



1963 Retirement Plan Denver Employees Retirement Plan

Proposed Plan Updates

November 23, 2021

Brief History

- Denver's Employees Retirement Plan (DERP) was created in 1963
- The DERP retirement plan belongs to the City of Denver
 - Denver Revised Municipal Code (DRMC) controls the plan terms
 - (Eligibility requirements, participation requirements, contributions, etc.)
- The DERP Retirement Board is the City's agent (acting on the City's behalf) responsible for the retirement plan administration.

Brief History

- As of January 1, 1997, the Denver ‘Dept. of Health and Hospitals’ separated from the City to operate as ‘Denver Health Hospital Authority’
- DERP is a multi-employer retirement plan that allows ‘contractual entities’ to participate as an employer in the plan
 - Denver Health is a “contractual entity” in the retirement plan
- 1963 plan design assumed an ongoing amount of pensionable payroll by assuming new members (employees) would always be added.

Brief History

- Compared to other multi-employer retirement plans:
 - DERP is somewhat unique: One of two employers have closed the plan to new members
 - DERP funding is not designed to address the closed portion of the plan (necessitating plan updates)
- Denver Health closed DERP to new members (January 1, 2001)
 - Denver Health has approx. 240 employees in the plan
 - Denver Health's pensionable payroll shrinks approx. 10% per year
- The City continues to add new members to DERP (not closed)
 - The City's DERP plan funding is addressed adequately under the current law

Current Law / Funding

- Since 2003, DRMC requires DERP funding as follows:
 - All Employers must contribute 25% of member’s gross salary (pensionable payroll)
 - Employer = 15.75% / Employee 9.25%
 - Contractual entities (Denver Health) are also required to make an actuarially determined supplemental contribution necessary to fund the current cost of benefits payable
 - “Current cost” is not defined in DRMC but should include both normal cost (cost of benefits earned in current year) + any amortized Unfunded Actuarial Liability (UAL) payment due
 - DRMC does not require a separate actuarial valuation for Denver Health pension obligation. This leaves the UAL allocation to debate between DHHA and DERP

Current Law / Funding

- DERP and Denver Health have historically contracted to allow Denver Health to make supplemental contributions to fund the normal cost of Denver Health pension obligations
 - Those contracts do not address payment of the growing Denver Health UAL (closed portion of the plan)
- The Retirement Plan's overall UAL fluctuates annually based upon asset value and any changes to actuarial methodology
- Allocated Denver Health UAL may be as high as \$195M for 2021
 - Allocation of UAL and valuation methodology is subject to flexibility
 - The UAL for each employer is not separately calculated in the plan valuation
 - There is no deadline in DRMC to complete the negotiations over value or UAL

Issues - Current DRMC

- Only part of the retirement plan is closed (Denver Health).
- Current DRMC does not require a separate actuarial valuation for each employer.
 - Once payments are negotiated, DRMC does not set a due date for payments
 - DRMC does not require Denver Health payments (closed portion of plan) to include a payment on the growing Denver Health UAL
- Each employer is responsible to fund the cost of its own pension promises
 - For the City's portion of the retirement plan, that is happening
 - For Denver Health: DERP was not designed to close the plan

Summary of Proposed Changes

- First, require actuaries to prepare a separate annual valuation attributable to each employer (including UAL)
 - Retirement Board to approve valuation and UAL allocation
- Second, modify supplemental contributions:
 - Actuaries to calculate (Retirement Board to approve) contributions for each employer sufficient to fund normal cost + UAL to maintain actuarial soundness
 - The proposed bill does not have rigid requirements on how much or over what period of time payments are to be made
 - Proposed Bill allows DERP, Denver Health and the actuary flexibility with payments and how to achieve actuarial soundness
 - Once payment amounts are negotiated, due date for the negotiated payments must begin within 180 days after year end
 - Proposed bill delayed effective dates (Monday January 3, 2022)
 - First negotiated payment due before July 1, 2023

Proposed Changes by Section

- **Proposed changes are designed to:**
- Clarify that contractual entities are solely responsible for the costs of pension promises to its employees (D.R.M.C. § 18-401)
- Allow contractual entity contribution rates to be different than the contribution rates required of the City (D.R.M.C. § 18-402(8))
- Creates definition of Unfunded Actuarial Liability (D.R.M.C. § 18-402(32))
- Clarifies prompt payment of deficiency is required to maintain the plan on a sound actuarial basis (D.R.M.C. § 18-407(c))

Proposed Changes by Section

- Modifies payment methodology for closed portion of the Retirement Plan. (D.R.M.C. § 18-407(e))
 - Expands the current supplemental contribution requirement to “past, current and future employees”
 - Requires the supplemental payment to include both normal cost and unfunded actuarial liability
 - Requires supplemental contributions for any plan year to be made within 180 days of the plan year end
 - i.e. by July following calendar year
- Requires separate actuarial valuations for each employer based on methodologies approved by DERP Board (D.R.M.C. § 18-407(g))



Questions?

- Any questions?