Denver Employees Retirement Plan
Presentation to
Government Affairs and Finance Committee
November 3, 2010

Resetting the Contribution Rate, and
Proposed Benefit Changes for New Hires

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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 Actuarially Required Contribution (ARC)

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

- No provision for automatic COLAs
- No discretionary lifetime COLAs granted in the last 8 years
- No health insurance benefit increases granted in the last 8 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%
    - 2009 – Exclusion of PTO cash-out from DERP benefit calculation

Earnings Achieved

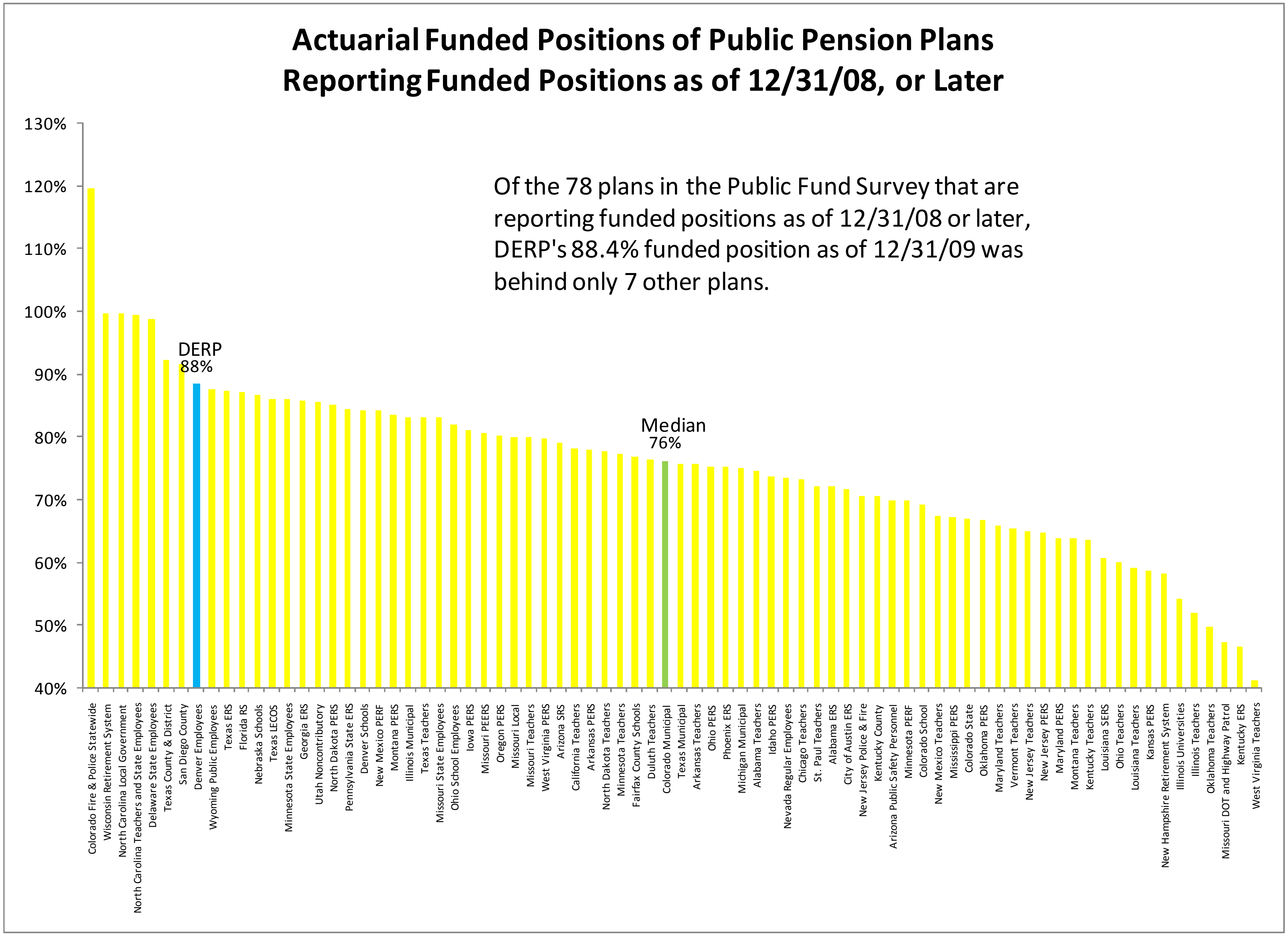
- DERP has had positive earnings in 20 of the last 25 years
- We have beaten the actuarial assumed rate of return (currently 8%) in 17 of those 20 years
- Average annual return for 25 years ended 12/31/09 = 9.2% (net of fees)

Receiving the Actuarially Required Contribution (ARC) : The ARC is calculated each year by the independent Actuary, as the amount of dollars, expressed in terms of "percentage of payroll," that is Required to be Contributed to pay for the separate elements of a pension fund's liabilities:

1) the "Normal Cost" of one more year of service credit for all current employees, and
2) the amount needed to pay down (or "amortize") the cumulative unfunded liability, if any, for already-earned benefits

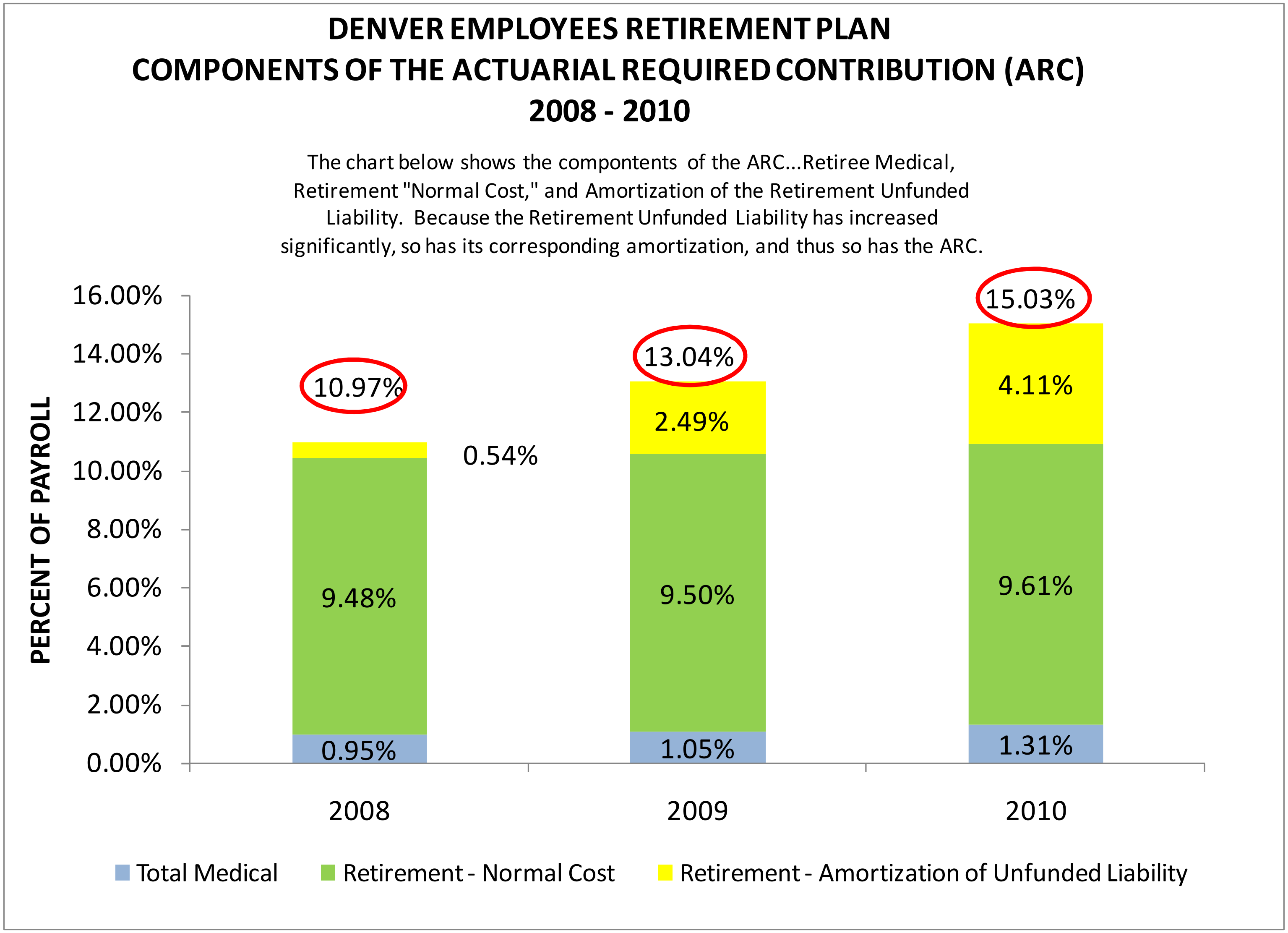
The City has a 40+ year history of contributing the calculated ARC.

Result of Past Efforts – Compared to Public Fund Universe

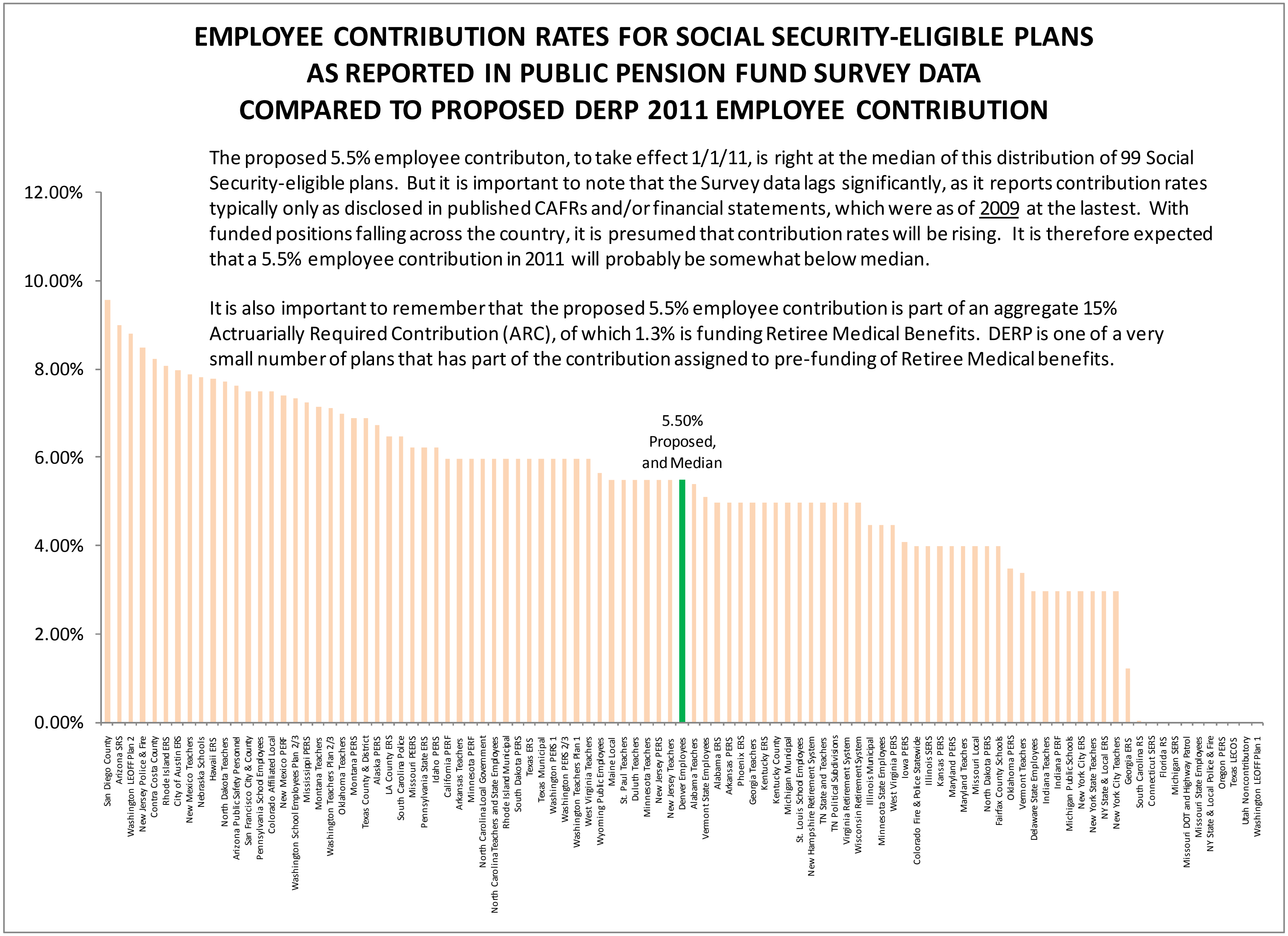


Receiving the ARC

- Resetting the Contribution Rate

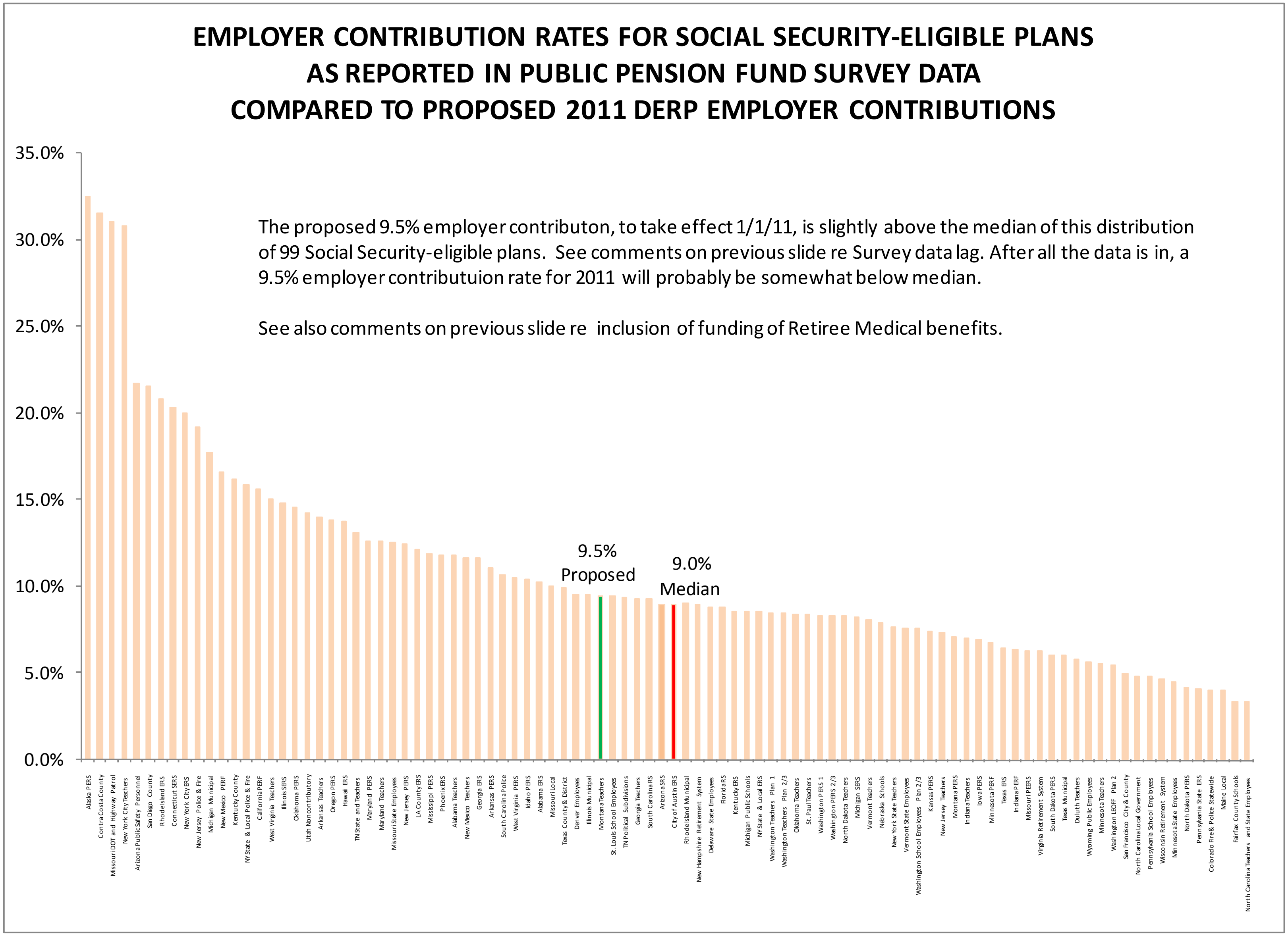


Receiving the ARC
- Resetting the Contribution Rate



Receiving the ARC

- Resetting the Contribution Rate



Liability Management

Proposed Plan Changes for New Hires

Benefit Plan Change For New Entrants Only	Estimated Future Annual Contribution Reduction - 30 Year Projection	Estimated Impact on Average Monthly Benefit and/or Anticipated Behavior	Historical Perspective
Increase vesting to 7 years (from 5 years)	-0.09%	More terminated non-vesteds. Fewer future retirees.	Before 1987, 10-year vesting; Since 1987, 5-year vesting
Increase Average Monthly Salary (AMS) calculation to 5 years (from 3 years)	-0.30%	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 85 (Age 60 minimum)	-0.56%	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%	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 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%	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
Eliminate full vesting at age 65 regardless of service	-0.02%	No anticipated behavioral impact. Prospective employees in this demographic are very low in number.	Added 1/1/88
Composite of changes	-1.71%*		

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

Liability Management

Proposed Plan Changes for New Hires

- Significant Changes
  - Changing the “Rule of 75” in place for current employees to a “Rule of 85” with minimum retirement age increasing to 60
    - Median retiree over last three years was 58 with 24 years of service (82 points), including those who took advantage of incentive in 2009
    - Consistent with national trends
    - Consistent with historical DERP “Rule of 88” which was in place until 1988
  - Moving early retirement eligibility up to age 60 from age 55
    - Consistent with national trends
    - And with private sector in that 401(k) distributions are first available without penalty at age 59½
    - Consistent with DERP historical plan provisions, i.e., moved from age 60 to age 55 in 1975

Liability Management
Proposed Plan Changes for New Hires

- Significant Changes, continued:
  - Changing early retirement reduction factors from 3% per year from ages 65-55 to 6% per year from ages 65-60
    - 3% annual factors are heavily subsidized…much less than actuarial equivalent
    - 6% much closer to actuarial equivalent
    - Early retirement reduction factors apply mostly to terminated/vested when commencing benefit payments
    - 6% factor more consistent with national trends
    - Consistent with DERP historical plan provisions pre 1986
  - Increase vesting to 7 years from 5 years
    - Most employees retire with 20+ years of service
    - Consistent with national trends
    - Consistent with DERP historical plan provisions, i.e., prior to 1987, DERP vesting was 10 years
  - Increase High Average Salary calculation from high 3 years to high 5 years
    - Consistent with national trends
    - Consistent with DERP historical benefit provisions, i.e., moved from 5 year to 3 years in 1992

Liability Management

Proposed Plan Changes for New Hires

- Other Proposed Changes:
  - Eliminate Social Security make-up Benefit
    - Benefit Plan provision was added in 1996 to offset impact of increase in Social Security Retirement age from 65-67
    - Complicated, individual calculation with minor (3% average) impact on level of DERP benefit
    - Benefit impact has never been included in DERP retirement estimates
  - Eliminate full vesting at age 65, regardless of service
    - Not considered necessary to provide a lifetime retirement benefit to those who don't otherwise meet vesting requirements
    - Added in 1988
    - Impacts very few members

Summary

- Three things a plan has to do to remain actuarially sound:
  – Managing Liabilities – DERP is proposing changes for new hires
  – Earning the assumed rate of return – DERP's responsibility
  – Receiving the ARC in full – Actionable – DERP proposes increasing contribution to ARC level of 15%, effective January 1, 2011