Proposed Plan Changes
April 21, 2014

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Executive Director
Presentation Outline

- Plan History and Dynamics
- Recent History
  - Board Efforts and Impacts
- Current Status of Plan
- Future of Plan
  - Actuarial Projections
  - Proposed Plan Changes
Plan History

- Established in 1967
- Organized under a 401(a) IRS Code at the Federal Level and Under C.R.S. with the State of Colorado
- EPC Retirement Plan is a Defined Benefit Plan
- Separate Legal Entity from EPC
- 5 Member Voting Board
  - 2 Appointed from BoCC
  - 2 Employee Elected
  - 1 Statutory- County Treasurer
- 2 Associate Members (non-voting)
Plan Dynamics

- Includes 5 Employers
  - El Paso County
  - 4th Judicial District
  - Public Health
  - Pikes Peak Library District
  - El Paso County Retirement Plan
- Mandatory Participation for all Full-Time employees
- Fixed Contribution Rate of 16%
  - (8% Employer/8% Employee)
Plan Dynamics (cont’d)

- 8 Year Vesting Period
  - Effective for new hires after 1/1/2013
- Benefits Determined Using Accrual Calculation for Each Year Worked as a Percentage of Pay
- Eligibility for Retirement determined by Number of Years Worked + Age (includes Rule of 75)
Plan Dynamics (cont’d)
Statistics for 2013

- Plan Participants 3,963
  - Active 2,354
  - Retired 1,142
  - Beneficiaries 92
  - Vested Termination 375

- Average Employee Entry Age 36.8
- Active Employee Average Age 45.5
- Retiree Average Age 68.2
- Retiree Average Monthly Benefit $1,359
Recent History of the Plan
Recent History - Board Efforts
Actuarial Impacts of Plan Changes Made

2009:
- As a result of the Great Recession, the Board identified a projected decrease in funded status dropping to 43.5% by 2023 at current contribution and benefits levels.
- The Board’s actions and recent investment gains have improved the projected funded status by 20 percentage points to 63.8% in 2023.
- However, the funded status of the plan is still too low.
Recent History - Board Efforts
Plan Changes Made To Improve Funded Status

2014:
- Increased employee annual contributions to 8.0%
  - Employer match of 8.0% (Total 16%)

2013:
- Reduced yearly multiplier from 2.22% to 2.0% for all employees
- Eliminated 3-tiered multiplier for all service after 2012
- Increased vesting from 5 years to 8 years for new employees
- Maximum benefit decreased 75% to 60% for new employees

2010-2012:
- Increased employee annual contributions from 6.0% to 7.5%
Current Status of the Plan
Current Status of Plan Experience Analysis

- Performed an Experience Analysis using historical data
- The results allowed the Board to better align future projections with recent demographic experience
  - Updated the mortality tables
  - Updated termination and salary increase assumptions based on years of service versus age
  - Updated retirement assumption
  - Retained an 8% rate of return
  - Retained an open 30 year period for amortizing Unfunded Liability
- The projections for 2014 and beyond are now in greater alignment with our actual experience. This allows for greater accuracy in determining funding changes needed to get the Plan to our goal.
Current Status of Plan

• Board recognizes additional action has to occur to address the unfunded deficit

• Review All Components of the Plan:
  ✓ Contribution Rate / Cash Flow
  ✓ Investment Returns/Appropriateness
  ✓ Plan Benefits
  ✓ Plan Expenses
  ✓ Plan Design
Current Status of Plan

Annual Cash Flow Equation

2014 Calculation:

Contributions (16%) $19,710,000
Less: Benefits ($ 23,025,000)
Less: Expenses ($ 531,000)

Annual Cash Flow ($ 3,846,000)

*Current contribution rate does not cover annual plan expenses
Future of the Plan
Future of Plan

Step 1 – Determine Funding Goal

- Funded Percentage Goal?
  - In 2007, our Funded Percentage was 90%
  - Current Funded Percentage is approximately 68%
    - prior to the impact of adopted assumption changes
  - Funded Percentage expected to increase to 72% by 2018
    - prior to the impact of adopted assumption changes
  - Reaching 100% in a short timeframe is too extreme - too far, too fast
- Benchmarks:
  - ERISA Minimum is 80% to avoid benefit restrictions
  - Other Colorado Public Plans -
    - Pueblo County - 61.5%
    - Adams County - 51.5%
    - Arapahoe County - 64.7%
    - Weld County - 65.7%

- Timeframe to accomplish?
Future of Plan
Step 1 – Determine Funding Goal

- Discussion includes setting both a long term and short term goal
- If we set the short term goal at 10 years, and we set the percentage goal for that time at a 75% minimum, the current differential is 7% from our funded status of 68%
- Table below shows how various time periods are impacted for various goals
- Since studies in this presentation all have 30 year impacts, you would have to refer to the 30 year column for each 10 year difference you wanted to reach as your goal

<table>
<thead>
<tr>
<th>Funded Percentage Goal in 10 years</th>
<th>Current Funded Percentage</th>
<th>Differential over 10 Years</th>
<th>20 Year Impacts Needed to fund 10 year goal</th>
<th>30 Year Impacts needed to fund 10 year goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>75%</td>
<td>68%</td>
<td>7%</td>
<td>14%</td>
<td>28%</td>
</tr>
<tr>
<td>80%</td>
<td>68%</td>
<td>12%</td>
<td>24%</td>
<td>48%</td>
</tr>
<tr>
<td>90%</td>
<td>68%</td>
<td>22%</td>
<td>44%</td>
<td>88%</td>
</tr>
<tr>
<td>100%</td>
<td>68%</td>
<td>32%</td>
<td>64%</td>
<td>128%</td>
</tr>
</tbody>
</table>
Future of Plan

Step 2 – Potential Plan Changes*

1. Known Future Impacts
   - Sheriff’s Dedicated Funding
   - Potential to Hire 132 FTEs
     - Actuarial information is looking at 2013 data ONLY, which doesn’t represent the full impact
     - Based on 2013 data, we estimate additional favorable impacts of :
       - $500,000 additional contributions annually to the Plan
       - This reduces the Unfunded Liability by 6.6%*

*All impacts depicted are using 30 year impact on open, level percent of pay assumptions. Further, effective date of changes are assumed to be January 1, 2015 or later for all plan changes discussed
Future of Plan
Step 2 – Potential Plan Changes

2. Impact on Funded Percentage in 30 years due to an Increase in Contributions
   a) From 8.0% to 8.5% = 15.6%^  
   b) From 8.0% to 9.0% = 31.2%^  
   c) From 8.0% to 9.5% = 46.8%^  

- Annual Dollar Impact (EE & ER at 0.5%) = $1,280,000
- Annual El Paso County Budget Impact (ER only at 0.5%) = $602,000
- Annual Pikes Peak Library Budget Impact (ER only at 0.5%) = $38,000

^30 year impacts estimated from 2013 Buck valuation projections
3. Reduce Multiplier**
   a) From 2.0% to 1.9% = 4.2%
   b) From 2.0% to 1.8% = 8.4%
   c) From 2.0% to 1.7% = 12.6%

**Impacts over 30 years based on September 26, 2011 study from Buck

<table>
<thead>
<tr>
<th>Total Years Worked</th>
<th>2.00%</th>
<th>1.90%</th>
<th>1.80%</th>
<th>1.70%</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 Years</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Monthly Impact</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>20 Years - Annual Impact</td>
<td>N/A</td>
<td>($500)</td>
<td>($1,000)</td>
<td>($1,500)</td>
</tr>
<tr>
<td>Monthly Impact</td>
<td>N/A</td>
<td>($42)</td>
<td>($84)</td>
<td>($125)</td>
</tr>
<tr>
<td>30 Years - Annual Impact</td>
<td>N/A</td>
<td>($1,000)</td>
<td>($2,000)</td>
<td>($3,000)</td>
</tr>
<tr>
<td>Monthly Impact</td>
<td>N/A</td>
<td>($84)</td>
<td>($167)</td>
<td>($250)</td>
</tr>
</tbody>
</table>
Future of Plan
Step 2 – Potential Plan Changes

4. Plan Sponsor reimburses Plan Admin Budget
   a) $527,000 = 6.9\%^\^ 

5. Plan Sponsor Pays Investment Management Costs
   a) $500,000 = 6.6\%^\^ 
   b) $1,000,000 = 13.2\%^\^ 
   c) $1,500,000 = 19.7\%^\^ 

\%^\^Above 30 year estimated from Buck 2013 valuation projections
Future of Plan
Step 2 – Potential Plan Changes

6. Rule of 75 – Three Options***

1. Move New Employees^ ONLY to a New Rule:
   a) From Rule of 75 to Rule of 78 = 1.5%
   b) From Rule of 75 to Rule of 80 = 2.6%
   c) From Rule of 75 to Rule of 85 = 5.0%

***All are 30 year impacts estimated from September 26, 2011 Buck study
^Employees hired after 2014
Future of Plan
Step 2 – Potential Plan Changes

7. Minimum Age Options for Rule of 75^^^^

- Normal Retirement Age is 62
- Currently no minimum age for Rule of 75, but for New Employees* ONLY, if we:
  a) Establish Minimum Age of 50 = 0.8%
  b) Establish Minimum Age of 53 = 1.6%
  c) Establish Minimum Age of 55 = 2.1%
  d) Establish Minimum Age of 57 = 2.6%

^^30 year impacts are estimated from September 26, 2011 Buck study
*Employees hired after 2014
Comparison of New Hire Treatment under other County Plans in Colorado

<table>
<thead>
<tr>
<th>County</th>
<th>Funded % (2013)</th>
<th>Unfunded Liability ($ millions)</th>
<th>Contribution Rate (EE)</th>
<th>Benefit Multiplier</th>
<th>Avg Salary Figure</th>
<th>Vesting</th>
<th>Special Early Rule</th>
<th>Assets ($ millions)</th>
<th>Active Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adams</td>
<td>51.5%</td>
<td>$187.7</td>
<td>8.5% (9% in 2015)</td>
<td>1.75%</td>
<td>Career Avg</td>
<td>10 years</td>
<td>Rule of 80, min 55</td>
<td>$199.0</td>
<td>1,753</td>
</tr>
<tr>
<td>Arapahoe</td>
<td>64.7%</td>
<td>$131.6</td>
<td>7.50%</td>
<td>1.85%</td>
<td>High 5</td>
<td>8 years</td>
<td>Rule of 85, min 60</td>
<td>$241.0</td>
<td>1,834</td>
</tr>
<tr>
<td>El Paso</td>
<td>67.2%</td>
<td>$135.9</td>
<td>8.00%</td>
<td>2.00%</td>
<td>High 3</td>
<td>8 years</td>
<td>Rule of 75, no min</td>
<td>$278.6</td>
<td>2,354</td>
</tr>
<tr>
<td>Pueblo</td>
<td>61.5%</td>
<td>$68.6</td>
<td>8.25%</td>
<td>1.85%</td>
<td>High 5</td>
<td>10 years</td>
<td>Rule of 80, min 55</td>
<td>$109.8</td>
<td>1,047</td>
</tr>
<tr>
<td>Weld</td>
<td>65.7%</td>
<td>$72.4</td>
<td>9.00%</td>
<td>Variable Annuity</td>
<td>High 3</td>
<td>5 years</td>
<td>Not available</td>
<td>$136.9</td>
<td>1,069</td>
</tr>
</tbody>
</table>
Future of Plan
Other Options Researched

Moving the Defined Benefit Plan to a Defined Contribution Plan

- Advantages

☑ Decreases liability to County for employee pensions for future service
☑ Greater portability than DB plans
☑ More predictable employer costs to the County over time
☑ Employee control over investments
☑ Shift of risks from County to employee
☑ Potential for conflict of interest is less due to greater transparency
Future of Plan
Other Options Researched (cont’d)

Moving Defined Benefit Plan to a Defined Contribution Plan
Disadvantages

✓ Cannot just liquidate or stop a DB plan. There would need to be a “soft freeze”, where no new employees could gain access to the DB Plan
✓ Having two plans at the same time would increase cost and complexity of administration
✓ DC Administrative Costs are typically higher, on average, than DB plans due to economies of scale
✓ Investment Return is lower, since DB plans allow for greater longevity, pooling, and expense control
✓ Liquidity requirements would greatly increase in the DB as the time to wind down the DB approaches, resulting in greater dollar amounts needed to pay out benefits to a dwindling base of active employees vs retirees
Moving the Defined Benefit Plan to a Defined Contribution Plan

- Disadvantages (cont’d)
  
  - Accounting standard change would arise, and mean greater education on the greater total pension expense immediately following the freeze and its impact on County financial statements.
  
  - DC plans will put longevity, investment, and post-retirement adjustment risks (through COLA’s from time to time) off on employees. DB plans place those risks on employers.
  
  - DC plans often allow loans against them, resulting in “leakage”. If not replaced or repaid, this puts the employee at a disadvantage and requires them to work longer to attain the same benefit.
Future of Plan
Other Options Researched (cont’d)

Moving the Defined Benefit Plan to a Defined Contribution Plan

- Disadvantages (cont’d)
  - DC plans will not provide disability and survivor benefits for vested employees
  - DB plans are professionally managed as a pool, so no need for individual adjustment of risk as participants approach retirement
  - Employer Contributions for newly hired employees are helping fund the existing Unfunded Liability; this is more difficult if new employees enter a DC plan
Summary

- The Plan is underfunded, and this needs to be addressed soon to keep the Plan viable and sustainable for all County employees and retirees.
- There is no simple solution; each of these proposals has merit and was carefully researched and vetted with our actuaries.
- This presentation is meant to only get the ball rolling over the next several meetings, as there is a lot of information to think about and consider before a vote on any changes can happen.
- Buck Consultants will be here next month to give a 2014 picture of the Plan and its projections going out to 2044, including the new assumption changes we approved at the March meeting.
Summary

Therefore, to get to xx% in 10 Years:

<table>
<thead>
<tr>
<th>Options Presented</th>
<th>10 Years</th>
<th>20 Years</th>
<th>30 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 a) Contributions to 8.5%</td>
<td>2.7%</td>
<td>7.4%</td>
<td>15.6%</td>
</tr>
<tr>
<td>2 b) Contributions to 9.0%</td>
<td>5.4%</td>
<td>14.8%</td>
<td>31.2%</td>
</tr>
<tr>
<td>2 c) Contributions to 9.5%</td>
<td>8.1%</td>
<td>22.3%</td>
<td>46.8%</td>
</tr>
<tr>
<td>3 a) Reduce Multiplier to 1.9%</td>
<td>1.1%</td>
<td>2.2%</td>
<td>4.2%</td>
</tr>
<tr>
<td>3 b) Reduce Multiplier to 1.8%</td>
<td>2.1%</td>
<td>4.3%</td>
<td>8.4%</td>
</tr>
<tr>
<td>3 c) Reduce Multiplier to 1.7%</td>
<td>3.2%</td>
<td>6.5%</td>
<td>12.6%</td>
</tr>
<tr>
<td>4 a) County reimburse Admin Exp</td>
<td>1.2%</td>
<td>3.3%</td>
<td>6.9%</td>
</tr>
<tr>
<td>5 a) County reimburse $500,000 Inv Mgr Exp</td>
<td>1.2%</td>
<td>3.1%</td>
<td>6.6%</td>
</tr>
<tr>
<td>5 b) County reimburse $1,000,000 Inv Mgr Exp</td>
<td>2.3%</td>
<td>6.2%</td>
<td>13.2%</td>
</tr>
<tr>
<td>5 c) County reimburse $1,500,000 Inv Mgr Exp</td>
<td>3.4%</td>
<td>9.4%</td>
<td>19.7%</td>
</tr>
<tr>
<td>6 a) Rule of 75 to Rule of 78, new hires only</td>
<td>0.4%</td>
<td>0.8%</td>
<td>1.5%</td>
</tr>
<tr>
<td>6 b) Rule of 75 to Rule of 80, new hires only</td>
<td>0.7%</td>
<td>1.3%</td>
<td>2.6%</td>
</tr>
<tr>
<td>6 c) Rule of 75 to Rule of 85, new hires only</td>
<td>1.3%</td>
<td>2.5%</td>
<td>5.0%</td>
</tr>
<tr>
<td>7 a) Rule of 75, new hires ONLY, with min age 50</td>
<td>0.2%</td>
<td>0.4%</td>
<td>0.8%</td>
</tr>
<tr>
<td>7 b) Rule of 75, new hires ONLY, with min age 53</td>
<td>0.4%</td>
<td>0.8%</td>
<td>1.6%</td>
</tr>
<tr>
<td>7 c) Rule of 75, new hires ONLY, with min age 55</td>
<td>0.5%</td>
<td>1.1%</td>
<td>2.1%</td>
</tr>
<tr>
<td>7 d) Rule of 75, new hires ONLY, with min age 57</td>
<td>0.7%</td>
<td>1.3%</td>
<td>2.6%</td>
</tr>
</tbody>
</table>
Next Steps

1. April: Presentation of Potential Plan Changes
2. May: Discuss How to Proceed with Employee Survey
3. June: Perform Employee Survey regarding potential changes
4. July: Discuss Employee Survey Results
5. August: Further Discussion or Possible Action regarding Potential Plan Changes
Disclaimers

1. All presented numbers are on a 30 year impact basis. Other impacts for shorter time periods have been estimated based on past performance of the Plan.

2. Quoted impacts are known from prior studies, but said studies are over 2.5 years old. Getting more accurate data from our actuaries would cost thousands of dollars more, depending on the studies requested.

3. Further 30 year impact studies, if undertaken with Buck Consultants, for more current data may not give any clearer picture in a material way as to the nature and impact of possible options chosen to narrow the Plan’s funding gap.

4. The views and conclusions of this presentation are in no way representative of the views and opinions of Buck Consultants.

5. This presentation is to merely begin discussions on possible Plan Changes, and is not meant in ANY way to be the final determination of the Plan or its Board.