

## What Does DERP's "Funded Status" Mean?

The most comprehensive measure of the health of a pension fund is what is known as the "funded status" or "funded position." It represents the degree to which the fund's total assets compare to the fund's total pension liabilities for all current and future retirees. It is calculated, by an independent actuary, as a percentage: What percent of the projected future assets needed to meet the future liabilities are on hand today?

The higher the percentage, the healthier the pension fund is considered to be. For DERP, the current funded position is approximately 70%. Significantly, and prudently, part of the required contribution being made each payday by the City/DHHA and the employees is calculated to gradually increase the Plan's funded position. Current projections and assumptions show that in approximately 25 years, the Plan will reach a funded position of 100%. Investment returns and mortality changes may hasten or delay getting to that milestone.

In the meantime, DERP remains legally obligated to pay all current and future retirees the full monthly amounts to which they are entitled. While the current funded status is lower than DERP's position before the Global Financial Crisis, it is still sound and healthy. The Plan's funded status does not diminish 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.