ORDINANCE/RESOLUTION REQUEST

Please email requests to milehighordinance@denvergov.org and copy stacie.loucks@denvergov.org by **NOON on Monday.**

All fields must be completed.

Incomplete request forms will be returned to sender which may cause a delay in processing.

Date of Request: September 1, 2017

Please mark one: ☒ **Bill Request** **or** ☐ **Resolution Request**

1. Has your agency submitted this request in the last 12 months?

☐ **Yes** ☒ **No**

If yes, please explain:

2. Title: *(Include a concise, one sentence description – please include name of company or contractor and contract control number - that clearly indicates the type of request: grant acceptance, contract execution, amendment, municipal code change, supplemental request, etc.)*

Lowers the actuarially assumed rate of investment return to 7.5% from the current rate of 7.75%; increases the Employer contribution by 1.0%, beginning in January, 2018; maintains the current Employee contribution rate; and makes several non-substantive, non-controversial technical amendments to the DERP governing ordinance.

3. Requesting Agency: DERP

4. Contact Person: (W*ith actual knowledge of proposed ordinance/resolution.)*

- **Name:** Steven E. Hutt, Executive Director
- **Phone:** 303-839-5419
- **Email:** shutt@derp.org

5. Contact Person: (W*ith actual knowledge of proposed ordinance/resolution who will present the item at Mayor-Council and who will be available for first and second reading, if necessary.)*

- **Name:** Steven E. Hutt, Executive Director
- **Phone:** 303-839-5419
- **Email:** shutt@derp.org

6. General description of proposed ordinance including contract scope of work if applicable:

Lowers the actuarially assumed rate of investment return to 7.5%. In light of work done by DERP's investment consultant indicating lower 10-year expected returns for the DERP-specific asset allocation, the Retirement Board believes that a more prudent return assumption is now 7.5%, rather than the current rate of 7.75%. The effect of the lower assumed rate of investment return is that the actuarially required contribution ("ARC") increases by 1.0%. Increasing the ARC has therefore been determined by the Plan's Actuary to be a matter of actuarial necessity.

At the recommendation of the City Administration, the additional ARC will be wholly paid by the Employers (the City, DHHA, and DERP) contributing an additional 1.0% of all employees' gross salaries to DERP. This will mean that the Employers will contribute 12.5% of all employees' gross salaries to DERP. This contribution increase will be effective with the first payroll in January, 2018. The current 8.0% Employee contribution rate will remain unchanged.

Makes several non-substantive, "housekeeping" changes, to remove obsolete language or clarify the precise intent of existing Code provisions.

*****Please complete the following fields:*** *(Incomplete fields may result in a delay in processing. If a field is not applicable, please enter N/A for that field.)*

a. Contract Control Number: N/A

b. Duration: N/A

To be completed by Mayor's Legislative Team:

SIRE Tracking Number: ____________________ Date Entered: _________________

c. **Location:** N/A

d. **Affected Council District:** N/A

e. **Benefits:** Lowers the actuarially assumed rate of investment return to a more prudent return rate, maintains DERP on a sound actuarial basis, and aligns the language in the Code with Plan practices and removes obsolete language in the DERP section of the DRMC.

f. **Costs:** Increases the Actuarially Required Contribution by 1%.

7. **Is there any controversy surrounding this ordinance?** *(Groups or individuals who may have concerns about it?)* **Please explain.**

The only people likely to have a concern about this are the 504 individuals (out of the DERP membership of approximately 22,000) who were part of the Deferred Retirement Option Programs (DROP I and II) between 2001 and 2003, who still have individual, supplemental account balances on deposit with DERP. They accrue interest based on the assumed rate of investment return, and thus they will earn slightly less annual interest, but still at a rate (7.5%), far in excess of what is achievable in the market for a guaranteed rate of return on immediately available funds.

Executive Summary:

The following modifications to the Denver Employees Retirement Plan would result from the enactment of this bill:

1. Lower the actuarially assumed rate of return to 7.50% from 7.75%.

Current Ordinance language sets the interest rate to be used for the actuarial assumption of investment return at 7.75%. The assumed rate is the rate of investment return (including inflation) that the Plan is expected to earn over the long term. In light of work done by the Plan's investment consultant indicating lower 10-year expected returns for the DERP-specific asset allocation, the Retirement Board believes that a more prudent return assumption is now 7.50%. Lowering the actuarially assumed rate of return to 7.50% will cause the Actuarially Required Contribution ("ARC") to increase by approximately 1.0%.

2. Increase Employer Contributions.

For active members, the percentage of each member's gross salary that the Employers (the City, DERP and DHHA) will be required to contribute to the Plan will increase from 11.5% to 12.5%. The current 8.0% Employee contribution rate will not change. This change is being made in order to maintain the Retirement Plan on a sound actuarial basis.

As required by Ordinance, the Retirement Plan's actuary has prepared a report which calculates the need for this contribution increase and cites the beneficial impact of the increase on the actuarial funded status of the pension and retiree medical funds.

The new Employer contribution rate will take effect with the first payroll in January, 2018.

3. Remove obsolete language in the DRMC, clarify the precise intent of certain existing Code language, and bring existing Code language into precise conformance with various administrative practices of the Plan.

These changes are as follows:

a. Remove the requirement that the Retirement Board have monthly meetings.

The Code currently requires the Retirement Board to hold a meeting once every month. The Board recently conducted a series of strategic planning sessions and determined that, although it still plans to, and desires to hold regular Board meetings, there may not be a need to have a meeting every month, and the Board desires the flexibility to set its meeting schedule as business necessity requires. Notice of Retirement Board meetings will continue to be provided as required in the DRMC, and the meetings will continue to be held on regular business days. This proposed amendment will only remove the requirement that a meeting must be held once every month.

b. Amend the sections of the DRMC regarding required reports to reflect more comprehensive current practice.

The Code currently requires that the Retirement Board submit a quarterly report to the Mayor and City Council containing details on the financial status of the trust fund, a listing of all assets showing both cost and market value, and a summary of any important decisions made by the Retirement Board during the quarter, including membership changes in the Board or the Advisory Committee. The Code also requires that twice a year, the Retirement Board submit a report to the Mayor and City Council on the performance of the trust fund's investments, and on the performance of the trustees or investment managers.

To be completed by Mayor's Legislative Team:

SIRE Tracking Number: ____________________ Date Entered: __________________

In practice, the comprehensive report which is now submitted to the Mayor and City Council on a quarterly basis is the same report that is described as the bi-annual report. Thus, since the bi-annual report is being submitted by the Retirement Board quarterly, the bi-annual report requirement is redundant. Additionally, the quarterly report contains detailed performance data and analytics regarding all investment assets managed by the Plan, rather than a simple listing of assets held within a segment of the portfolio. The proposed amendment will remove the requirement that the bi-annual report also be submitted, while preserving the frequency and usefulness of the reporting on the financial status and performance of the trust fund and all investments being managed.

c. Remove reference to the Internal Revenue Code Section which governs how interest is to be applied when computing the actuarially equivalent present value of benefits.

As a qualified governmental defined benefit pension plan, DERP must adhere to all applicable Internal Revenue Code ("IRC") provisions. One of those provisions is what interest rate is to be applied to the calculation of any actuarially equivalent present value of benefits. The DRMC currently references which code section of the IRC is applicable in these situations, however as this calculation is determined by law, the reference to the code section is unnecessary.

d. Amend 3 sections of the Code which describe the manner in which interest is applied to fund paybacks authorized by the Plan, or contributions owed to the Plan, in order to have consistent language throughout the Code.

The sections being amended currently indicate that interest shall be 3% per annum, but, unlike other Code sections, they are silent as to the manner in which the interest is calculated, as well as the date on which this calculation is to be applied. Other Code sections state that the manner in which interest is calculated ("compounded annually"), and the date on which this calculation is applied ("June 30th of each year"). The proposed amendment will ensure consistency throughout the Code in regards to interest calculations and payments.

To be completed by Mayor's Legislative Team:

SIRE Tracking Number: ____________________ Date Entered: _________________