FREQUENTLY ASKED QUESTIONS ABOUT
DERP CONTRIBUTION RATES AND FUNDED STATUS

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

A: After hearing employee concerns, Mayor Hancock requested the Department of Finance to look into options to phase in the 2020 employee increase. The Department of Finance believes the City has the ability to use one-time 2019 budget savings to ‘prepay’ DERP an amount that will cover 1% of the intended 1.75% employee contribution increase in 2020. This will reduce the employee contribution increase to 0.75% for 2020. In total, the city will now contribute 15.75% of pay and employees will contribute 9.25%.

This action will provide a delay to the increase for employees and additional time to prepare for increases in 2021.

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 decides, 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.” The most impactful change is lowering the amortization of the unfunded liability from 30 years to 20 years.

Q: Is there a cap on the amount of the contribution?

A: There is no cap on the contribution rate. The rate is calculated annually by DERP’s independent actuary.
Q: Do increases in contribution rates increase my benefits?
A: No, your benefit remains the same. The contribution rates are calculated based on the current benefits.

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 slow amortization (30 years versus the now 20 years) of 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 (as opposed to the previous 30 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.

Q. Is the stock market the reason the funded status changed?

A: We assume that the portfolio will generate an average annual net return of 7.5%. However, we know it is unrealistic to think that there won’t be ups and downs along the way. Since we know there will be good years and bad years, we intend the average of several years to be 7.5%. In the short-term, when an annual return exceeds 7.5%, there is some small improvement in the funded status, and when the annual return falls short of 7.5%, there is some small decline in funded status. For periods of 7 years and longer, we have comfortably exceeded our assumed rate of return.

Q. Does DERP adjust the investment portfolio when an investment does poorly?

A: Yes. Every investment is competing against the expectations for that investment as well as competing against alternative investment opportunities. If expectations are not being met, or if other opportunities present better options, we will terminate a fund or sometimes even an entire asset class in order to maximize our return and minimize our risk.

Q: Can I opt out of Social Security coverage since I am covered by DERP?

A: No. Prior to the 1950’s, state and local government employees were not eligible to participate in Social Security. However, beginning in the 1950’s many state and local governments (including Denver) entered into Section 218 Agreements with the Social Security Administration voluntarily opting into Social Security coverage for their employees. Social Security and Medicare coverage has expanded over the years and, since 1991, is now mandatory for all state and local government employees not specifically excluded under an agreement with the Social Security Administration.

Effective October 22, 2019