QUESTIONS & ANSWERS ABOUT

DERP CONTRIBUTION RATES AND FUNDED STATUS

Q: What percent of pay will employees and City contribute to DERP in 2020?

A: The Mayor's Proposed 2020 Budget intends to have the City contribute 14.75% of pay on behalf of each employee, with employees contributing 10.25%. This is a total increase of 3.5%, split evenly between the City and the employees. (In 2019, the City is contributing 13% of pay and employees are contributing 8.5 %.)

Q: Who decides what the contribution rates will be?

A: Every year, DERP's independent actuary calculates the total percentage-of-pay Required Contribution. DERP provides that number to the City. The Mayor's Office determines, as part of the City's annual budgeting process, how much of the Required Contribution will be budgeted for the City to pay in the coming year, and how much will be covered by City employees. These amounts are subject to City Council approval, as part of its annual Budget review and adoption process.

Q: When will the 2020 contribution rates take effect?

A: The new rates will take effect with the first paycheck in January, 2020.

Q: Why are these increases necessary for 2020?

A: The increased contribution rates are primarily the result of DERP's actuary recommending, and the Retirement Board adopting, prevailing, more conservative methods to assess the pension plan's "funded status."

Q: What does "funded status" mean?

A: Funded status is a calculation which compares the fund's total assets to the fund's total liabilities for all current and future retirees. It is calculated, by the actuary, to answer: What percentage of the projected future assets needed to meet the future liabilities is on hand today?

Q: **What is DERP's current funded status?**

A: At the beginning of 2018, the Plan's funded status was 67.7%. If DERP's actuarial firm had used the same methods and standards in 2019 as in previous years, the Plan's funded status would have been 65.9%. However, this year our actuary recommended that we update the actuarial methods used to those which have become best practices for public pension plans. Using those revised methods, the actuary re-calculated the Plan's funded status to be 62.2%.

Q: **How and why has DERP's funded status decreased to its current level?**

A: The primary reason for the decline in our funded status remains the 25% loss experienced by DERP during the Global Financial Crisis in 2008. While the Plan's assets have recovered to their level before the Financial Crisis, the liabilities for future benefits never decreased at all. Instead, as expected, those liabilities have grown each year, as current members continue to earn benefits for each additional year of service.

DERP's prudent implementation over the last decade of other actuarial changes in addition to those made this year also lowered our funded status. These changes include twice increasing the life expectancy projections of how long all our current and future retirees will receive their lifetime benefit, and twice lowering the assumed rate of return on our investment portfolio to a more conservative level.

Q: **What is being done to improve DERP's funded status?**

A: A portion of the required contribution being made each payday to DERP by the City/DHHA and the employees is used to gradually increase DERP's funded position. That required contribution will need to increase for the next several years, before leveling off. Current projections and assumptions show that in 20 years, if all required contributions are made, the Plan should reach a funded position of 100%. Investment returns and life-expectancy changes may hasten or delay getting to that milestone.

Q: **Does the funded status affect the calculation or payment of my expected pension benefit?**

A: No. DERP remains legally obligated to pay all current and future retirees the full monthly amounts to which they are entitled. The Plan's funded status does not impact what any retiree is owed or will be paid. The enduring, distinctive attribute of a traditional "defined benefit" pension plan is that the pension plan -- rather than the individual members -- bears both the investment risk and the longevity risk (how long individuals will live and draw their lifetime monthly benefit). This lets the individual members be confident that while the funded status of the pension fund will fluctuate, their benefits will not.