

# Annual Presentation and Resetting the Contribution Rate

Finance and Governance Committee  
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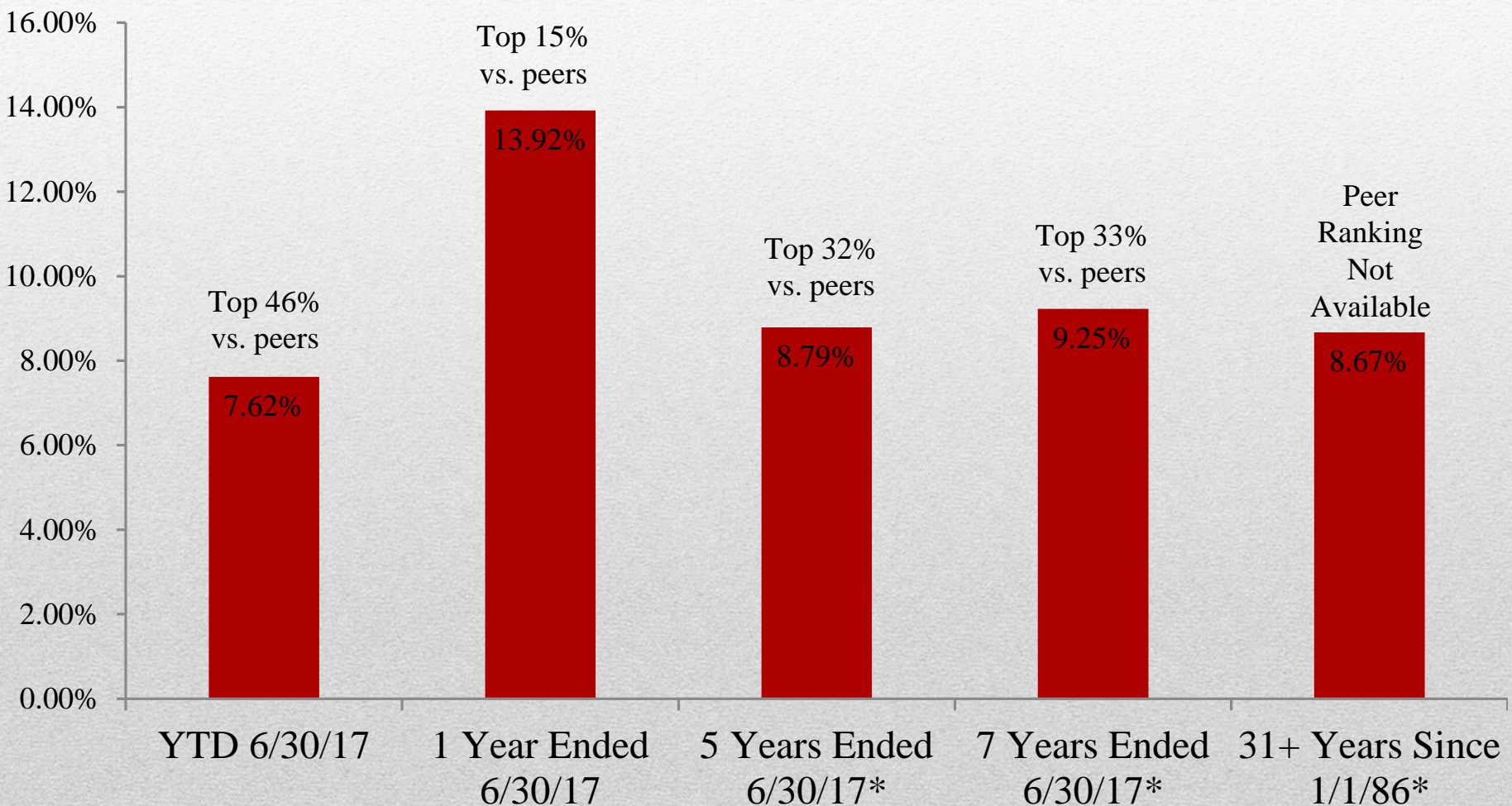


**In order to maintain its actuarial soundness,  
a pension plan needs to do three things:**

- Earn its actuarially Assumed Rate of Return
- Carefully manage its liabilities
- Receive in-full the calculated total Actuarially Required Contribution (ARC)

# Earnings - In both the short-term and the long-term, we've achieved strong returns:

## Denver Employees Retirement Plan Net (After Fees) Investment



\* Average Annual Return

## Liability Management - DERP and the City have been exceptionally prudent:

- New tiers of benefits established in 2004 and 2011
- No ad hoc COLAs since 2002
- No increases in health insurance benefits since 2002
- Adopted new mortality tables reflecting longer life expectancies for all DERP participants
- Adopted closed, 30-year amortization period in 2013
- Lowered the Assumed Rate of Return to 7.75% in 2015
- Proposing now to lower the Assumed Rate of Return again, to 7.5%

## Lowering the Assumed Rate of Return:

- At 7.75% we have become 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 7.50%
- The investment Return Assumption rate is explicitly stated in Ordinance and therefore action by City Council is required to change it

## Impact of Lowering the Assumed Rate of Return:

- Lowering this Rate increases the Plan's liabilities
- That will lower our funded position from 71% to 69.5%
- That in turn will raise the Actuarially Required Contribution (ARC) by 1% of pay, from 19.5% to 20.5%, because the less we expect we are going to earn, the higher the contributions need to be

## Receiving the ARC in-full:

- The City has a 50+ year history of fully funding the ARC, sharing that cost with employees since 2003
- The City Administration recommends that the required additional 1% of pay contribution be paid wholly by the City, changing the Employer Contribution to **12.5%**, and leaving the Employee Contribution unchanged at **8.0%**
- This additional funding, effective January, 2018, has been built into the agency appropriations in the Mayor's 2018 Budget