

Minutes of the Retirement Board

May 20, 2022 - Meeting #841

Meeting #841 of the Retirement Board of the Denver Employees Retirement Plan was held at the Grant-Humphreys Mansion and via video/audio. The meeting began at 9:00 a.m. Retirement Board Members present: Diane Barrett, Maurice Goodgaine, George Delaney, and Lisa Ramirez. Advisory Committee Members present: Heather Britton, Andrew Luxen, Joseph Margoshes, and Victoria Gallo. Staff present: Heather Darlington, Executive Director; Jake Huolihan, Finance and Operations Director; Roni Kirchhevel, Benefits and Membership Services Director; Julie Vlier, Marketing and Communications Director; Randall Baum, Chief Investment Officer; Pamela Watson, Assistant Portfolio Manager; Nali Kande, Operations Assistant; and James E. Thompson III, General Counsel. Others present: Anne Harper and Graham Schmidt from Cheiron, Sean Walker and Zach Vincent from Clifton Larson Allen (CLA), Sarah Bhagwandin, attorney for DHHA.

1. The Minutes of Meeting #840 were approved by a unanimous vote of the Board Members.
2. Sean Walker presented the 2021 audit and thanked the Audit Committee for its work. He informed the Board that CLA will be issuing a “clean opinion” and noted that DERP saw an overall increase in its financial position in 2021 due primarily to favorable market conditions and investment earnings of \$406 million. He explained the use of estimates in auditing and found that DERP’s estimates were reasonable. He reported that DERP had a 66% funded ratio at the end of the audit period, noting that typical funded ratios for other public plans is between 65-70%. Mr. Walker complemented the DERP staff on their work and cooperation with the audit. The Board voted unanimously to accept the 2021 audit.
3. Anne Harper and Graham Schmidt presented the 2022 Actuarial Valuation. Mr. Schmidt noted that DERP has a little over 26,000 members. Of those total members, 8,751 are active. Of those active members, two-thirds are Tier 3, while Tiers 1 and 2 are each about half of the remaining active members. Mr. Schmidt reported that the Present Value of Benefits (PVB), which is defined as all benefits that are expected to be paid to all current members, is approximately \$4.6 billion for the pension and medical plans combined. Active members account for \$1.6 billion of the PVB, the rest being attributable to inactive or retired members. The total PVB, excluding future normal cost, is considered the actuarial liability, or the current funding target for assets, and stands

at approximately \$4.2 billion. Mr. Schmidt noted that as of December 31, 2021, DERP's Market Value of Assets (MVA) was approximately \$2.7 billion. The Actuarial Value of Assets (AVA) is approximately \$2.6 billion. The resulting unfunded actuarial liability (UAL) is approximately \$1.6 billion. The funded ratio based on AVA is 61.2%, while funded ratio based on the MVA is 65.8%, both increased from 2020.

Mr. Schmidt highlighted the portion of Cheiron's report that divided the assets and liabilities between the City and DHHA. He noted specifically that the report only includes liabilities for DHHA for post-1997 service. The report identified a total net UAL for DHHA of approximately \$134 million, compared with the City's total net UAL of approximately \$1.5 billion.

Mr. Schmidt reported that the Actuarially Determined Contribution (ADC), the total rate for payment of both the UAL and normal cost, is 26.38%. DERP's scheduled contributions rate of 8.85% from the member and 16.75% from the employer equals 26.6%, leaving a shortfall of 0.78% between the ADC and the scheduled rate. Mr. Schmidt noted that this is an improvement from the 2021 shortfall of 1.02%. He also noted that the ADC for 2022, as a total dollar amount, would be \$178.5 million for the City and \$13.3 million for DHHA.

Anne Harper presented an overview of historical trends in DERP funding. She explained that the current funding policy has been decreasing the UAL. She noted that strong investment returns reduced the UAL by \$23.2 million and reduced the ADC by 0.24% of pay. She noted that payroll growth was below the expectations and increased the UAL by \$2.4M and the ADC by 0.03%. She described the history and trends of contributions and noted that an experience study will be conducted in 2023. She highlighted the fact that scheduled rates have followed ADC rates closely and that the ADC has increased in the past decade due to assumption and methodology changes. She noted that if all assumptions are met, by 2025 the ADC rate will stabilize to approximately 24% of pay until 2039, when the 2019 amortization layer will be fully paid and the contribution rate will fall to 7%. Ms. Harper discussed investment, assumption, contribution, and payroll risks and how each could affect DERP.

Heather Darlington welcomed Sarah Bhagwandin to the meeting. Ms. Darlington provided more historical information about the contribution lag between when the actuarial valuation is completed and when the contribution rates actually change in the DRMC. She noted that after the three year ARR phase-in period is over, DERP will be better able to forecast the ADC rate to reduce the effect of any contribution rate lag.



Ms. Harper, Ms. Darlington and Mr. Huolihan addressed follow-up questions from Board members.

The Board unanimously passed a motion to accept the 2022 Actuarial Valuation Report.

4. Roni Kirchhevel provided the Annual Membership Overview. She described the demographics of DERP members, noting that 10,810 members are currently receiving a monthly DERP pension benefit. She noted that for 2022, the number of retirements processed would be comparable to 2021, when 414 retirements were processed. Ms. Kirchhevel provided statistics for how many retirees had medical, dental or vision insurance through DERP. The total insurance premium reduction (IPR) benefit available to members is approximately \$1.64 million per month, with only \$586,233.89 being used. Ms. Kirchhevel, Ms. Darlington, Mr. Huolihan and Ms. Harper answered follow-up questions from Board members on the IPR benefit.

Ms. Kirchhevel reported that DROP amounts distributed year to date were approximately \$23.41 million, with 47 DROP accounts being fully liquidated. Additionally, she noted that there would be five more accounts liquidated in June in the amount of \$2.6 million.

5. Heather Darlington presented the Executive Director's Report. She recommended the Board keep the rate of interest on employee contribution refunds at 1%. Ms. Darlington and Mr. Huolihan entertained questions from Board members. The Board voted unanimously to keep the contribution refund rate at 1%.
6. Heather Darlington notified the Board that DERP is in the process of conducting an employee engagement survey and will present the findings of the survey when available. She noted that DERP is researching comparable pay at other public pension plans, considering some positions at DERP are pension-specific and do not have a City equivalent.
7. Randall Baum presented the 1st Quarter Investment Performance Review. He began by mentioning three issues impacting the global economy: the Russian-Ukraine conflict has disrupted supply chains and prices, the China lock-down/slow-down has added to supply chain issues and inflation pressures, and central bank responses to inflation have negatively impacted capital markets. This has resulted in negative returns in most capital markets, with the notable exceptions of commodities and real estate. Mr. Baum discussed performance and outlook for various sectors and markets.



He stated that within emerging markets Russian stocks have been removed from indexes and their trading prohibited and are most likely a permanent loss. Mr. Baum noted that fixed income provided little protection in the 1st quarter. He summarized that it remains a challenging environment for stocks and bonds and it may get worse before it gets better. Mr. Baum answered several follow-up questions from Board members.

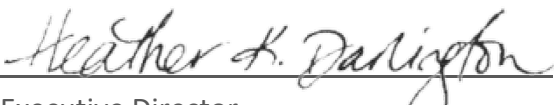
Mr. Baum provided additional context surrounding actuarial valuation and market valuation. He also provided commentary on negative cash flows.

Mr. Baum informed the Board that the current alternative investment allocation was in excess of the upper bound permitted by policy. He explained the reasons for this and stated that he believed the issue would be self-correcting. He asked that the Board approve the non-compliance through the 2nd quarter of 2022. The Board voted unanimously to approve the non-compliance through the 2nd quarter of 2022.

Mr. Baum reported that DERP's portfolio return was negative 2% in the 1st quarter, although this performance was favorable compared to peers, ranking in the 17th percentile. He discussed quarterly performance of individual managers within DERP's portfolio.

8. Pamela Watson presented the Real Estate Portfolio Investment Performance Review. Her presentation included: an explanation of the expected role of the allocation within the portfolio; an overview of the recent real estate market environment by property type; a summary of the composite performance of DERP's real estate asset class over multiple time periods; and a description and commentary on the performance of each manager.
9. The next regularly-scheduled Board Meeting will be held on Friday, July, 15 at 9:00 a.m.
10. The meeting was adjourned at 11:12 a.m.


Board Chair


Executive Director