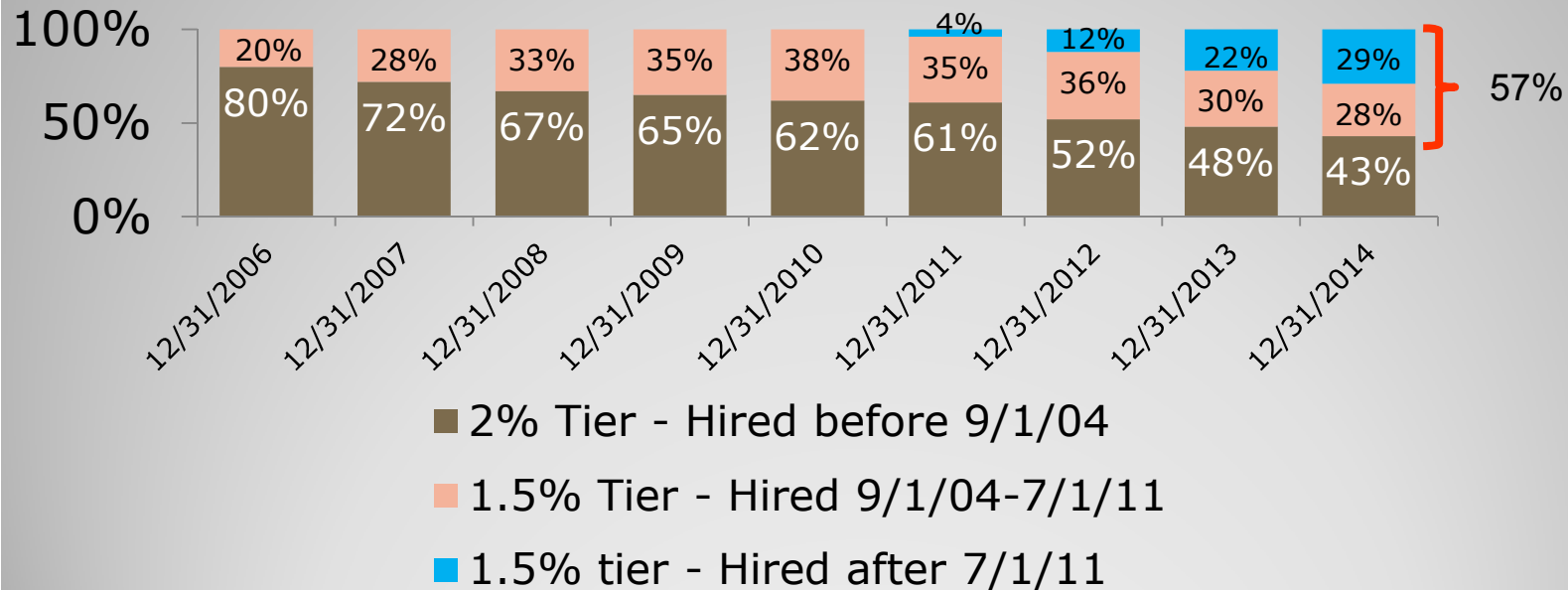
- Excludes Denver Water employees and police and firefighters; includes deputy sheriffs

- Includes approximately 560 “grandfathered-in” employees at Denver Health

- **Assets of \$2.1 billion**
 - Broadly diversified asset allocation (stocks, bonds, and alternatives; domestic and global; active and passively managed)
 - Competitively-selected outside managers
 - \$100M managed in-house
- **Liabilities of \$2.8 billion**
- **Resulting funded status of 75.5%**

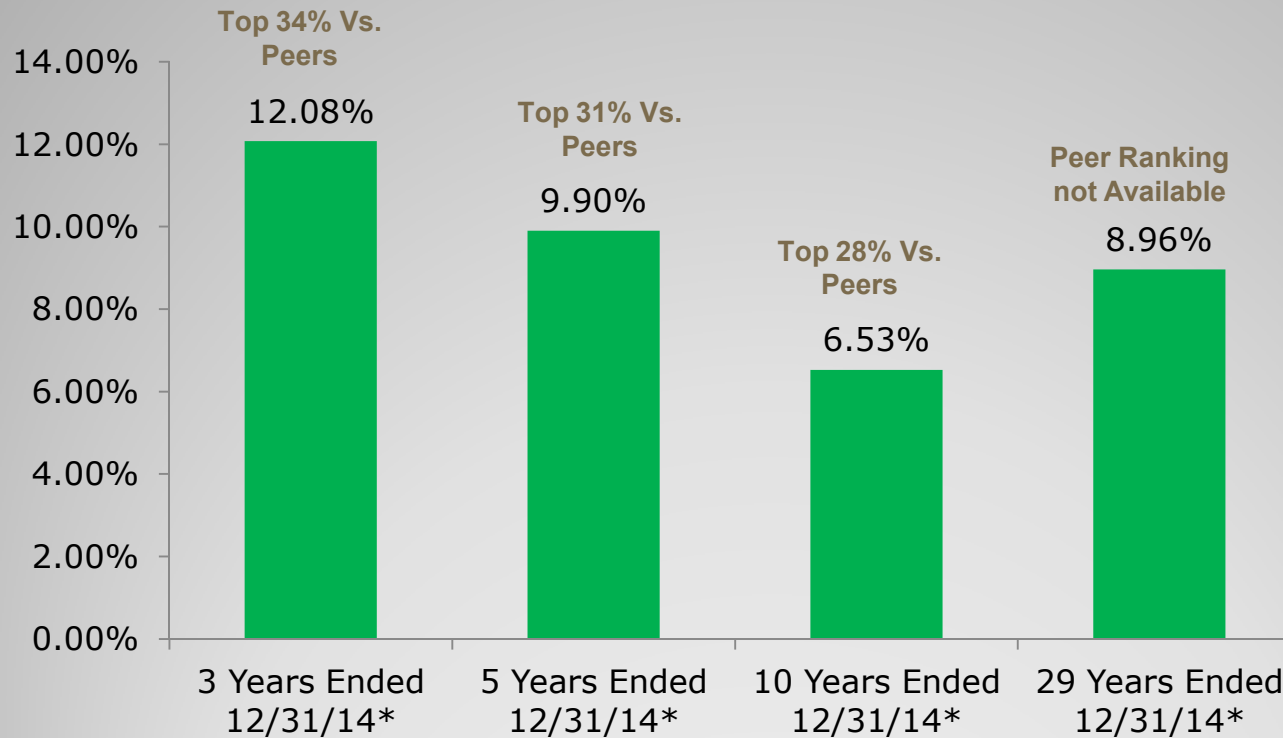
Percent of Actives by Benefit Tier 2006-2014

As a result of the liability management steps beginning more than 10 years ago when the Plan was 99% funded, more than 57% of the active workforce is now in one of the two, new lower-cost benefit tiers.



DERP Update

DERP Average Annual Investment Returns (Net of Fees)



* Compounded annualized return

DERP Update

Recent Developments

- 2014: 1% contribution surcharge enacted to address past contributions not received due to “time lag,” bringing the total contribution to 19.5%
 - Backfill surcharge was projected to flow to DERP approximately \$15 million (\$5 million/year for 3 years)
- 2015: Lowering the investment return assumption from 8.0% to 7.75%
 - At 8.0% we are an outlier among public sector plans both nationally and locally
 - In light of the work done by the Plan’s investment consultant indicating lower expected returns for the DERP-specific asset allocation, the Retirement Board believes that a more prudent return assumption is now 7.75%
 - The investment return assumption rate is explicitly stated in the Ordinance and therefore action by City Council is required to change it

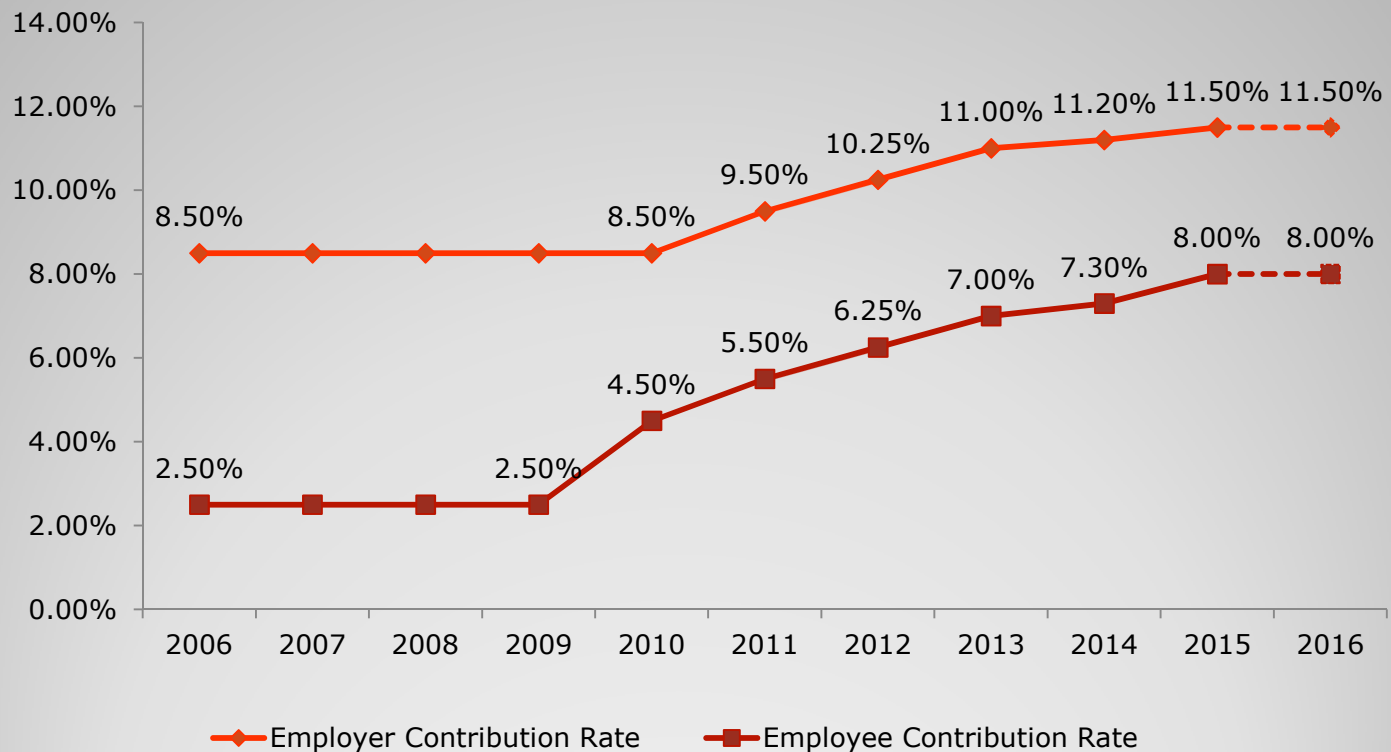
Specific Action Needed

1/1/15 actuarial results after DERP Board action to recommend lowering investment return assumption from 8.0% to 7.75%

- Lowering the investment return assumption increases the contribution rate...**the less we assume we are going to earn, the higher the contributions have to be.**
- For public sector plans, the investment return assumption is also the “discount rate” used to value the Plan’s liabilities. Lowering the rate increases the Plan’s liabilities. That in turn lowers the funded position, and thus increases the Actuarially Required Contribution (ARC) rate.
- But because of the 1% surcharge enacted in 2014 (actual 1.16%), contribution rates do not have to increase for first time in 6 years, if we re-purpose a portion of the surcharge into the base contribution.
- By year-end 2015, we will have recouped approximately \$5.3 million of the \$15 million total backfill dollars.

| Actuarial Valuation Date | January 2015 | January 2015 |
|-------------------------------------|--------------|--------------|
| Investment Return Assumption | 8.0% | 7.75% |
| Funded Position | 75.5% | 73.7% |
| Base Contribution Rate | 18.34% | 19.28% |
| Backfill Surcharge | 1.16% | .22% |
| Total Contribution Rate | 19.5% | 19.5% |

Changes in Contribution Rates 2006 – 2015 (2016 Recommended)



Summary

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

Gabriel Roeder Smith & Company
(DERP’s Independent Actuary)