Audit Verifies City’s Calculations for Pension Plan

DENVER – The city is accurately calculating what it will take to fully fund its pension plan in 20 years, according to an audit from Denver Auditor Timothy M. O’Brien, CPA, and a hired independent actuary.

Auditor O’Brien contracted with Bolton Partners Inc. to review the January 2019 Actuarial Valuation Report for the Denver Employees Retirement Plan. Bolton collected and validated all source information and verified computational and procedural accuracy for the pension plan.

“There are thousands of people who worked hard to serve Denver and who are counting on the defined benefits from the pension plan in retirement — now or in the future,” Auditor O’Brien said. “It’s a good idea for someone to check the city’s math from time to time to make sure we are on the right track.”

The actuarial valuation found the calculations by the city’s actuary are valid. The actuary replicated the city’s calculations using the same data, methods, and assumptions as the pension plan’s actuary. The results of the replicated calculations showed the numbers were well within an acceptable range of what the city’s actuary found.

According to Denver Employees Retirement Plan management, the plan is expected to be fully funded in 20 years, unless there are changes to investment returns or life expectancy. The city and employees will have to increase contribution levels for the next several years before contributions level off, in order to achieve this goal.

The pension plan is currently funded at 61.4%, according to the city’s actuarial valuation report, based on the actuarial value of assets as of Dec. 31, 2018. That’s down from 66.8% last year. The report says the decrease is primarily due the changes in the actuarial funding methods and the losses on the actuarial value of assets.

The pension plan management says the current funded status is the result of a number of factors, including changing from a 30-year to a 20-year plan to achieve full funding, along with a dip during the 2008 financial crisis, more conservative estimates of investment returns, and twice changing the life expectancy of current and future retirees. The funded status does not impact the monthly payments owed to current or future retirees. While Bolton found the general assumptions and methods used for
calculating the key 2019 valuation results are reasonable and accurately reflect the best estimate of the
cost of the plan, the actuary team did find some details that could help improve the valuation report.

Bolton recommends a more transparent explanation for assumptions in calculations related to unused
sick and vacation hours and retiree medical election percentage. Bolton also recommends more
transparency related to the calculation of the determined contribution for each year, which is the
amount the city and employees must contribute to fund the pension plan.

“This audit found many of the city’s pension plan decisions and assumptions are appropriate,” Auditor
O’Brien said. “The city is meeting all statutory requirements, and that keeps our investment in our
future healthy.”

Read the Audit

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About the Auditor’s Office
Denver’s Auditor is publicly elected and answers to the voters. The role of the Auditor is to help
minimize risks, improve internal controls, maximize efficiencies and strengthen accountability.

About Auditor O’Brien
Denver Auditor Timothy M. O’Brien, CPA, has more than 40 years of auditing and accounting experience.
Auditor O’Brien strives to bring greater clarity, transparency and accountability to Denver’s city
government for its residents. Elected in 2015, Timothy O’Brien is distinguished from his predecessors by
being an actual professional auditor. Auditor O’Brien and his office won a national Knighton
Distinguished Award from the Association of Local Government Auditors in 2019 for the Affordable
Housing Audit. Auditor O’Brien also received the ADA Access Award from the Colorado Cross-Disability
Coalition in 2018 for his work on behalf of people with disabilities of all kinds. Auditor O’Brien also
received the 2017 Outstanding CPA in Government Impact Award from the American Institute of CPAs.
He was honored with the 2016 Jonathan Holtzinger Award of Excellence by the Colorado Chartered
Financial Analyst Society for demonstrating the highest standards as a financial and investment
professional.

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