

EXECUTIVE SUMMARY

Re-Setting the Percentage of Payroll Contribution for 2015

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

Employer and Employee Contributions:

The percentage of each employee's gross salary that the employer would be required to contribute to the Denver Employees Retirement Plan ("Plan") would be increased from 11.2% to 11.5%.

The percentage of gross salary the employees would be required to contribute to the Denver Employees Retirement Plan would be increased from 7.3% to 8.0%.

This change, which totals an increase in the required contribution rate of one (1.0) percentage point, is being made in order to maintain the Retirement Plan on a sound actuarial basis. The contribution rate increases enacted by the City and County of Denver in years 2009-2012 for the Actuarially Required Contribution ("ARC") contained a delayed implementation payment date, which has resulted in an approximately \$15 million dollar funding gap between the amount calculated by the Plan's actuary as owed to the Plan and what has been paid to the Plan. The enacted contribution increases from 2009-2012 were divided between the sponsoring employers and their employees in a manner whereby the sponsoring employers paid approximately 30% of the increases and the employees paid approximately 70% of the increases. It is proposed that the 1% contribution rate increase be divided in the same proportion as the prior contribution increases were divided, resulting in the sponsoring employers paying 0.3% of the increase and the employees paying 0.7% of the increase.

Attached is a letter from the Retirement Plan's actuary which confirms the purpose of this contribution increase and cites the beneficial impact of the increase on the funded status of the pension and retiree medical funds.

The new contribution rates would take effect with the first paycheck issued to employees in January, 2015.

October 22, 2014

Mr. Steve Hutt
Executive Director
Denver Employees Retirement Plan
777 Pearl Street
Denver, Colorado 80203

Dear Steve:

Subject: Actuarial Impact of Amendments relating to Contributions

Background

Consideration is being given to potential amendments to the Denver Employees Retirement Plan (DERP) regarding contributions. Denver Municipal Code Section 18-405(g) states that amendments that change the cost or contributions to the plan must be accompanied by a report by the actuary setting forth the effect of the changes on future contribution requirements.

Proposed changes to the Ordinance

It has been recommended that the Ordinance be amended to increase the employer contribution requirement from 11.20% to 11.50% and the employee contribution requirement from 7.30% to 8.00% effective the first pay period following January 1, 2015.

Actuarial Considerations

We understand the intent is to increase the contribution to generate contribution dollars not received due to lagged implementation from 2009 to 2012 of the Annual Required Contribution (ARC). Receiving this contribution, which addresses the timing difference between the valuations and receipts of the ARC over that period, will help improve the funded status of the Pension and Retiree Medical Plans.

Please let us know if we can answer any questions regarding this analysis.

Sincerely,



Leslie L. Thompson, FSA, FCA, EA, MAAA
Senior Consultant

cc: Diane Hunt, FSA, EA, MAAA