



Re-setting the Contribution Rate for the Denver Employees Retirement Plan

Presentation to City Council Finance Committee
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In order to maintain its actuarial soundness, a pension plan needs to do three things:

- 1) Carefully manage its liabilities
- 2) Earn its actuarially assumed rate of return
- 3) Receive in-full the calculated Actuarially Required Contribution (ARC)



1) **Liability Management:** DERP has been exceptionally prudent here:

- No provision for automatic COLAs
- No discretionary lifetime COLAs granted in the last 7 years
- No health insurance benefit increases granted in the last 7 years
- The creation of a lower tier of benefits for new hires
- Allowing purchase of service only at full actuarial cost

2) Earnings Achieved: Recent Economic and Investment Performance

- Longest recession since World War II
- Gross Domestic Product (GDP) fell approximately **6%** in both the 4th Quarter of 2008 and the 1st Quarter of 2009
- Unemployment nationally has reached 9.8%, a 26-year high
- Disappearance overnight of once-powerhouse Wall Street firms: Lehman Brothers, Bear Stearns, Merrill Lynch

Recent Economic and Investment Performance, cont'd

- 2008 brought plunges in global investment markets not witnessed for decades - - worst year for stocks since the Great Depression
- Stock market down **37%** in 2008*
- Public pension fund median decline in 2008: **25.00%****
- DERP decline in 2008: **25.05%**

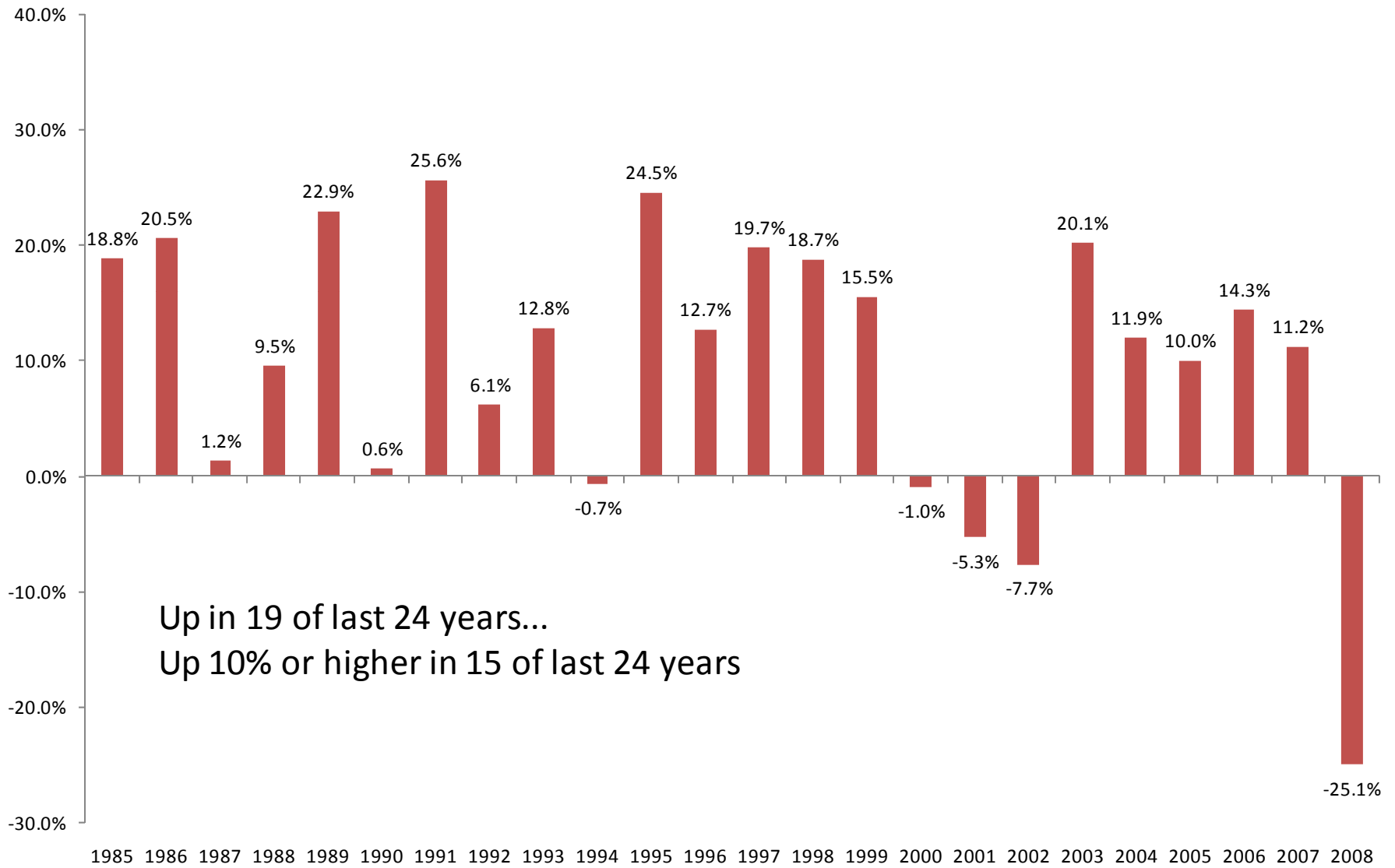
* Standard and Poor's 500 Index return in 2008 = -37.01%

** Source: Independent Consultant Cooperative (I.C.C.) database

2) Earnings Achieved:

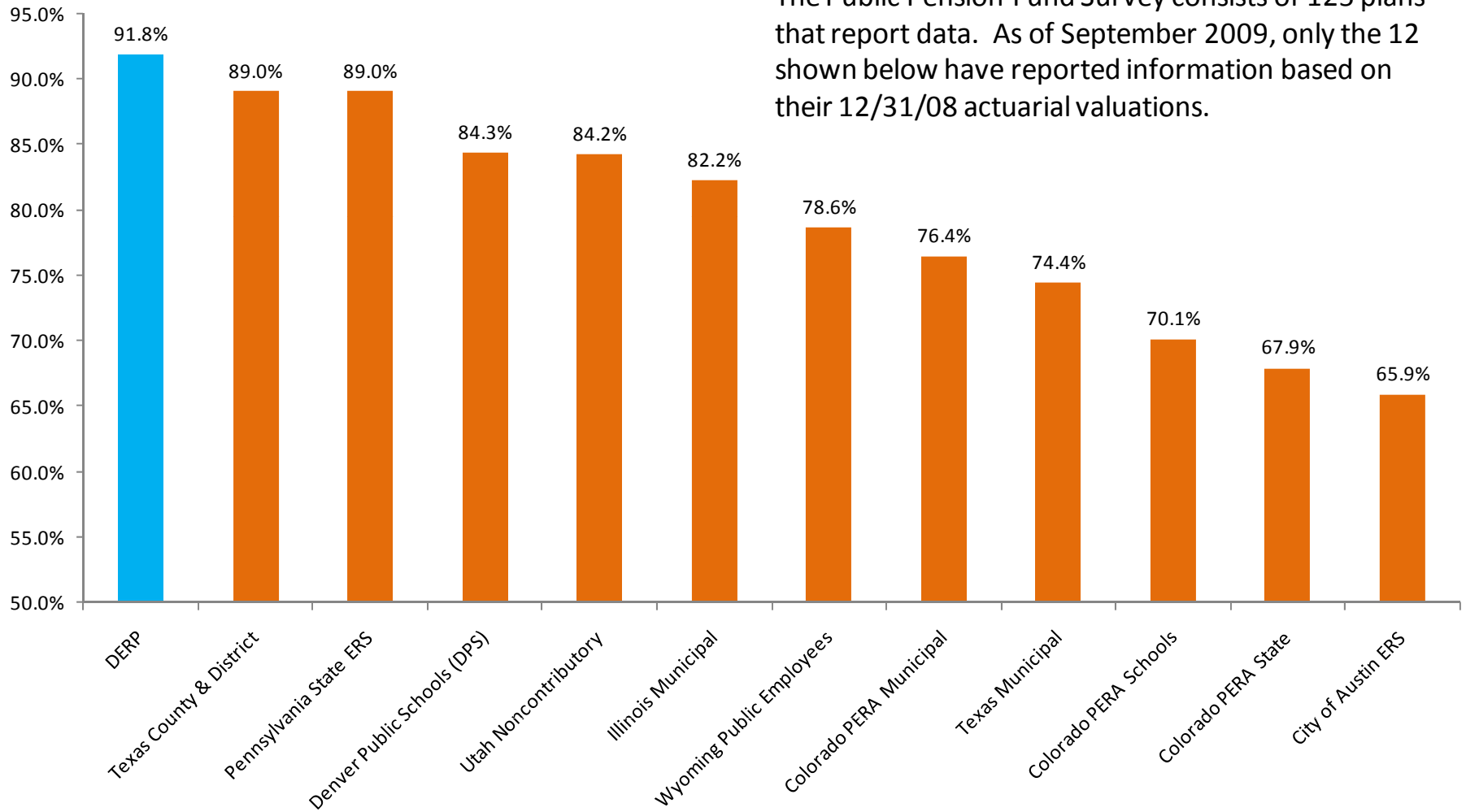
- Loss in 2008 was clearly an anomaly (see chart on next page)
- DERP has had positive earnings in 19 of last 24 years
- We have beaten the actuarial assumed rate of return (currently 8%) in 16 of those 19 years.
- Even with the 2008 losses of 25%, our 20-year earnings number stands at 8.6%

DERP Annual Returns 1985 - 2008



Public Pension Fund Survey Data Funded Level Percentages of Plans... That Have Already Reported 12/31/08 Actuarial Data

The Public Pension Fund Survey consists of 125 plans that report data. As of September 2009, only the 12 shown below have reported information based on their 12/31/08 actuarial valuations.



3) 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 two elements of a pension fund’s liabilities:

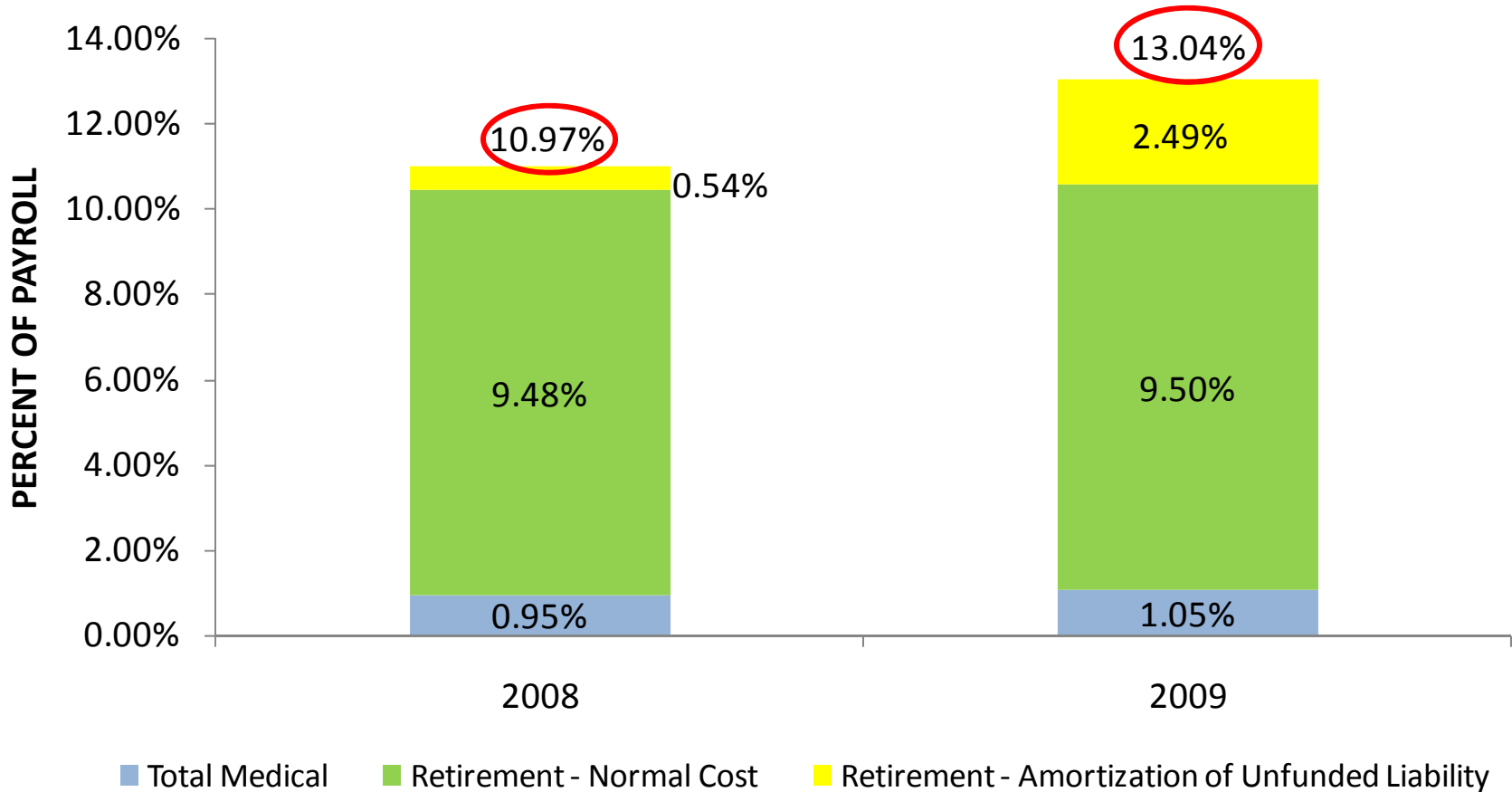
- a) the “Normal Cost” of one more year of service credit for all current employees, and
- b) the amount needed to pay down (or “amortize”) the cumulative unfunded liability, if any, for already-earned benefits

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



DENVER EMPLOYEES RETIREMENT PLAN COMPONENTS OF THE ACTUARIAL REQUIRED CONTRIBUTION (ARC) 2008 - 2009

The chart below shows the components of the **ARC**...Retiree Medical, Retirement "Normal Cost," and Amortization of the Retirement Unfunded Liability. Because the Retirement Unfunded Liability has increased significantly, so has its corresponding amortization, and thus so has the **ARC**.



State Employees Retirement System of Illinois

% of *ARC* Received Annually

2003 - 2008

Year Ended 6/30	Percentage of Full <i>ARC</i> Contributed
2003	88.1%
2004	83.1%
2005	58.8%
2006	31.3%
2007	43.6%
2008	59.6%

As of 6/30/08, the funded position of the Illinois State Retirement System had fallen to 46.1%.

Colorado PERA

Dollar Amounts of Full *ARC* Not Contributed 2003 - 2008

Year Ended 12/31	Annual <i>ARC</i> Dollar Amount <u>Not</u> Contributed	Cumulative <i>ARC</i> Dollar Amount <u>Not</u> Contributed
2003	\$236,200,000	\$236,200,000
2004	\$453,900,000	\$690,100,000
2005	\$553,200,000	\$1,243,300,000
2006	\$364,900,000	\$1,608,200,000
2007	\$442,200,000	\$2,050,400,000
2008	\$361,600,000	\$2,412,000,000

The above amounts are summary amounts for all Colorado PERA divisions. By year, the percent of total *ARC* contributed, on a combined basis, ranged from a low of 49% in 2005 to a high of 69% in 2003.

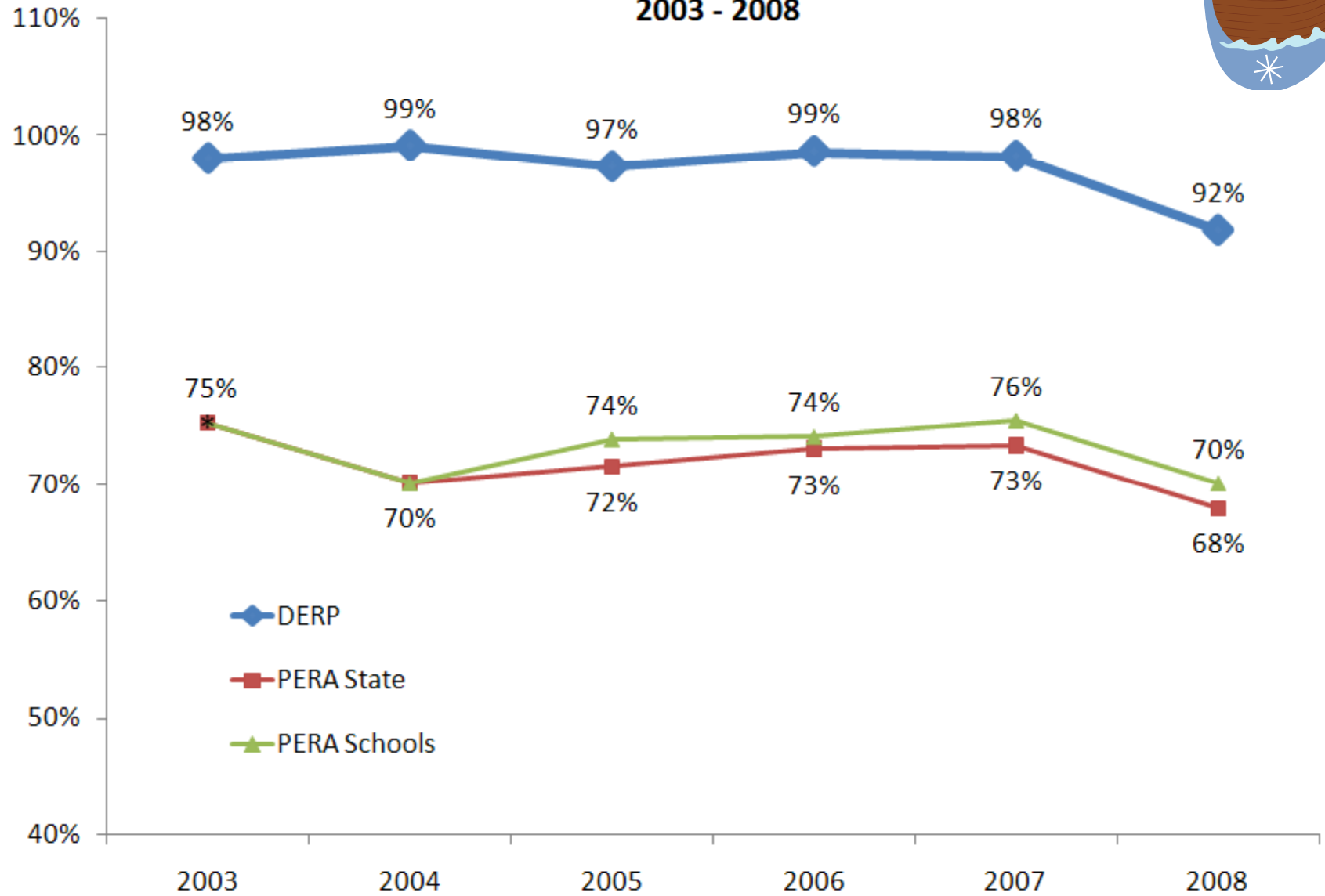
Colorado PERA

12/31/08 Funded Position

Division	Relative Size Within PERA	Funded Position*
Schools Division	55%	70.1%
State Division	37%	67.9%
Local Governments	7%	76.4%
Judicial Division	1%	80.2%
Total Colorado PERA	100%	69.8%

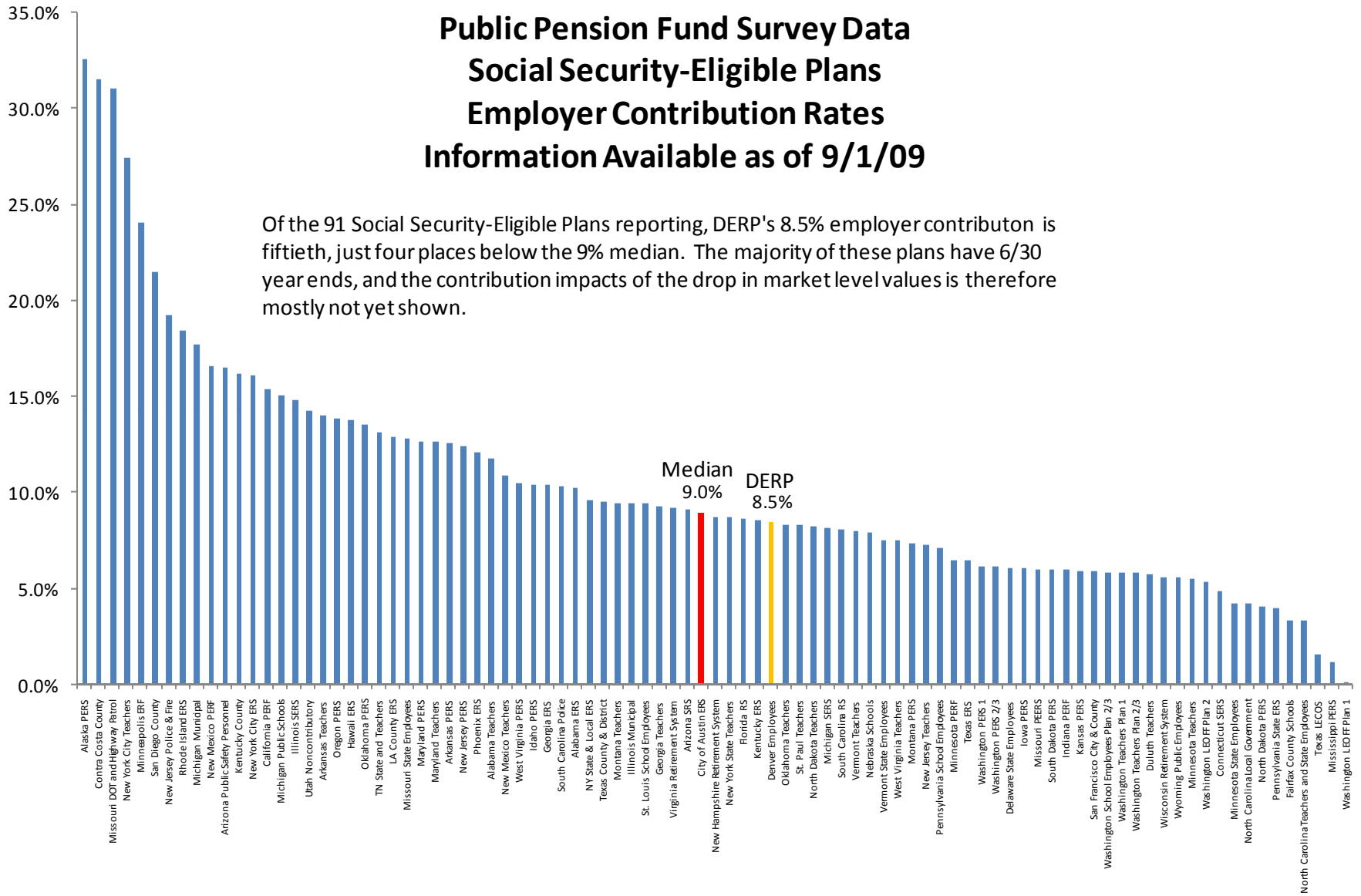
* Funded positions shown are based on Actuarial Value of Assets (AVA).

DERP vs. PERA - Funded Positions Actuarial Valuation of Assets (AVA) Basis 2003 - 2008

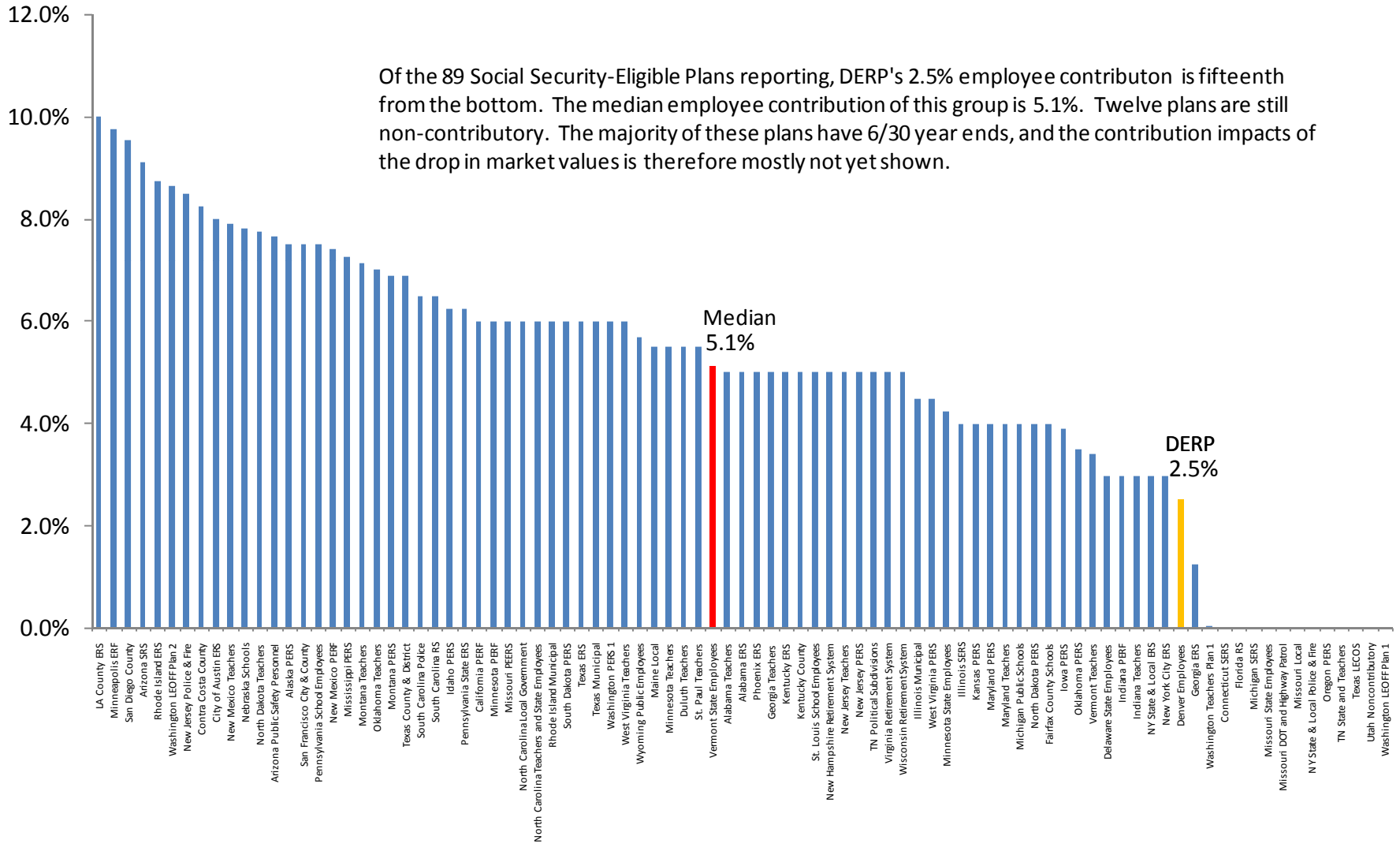


Public Pension Fund Survey Data Social Security-Eligible Plans Employer Contribution Rates Information Available as of 9/1/09

Of the 91 Social Security-Eligible Plans reporting, DERP's 8.5% employer contribution is fiftieth, just four places below the 9% median. The majority of these plans have 6/30 year ends, and the contribution impacts of the drop in market level values is therefore mostly not yet shown.



Public Pension Fund Survey Data Social Security-Eligible Plans Employee Contribution Rates Information Available as of 9/1/09



Denver/Colorado Public Pension Contribution Rates

All these contribution rates are before the impact of 2008 investment results.
They will probably all be going up.

