



Denver Employees Retirement Plan

Overview

The Denver Employees Retirement Plan (DERP) was established in 1963 to provide a defined benefit pension and post employment health benefits to employees of the city and county of Denver, Colorado. When the Denver Health and Hospital Authority (DHHA) was established in 1996, its employees joined the Plan; however, the Plan was closed to new DHHA members in 2001.

The city and county of Denver and DHHA share responsibilities for all risks and costs of the plan. As of 12/31/12, the Plan held \$1,781,633,331 in trust for the payment of pension benefits.¹ The plan provides services to 8,175 active members and 8,045 annuitants.² All active Plan members are required to contribute to Social Security while employed by the city, county, or DHHA.³

The Plan is governed by a five-member board, who serve staggered six-year terms and are appointed by the mayor of Denver. There is also a four-person nonvoting advisory committee of Plan members who serve three-year terms; three of them are elected by the Plan membership and one is appointed by the city's Career Service Board. Amendments to the Plan must be enacted into ordinance by the Denver City Council and approved by the mayor.⁴

Pension Funding

The strategy for maintaining DERP's pension funding levels involves carefully managing its assets and liabilities, and consistently paying the full annual required contribution (ARC). Because DERP's plan sponsors have consistently fully funded the ARC for more than 40 years,⁵ its funded status has long been at the upper end compared with others in its peer group of public pension funds.⁶

Plan Design

In 2004, years before most other plans made similar changes, DERP lowered the formula multiplier from 2 percent to 1.5 percent [per year of service times average monthly salary (AMS)] for new employees. As of year-end 2012, 48 percent of the covered employees were in the lower multiplier tier.⁷ A second new tier of benefits was created for members hired on or after July 1, 2011. The significant changes included:

- changing from a Rule of 75, minimum age 55, to a Rule of 85, minimum age 60
- increasing the early retirement age from 55 to 60
- changing the early retirement reduction factors to be consistent with the increase in the early retirement age and to be closer to actuarial equivalency

Cost of living adjustments are discretionary, and have not been provided since 2002.⁸ The vesting period is five years. As of 1/1/2013, the city and county of Denver contributes 11 percent of the employee's total gross salary and the employee contributes 7 percent of gross salary.⁹

Funded Status

The table below shows DERP funding ratios over the last nine years, in percentages (as of January 1 of each year).¹⁰

2004	2005	2006	2007	2008	2009	2010	2011	2012
98.0	99.1	97.4	98.6	98.2	91.8	88.4	85	76.4

DERP's goal is to achieve a funded ratio of 100 percent in order to fully fund its obligations; it expects to achieve that goal by earning its assumed rate of return over the long-term, prudently managing its liabilities, and depending on consistent payment of its ARC by the plan sponsors. The decrease in its funded position since 2008 is due primarily to the systematic recognition valuation of market value losses into the actuarial (smoothed) value of assets. Also, due to the recession, turnover of employees into the new benefit tiers has been slower than originally anticipated.

Like all state and local government pension plans, DERP is subject to the Governmental Accounting Standards Board (GASB) changes that took effect July 1, 2013, which will require new calculations to determine Net Pension Liability. These changes will not only affect how pension liabilities are reported, they will also subject annual plan financial reporting to variations that result from fluctuations in the financial markets.

Endnotes

- 1 Denver Employees Retirement Plan CAFR, as of December 31, 2012
- 2 Denver Employees Retirement Plan CAFR, as of December 31, 2012
- 3 Denver Employees Retirement Plan CAFR, as of December 31, 2011
- 4 3 Sec. 18-419, Denver Municipal Code: <http://library.municode.com/index.aspx?clientId=10257&stateId=6&stateName=Colorado>
- 5 Conversation with Rich Harris, Finance and Compliance Officer, Denver Employees Retirement Plan, 6/20/2013
- 6 Denver Employees Retirement Plan CAFR, as of December 31, 2012
- 7 Conversation with Rich Harris, Finance and Compliance Officer, Denver Employees Retirement Plan, 6/20/2013
- 8 <http://www.derp.org/retireinfo.asp>
- 9 http://www.derp.org/about_us.asp
- 10 Denver Employees Retirement Plan, Actuarial Valuation as of January 1, 2012