



Denver Employees Retirement Plan

Popular Annual Financial Report

Fiscal Year Ended
December 31, 2019



A Component Unit of the City and County of Denver, Colorado

The Popular Annual Financial Report (PAFR) includes condensed and simplified information from the **2019 Denver Employees Retirement Plan Comprehensive Annual Financial Report (CAFR)**. The data in this report does not provide all of the necessary financial statement and note disclosures required by GAAP. Those interested in learning more about the Denver Employees Retirement Plan, and for electronic copies of the CAFR, are invited to visit www.derp.org.

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Photos courtesy of VISITDENVER, Brandon Gurney, Pieter VanDeSande, and Peter Pryharski.

Message to Our Members



Heather K. Darlington, CPA
Executive Director

It is with great pride that I present the first Denver Employees Retirement Plan (DERP) **2019 Popular Annual Financial Report (PAFR)**. This PAFR is designed to keep you informed with 2019 actions and accomplishments.

The DERP team is responsible for administering retirement, disability, and death benefits for City and County of Denver employees in the Career Service, certain employees of the Denver Health and Hospital Authority, and DERP staff. We provide monthly benefit payments for approximately 9,700 retirees and beneficiaries, and are an essential element of the future financial security for nearly 10,000 active members. We are continually taking steps to evolve and focus on the future. Steps we took in 2019 include:

- **Adopting actuarial method changes used in calculating the pension liability.** Changes were made to assumptions to strengthen the plan and to better align with industry standards and best practices. The most impactful change reduced the amortization period. The unfunded liability is now amortized over 20-years instead of the previous 30-year period ensuring the plan is secure for the long-term.
- **Constructing a communication foundation to support and build stronger member awareness and understanding.** Many of you participated in research sessions, providing insight into how DERP is valued. I appreciate all who took the time to participate. We are currently in the process of utilizing the information gathered to build a strong communication and education platform.
- **A new perspective.** New partners are bringing a fresh perspective and energy. The investment team is collaborating with partners who are challenging us to be innovative and take different routes. Cheiron, our independent pension actuarial consulting firm, has helped implement a modern approach to ensure the DERP pension plan is financially sound. Our new investment partner, Meketa, is working with us to adopt forward-looking and progressive investment tactics guaranteeing continued delivery of retirement benefits. The Advisory Committee has new members who provide the voice of our membership to the Board of Directors and help position DERP for the future.

I cannot write this message without recognizing that the COVID-19 pandemic has impacted nearly every country on the globe, upending personal lives and disrupting the capital markets. The pandemic seems likely to remain a fact of life for the foreseeable future. As a result of the COVID-19 corona virus, economic uncertainties have arisen and the potential long-term financial impact is unknown at this time. We are continually monitoring the investment environment, working to mitigate the impact to the plan, where possible.

The DERP team is committed to providing a stable and secure lifetime income to members. Our ongoing dedication to continue to grow and evolve has made it possible to make strategic decisions, enabling us to be an outstanding financial steward of the funds. The decisions and steps we are taking now will help carry us forward so that we can continue to deliver on our guarantee to provide retirement benefits and exceptional service to our members.

Respectfully submitted,

Heather K. Darlington

About Us

The **Denver Employees Retirement Plan (DERP)** was established January 1, 1963, as a defined benefit plan. DERP invests contributions from Plan Sponsors (City and County of Denver (city), Denver Health and Hospital Authority (DHHA), and DERP) and their employees. DERP administers and provides monthly retirement benefits and access to insurance for approximately 9,700 retirees. In

addition, education is provided to approximately 10,000 active employees regarding retirement, DERP benefits, and readiness.

How We Work: DERP is governed by a 5-person Board of Directors appointed by the Mayor for staggered 6-year terms. Additionally, there is a 4-person Advisory Committee who serve staggered 3-year terms.

Board of Directors

- Formulate, amend, and administer the plan
- Act as trustees for members, retired members, and their beneficiaries
- Oversee administration
- Set policies
- Approve operating budget
- Advise the DERP Executive Director
- 1 member must be a vested, active employee
- 1 must be a DERP retired member

Advisory Committee

- Solicit and present suggestions and questions which are in the interest of members
- Communicate information to active and retired members
- 3 members, elected by membership
 - 1 member must be a vested, active employee
 - 1 must be a DERP retired member
- 1 member, appointed by the Denver Career Service Board, who is a member of the Board or a staff member of the Office of Human Resources

The Board of Directors and the Advisory Committee have a fiduciary responsibility to act in the exclusive interest of the members and beneficiaries of DERP, the city, and DHHA.

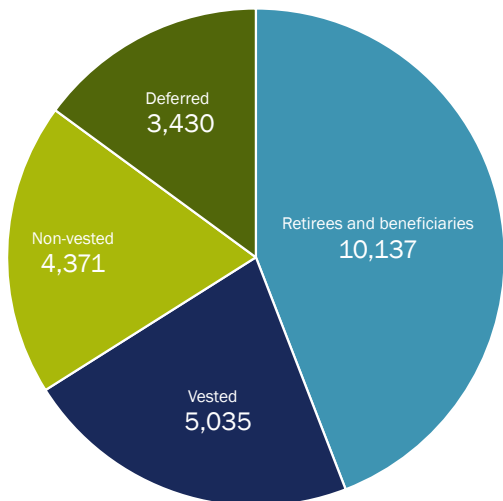
Benefits and Services Provided

- Members are vested and eligible for a lifetime benefit once they have five years of credited service
- Vested active members may purchase up to 5 years of additional service
- Annual member statements are provided to all active, inactive, and vested members
- Normal and early retirement benefits are available to vested members who attain age and service requirements
- Joint and survivor options are available to members at the time of retirement application
- On-the-job disability benefits are available with no vesting requirement
- Off-the-job disability benefits are available after a member has vested
- Death benefits are available with no vesting requirement
- Personalized benefit counseling is available to all members
- Access to group health insurance plans during retirement; both pre and post Medicare eligibility
- Subsidy toward insurance premiums provided to retirees and eligible beneficiaries based on years of service and Medicare status

Plan Membership

City employees in the Career Service, certain employees of the DHHA, and DERP staff are covered by the defined benefit plan. Denver Police and Denver Fire Department uniformed employees are covered by a separate retirement system.

Membership



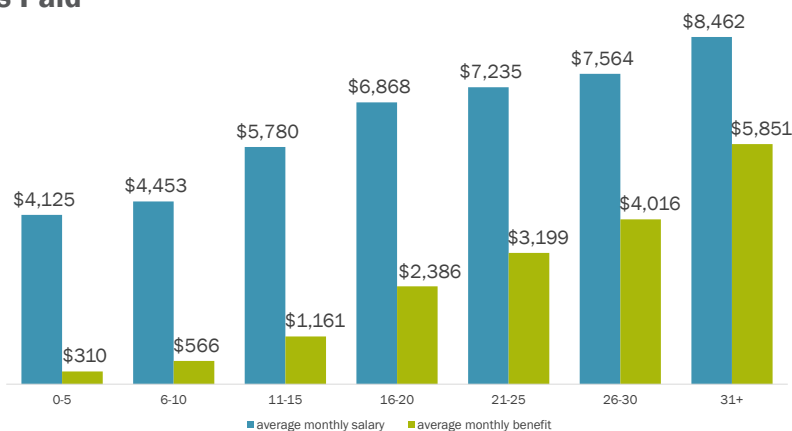
DERP had 22,973 members in 2019 in the following categories:

- **Vested:** A member becomes vested when they have 5 years of credited service. Upon vesting, a member is eligible for a lifetime retirement benefit.
- **Non-vested:** A non-vested member has less than 5 years of credited service.
- **Deferred:** A deferred member is no longer an active employee, but due a refund of their employee contributions or a future, monthly, lifetime benefit.
- **Retirees and beneficiaries:** A retiree, or their beneficiary, are currently receiving a monthly, lifetime pension benefit.

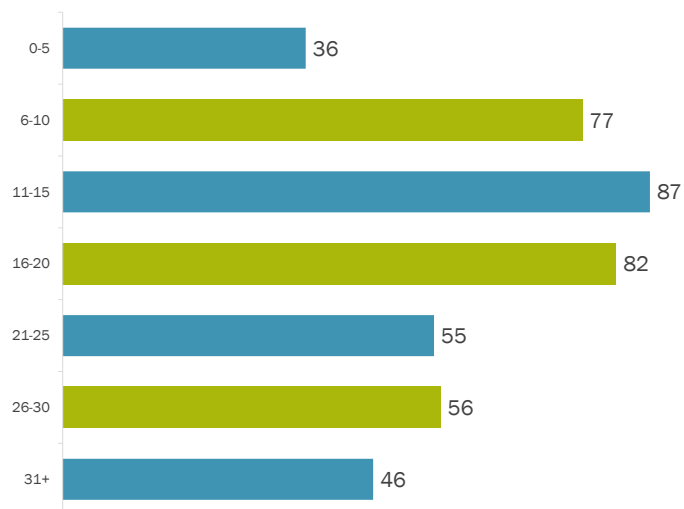
2019 Average Monthly Salary and Benefits Paid

Years of Credited Service

- DERP provided monthly benefits to 10,317 retirees in 2019.
- The average monthly benefit was \$2,498.



Years of Service at Retirement



In 2019, 439 members applied for and retired from DERP. Of those, 20% had 11-15 years of credited service when they retired.

Assets and Liabilities

This table shows DERP's assets and liabilities for the years ended December 31, 2019 and 2018. The net position represents the funds DERP had available at end of year to pay pension benefits for members, as well as health care insurance premium reduction payments for current and future retirees. The improvement in net position reflects the strong investment returns earned in 2019.

What this means to members: One strong year is great to report, but does not completely eradicate the funding shortfall. The Plan still has an unfunded pension liability of \$1.45 billion and a \$98 million unfunded health care liability.

	2019	2018	Percent Increase/ (Decrease) from 2018 to 2019
Assets			
Cash and short-term investments	\$ 116,410,500	\$ 36,378,568	220.0%
Securities lending collateral	81,271,523	129,463,950	(37.2)%
Receivables	2,047,375	1,559,686	31.3%
Investments, at fair value	2,217,854,919	2,092,143,126	6.0%
Prepaid Items	34,680	32,520	6.6%
Capital assets	3,168,692	3,518,282	(9.9)%
Total assets	2,420,787,689	2,263,096,132	7.0%
Liabilities			
Accounts payable	2,538,455	3,589,374	(29.3)%
Unearned contributions	6,806,109	-	-
Securities lending obligations	81,271,523	129,463,950	(37.2)%
Total liabilities	90,616,087	133,053,324	(31.9)%
Net position restricted for benefits	\$2,330,171,602	\$2,130,042,808	9.4%

Income and Expenses

This table shows DERP's income (additions) and expenses (deductions) for the years ended December 31, 2019 and 2018. In 2019, investment earnings were the main component of income and DERP posted a gain from investing activity. Expenses for 2019 were approximately \$249 million, DERP paid almost \$245 million in pension benefits (including monthly retiree benefit payments, health insurance premium reduction payments, and account refunds) to over 10,000 retirees and their beneficiaries.

What this means to members: DERP knows that some years will have positive returns, while other years will be neutral or negative. When years are poor, DERP absorbs the loss and continues to meet its commitment to members. As long-term investors, we work to maximize the availability of investable assets by reducing costs, controlling expenses and structuring long-term solutions to address inequities.

	2019	2018	Percent Increase/ (Decrease) from 2018 to 2019
Additions			
Employer contributions	\$ 92,549,621	\$ 86,672,498	6.8%
Member contributions	63,385,303	55,833,462	13.5%
Investment earnings			
Net appreciation (depreciation) in fair value of investments	262,064,555	(120,309,087)	317.8%
Earnings on investments	45,767,196	57,903,473	(21.0)%
Less: investment expenses	(15,005,645)	(13,916,856)	7.8%
Net income from securities lending	469,282	812,066	(42.2)%
Total additions	449,230,312	(66,995,556)	570.5%
Deductions			
Member benefits and refunds	244,845,016	233,056,895	5.1%
Administrative expenses	4,256,502	4,149,416	2.6%
Total deductions	249,101,518	237,206,311	5.0%
Net position restricted for benefits	\$2,330,171,602	\$2,130,042,808	9.4%

DERP's largest expense is providing monthly pension and health benefits to our retirees. Investment expenses are netted against Investment earnings and accounted for approximately \$15 million in 2019. The administrative expenses include necessary day-to-day costs to operate the plan (personnel and professional services, information technology, depreciation, and building expenses). The annual administrative and investment management expenses combined represent less than 1% of the Plan's asset under management.

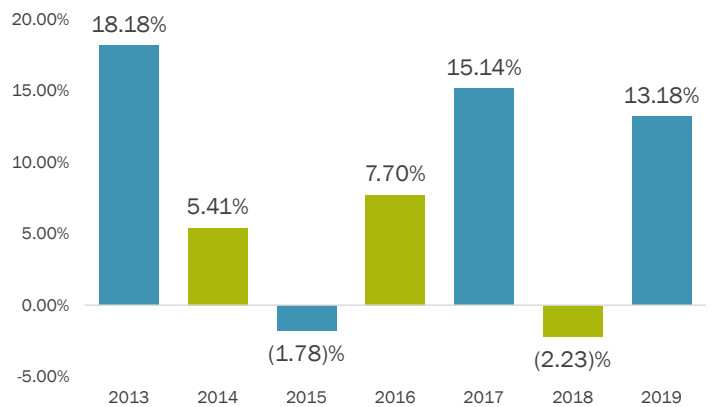
Investments (Funding Retiree Pension Benefits)

Investment results are extremely important as investment returns provide approximately two-thirds of the funding for a retiree's ultimate pension. DERP's continuing investment goal is to attain a return over the long-term that will provide adequate funding for benefits. Overall, 2019 was a very strong year. The total DERP portfolio for 2019 returned 12.6%, helped by strong equity market returns in both domestic (up 32.7%) and international stocks (up 17.9%).

Investment Returns

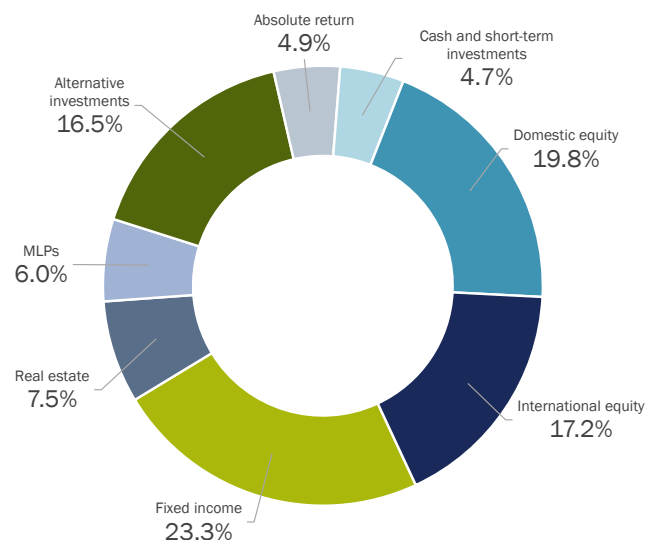
The 2019 return exceeded the target actuarial return of 7.5%, but trailed the benchmark return of 16.2% mostly due to disappointing private equity and energy investment results. While the 2019 return of 12.6% was a strong result, it also serves to illustrate the variability of returns in any given year. The Investment Returns chart reflects a variance from 18.2% in 2013 to (2.4)% in 2018. The average annual results over this period was 7.6%, nearly identical to our assumed rate of return of 7.5%, but it wasn't a smooth ride.

What this means to members: If the actual investment results are better than the assumed rate of return, there will be a downward impact on required contributions. When investment returns are below expectations, the opposite is true. Because of the variability in year-to-year outcomes, a smoothing technique is used to reduce the change in required contributions in a given year.



Asset Allocation

The Board recognizes an asset allocation plan has the greatest impact on long-term performance results and is the most important decision in the investment process. The risk/return profile is maintained by identifying a long-term target strategic asset allocation. The Actual Allocation graph shows the distribution of DERP's \$2,330,171,602 investment portfolio as of December 31, 2019.



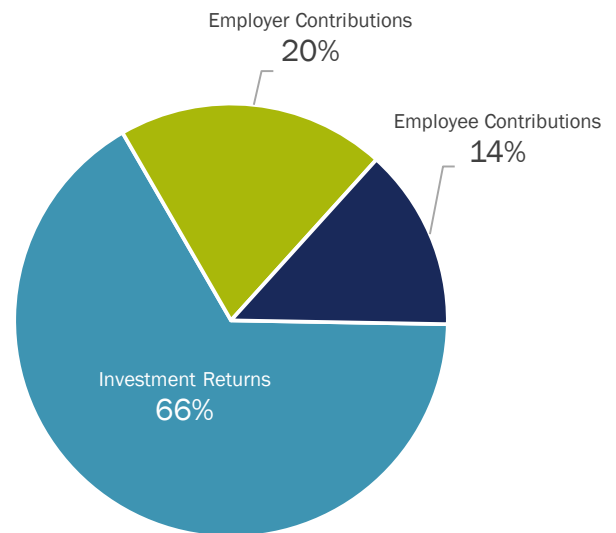
Pension Funding Status

Retiree pension benefits are funded by contributions from members and employers and income earned from responsibly investing these funds throughout a member’s career. By law, DERP must pay the pension benefits when a member retires.

Where funding comes from

DERP’s revenues (\$449 million in 2019) consist of 3 main streams:

- Employer contributions - 15.25% of payroll
- Employee contributions - 9.25% of payroll
- Investment Returns - Changes in fair value of investments are reflected as income and reflect market conditions as of year-end, net of investment expenses

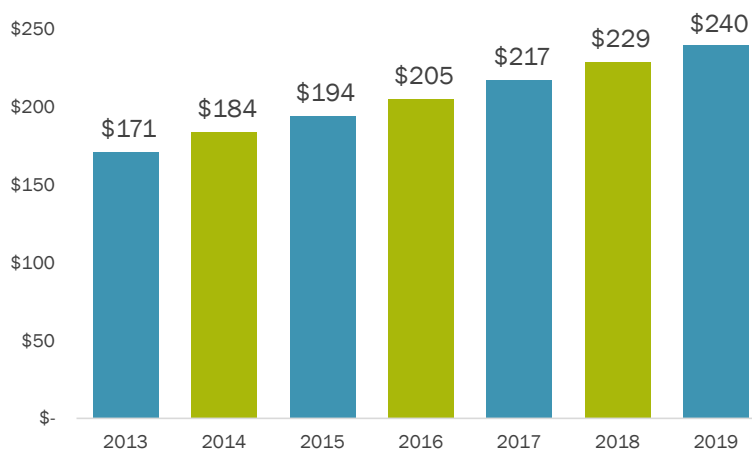


Funded status measures the progress of accumulation of the funds necessary to meet future obligations. The December 31, 2019 valuation funded status was 60.9%. The unfunded liability was expected to be funded within 19 years.

Challenges, such as members living longer in retirement than ever before, volatile global markets, and an ever-decreasing member-to-retiree ratio have placed deeper-than-expected strains on the DERP foundation. Pension payments are up 40% since 2013.

Pension Benefits Paid

(\$ in millions)



DERP in Numbers

This page highlights member averages and average benefits paid to retirees receiving a benefit. The cost of retirement will continue to increase as new retirees with higher final average salaries replace long-time retirees with lower average salaries and as members continue to work longer.

22,973

total members,
retirees, and
beneficiaries

44.2

average age of
active members

\$6,345

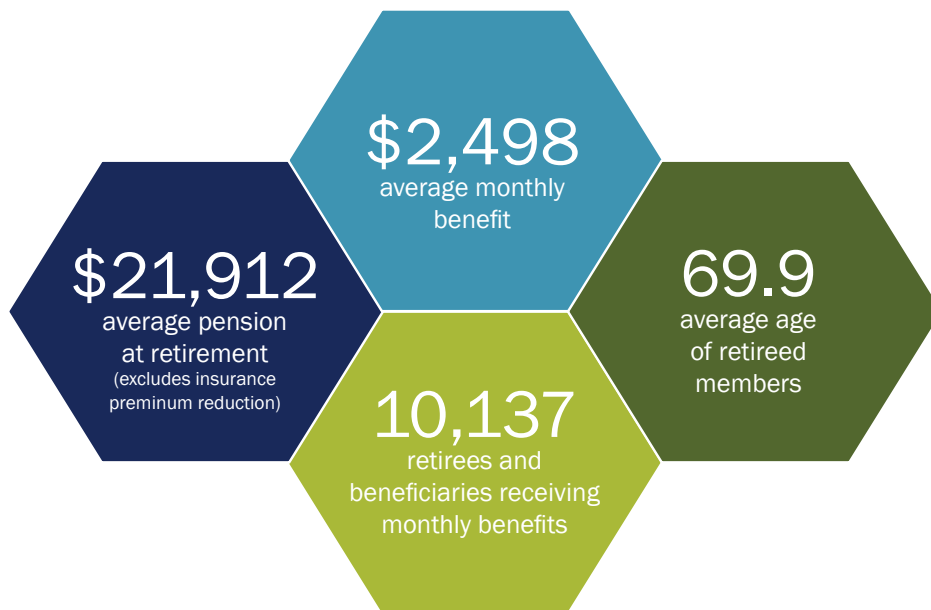
average monthly
salary of active
members

59.6

average age
at retirement

18.5

average years
of service at
retirement



104

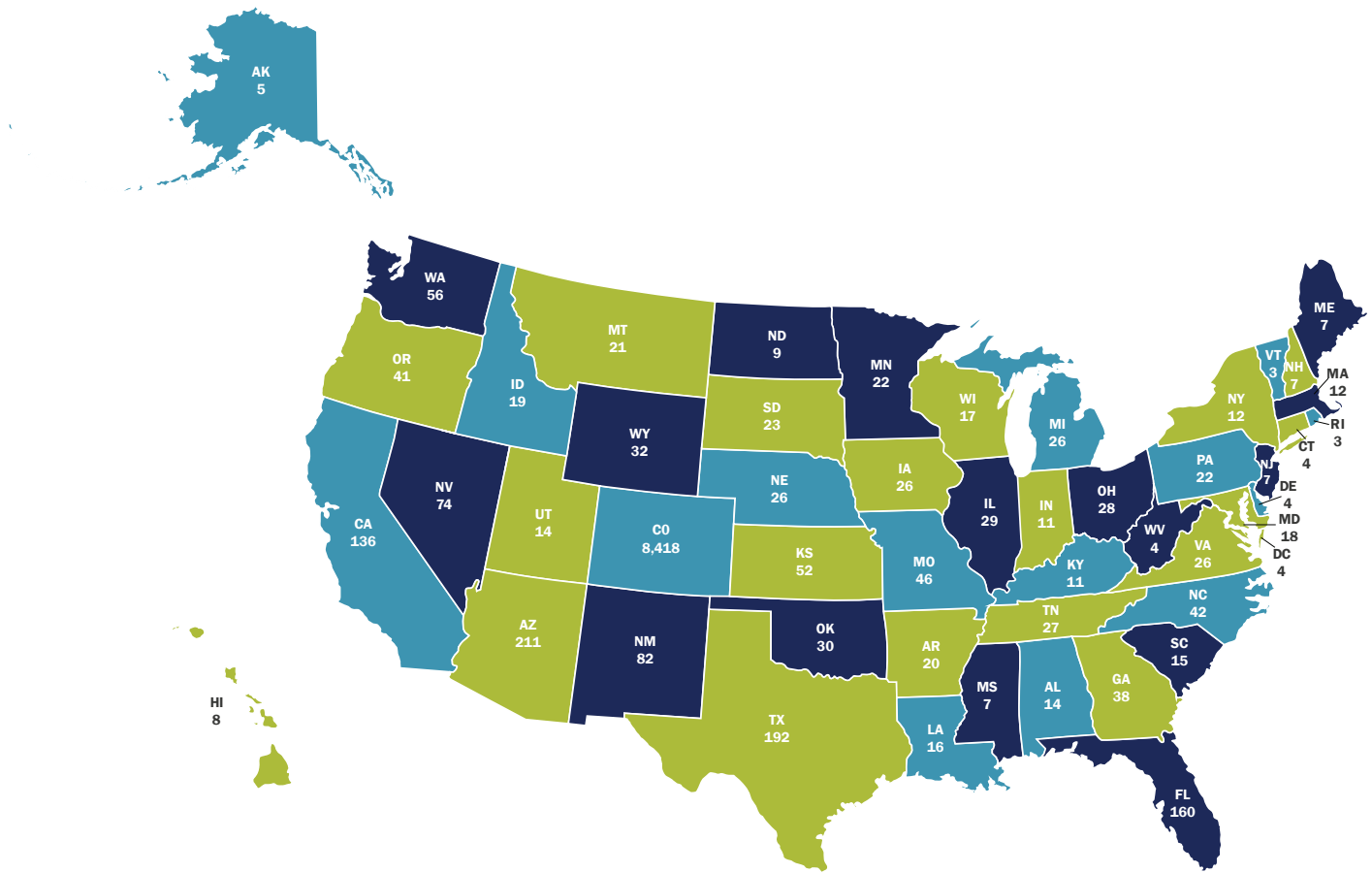
Oldest DERP
member
(as of 12/31/2019)



8

Members
older than 100
(as of 12/31/2019)

Location of Retired Members



Other Countries and Territories

- | | | |
|----------------|-------------|--------------------|
| Australia - 1 | Germany - 1 | Mexico - 4 |
| Canada - 2 | Israel - 3 | New Zealand - 1 |
| Costa Rica - 3 | Italy - 1 | United Kingdom - 2 |

The Government Finance Officers Association (GFOA) has been promoting the preparation of high quality popular annual financial reports since 1991. More than 140 governments participate in the program each year. The Popular Annual Financial Reporting Awards Program is specifically designed to encourage state and local governments to prepare and issue a high quality popular annual financial report. Popular annual financial reports can play an important role in making financial information accessible to ordinary citizens and other interested parties who may be challenged by more detailed traditional financial reports. Additional details can be found at the GFOA’s website: www.gfoa.org.

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