

A large, stylized, light blue Phoenix logo is centered in the upper half of the slide. The logo is composed of several curved, overlapping shapes that form the bird's head and tail. The background is a solid dark blue color.

Pension Reform City Council Meeting

phoenix.gov/pensionreform

City of Phoenix



Pension Reform Goals

(A Balanced Approach)

- Rebalance contribution – “create a 50/50 partnership”
- Attract top talent – be competitive
- Save money – to restore and expand services to residents



Presentation Overview

- Phoenix pension reform goals
- Summary of process
- City of Phoenix fiscal status
- Phoenix pension system and fiscal status
- Review of 3 models requested by Council
- Staff Recommendation
- Timeline



Public Input

- Focus on community involvement and transparency
- 13 Pension Reform Task Force meetings
 - Began in February 2011
- 2 City Council meetings
- 2 Public Input sessions
- In person, e-mail, phone and Twitter



City of Phoenix Fiscal Status

- Strong City leadership
- Budget structurally balanced
 - From a \$277 million general fund shortfall two years ago
- AAA bond rating and strong financial health
 - Highest contingency fund balance ever
- Zero water/sewer rate increase
- Best time to do reform – strong fiscally



Public Sector Pensions

- A benefit to recruit and retain outstanding employees
- Defined benefit pension plans are common for public employers
 - 23 of the 25 largest cities have defined benefit plans
- Structured as a long-term partnership between employer and employees



Outstanding City Employees

- Excellent customer service ratings
 - From 86% (Dec. 2008) to 95% (Dec. 2010) based on an independent survey from the Behavior Research Center
- Continued innovation and efficiency
 - Nearly \$50 million in savings
- 5 All-America City Awards



Background on Current Pension System

- COPERS is a defined benefit plan
- Established in City Charter by a vote of Phoenix residents in 1947 and revised in 1953
- Changes to COPERS must be approved by voters
- 25 voter-approved changes since 1953



Background on Current Pension System

- General city employees
 - Current Employees: 8,569 out of 14,893
 - Average annual pension: \$28,887
- Excludes police officers and firefighters
- Excludes elected officials



Contributions

- City Charter requires employee contributions: Fixed at 5% of gross salary
- City Charter requires full funding of Actuarially Required Contribution (ARC)
- More than 40% of public pension plans do not contribute the full ARC



Benefit Formula Components

- Age 60 with 10 or more years of service
- Age 62 with 5 or more years of service
- Rule of 80: age plus credited service equal 80

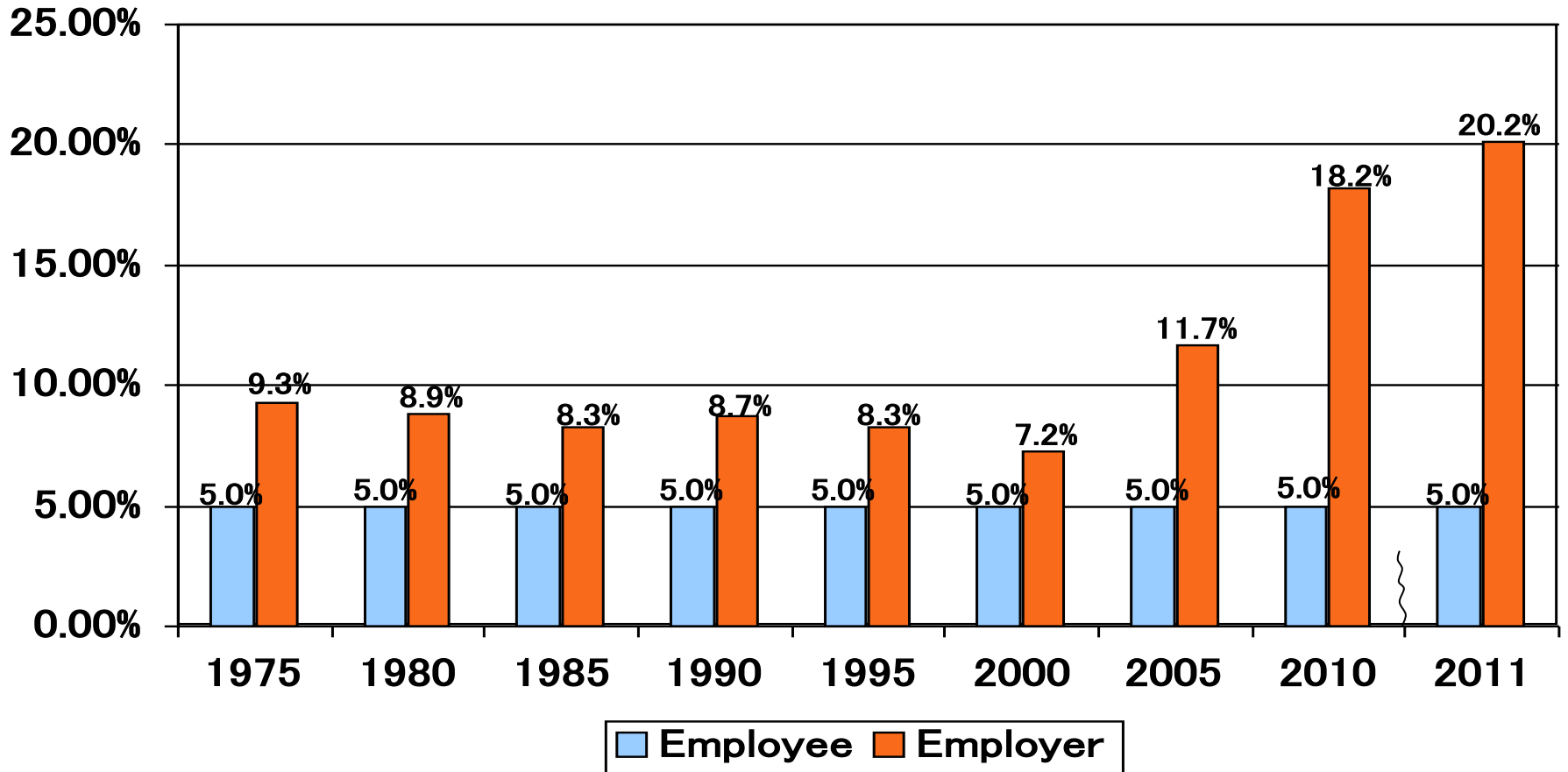


Benefit Formula Components

- Final Average Salary (FAS)
- Credited Service
- Benefit Ratio
 - Up to 32.5 years @ 2%
 - 32.5 to 35.5 years @ 1%
 - Over 35.5 years @ 0.5%



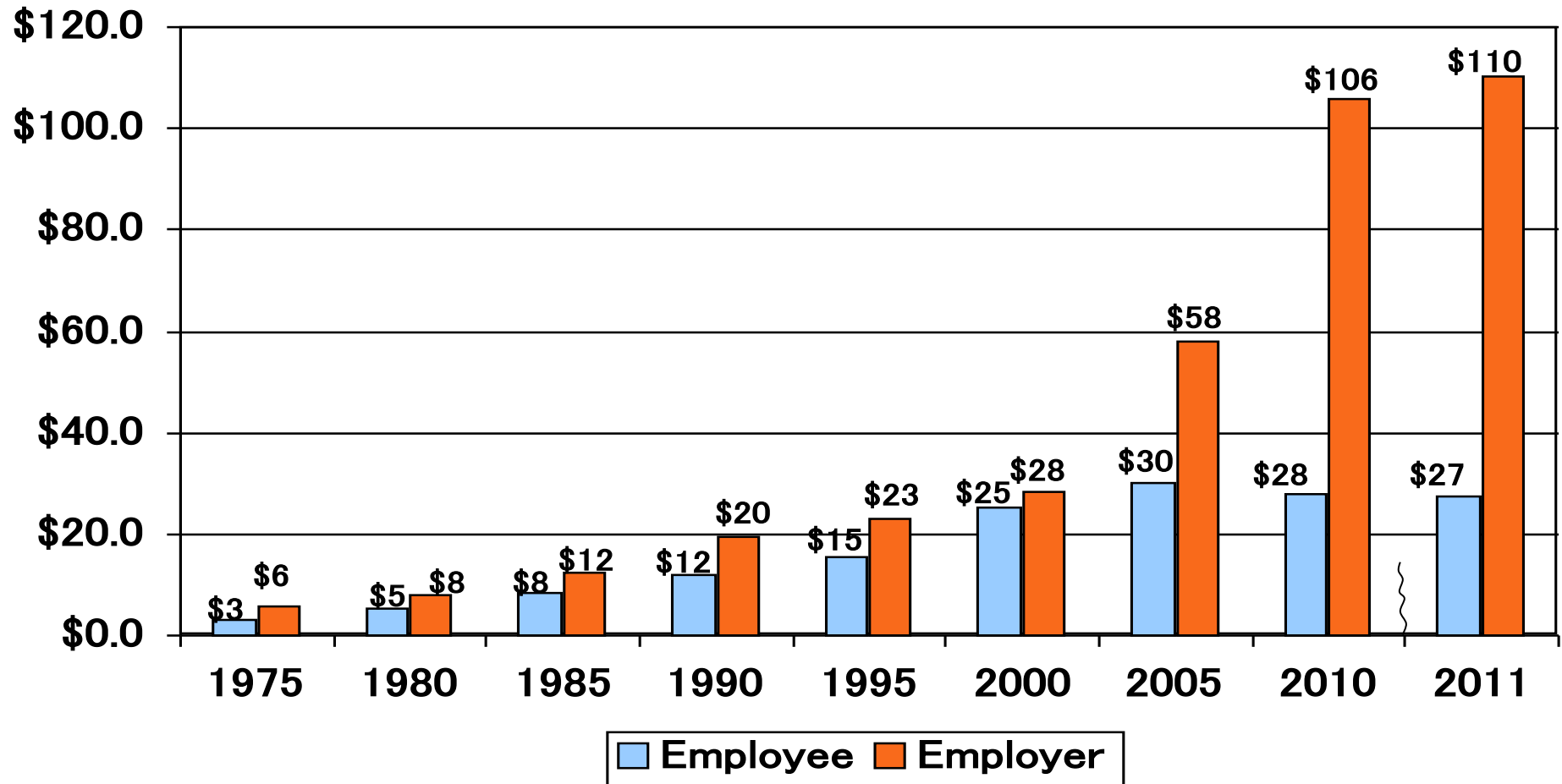
Pension Contributions (percent of salary)



Valuation year.



Pension Contributions



In millions, valuation year.



Pension Reform Task Force

- Appointed January 2011
- Worked with management, consultants and other stakeholders to propose recommended changes to COPERS
- 13 public meetings
- Sunset December 31, 2011
- Recommendations presented to City Council February 2012



Pension Reform Task Force Members

Rick DeGraw, Chair
Bill Barquin
Libby Bissa
Gene Blue
Mark Dobbins
Don Hamill
Tee Lambert
Roger Peck

Ron Ramirez
Richard Rea
Karen Schroeder
Ann Seiden
Martin Shultz
Charlene Tarver
Jack Thomas
Donna Buelow
(ex officio)



Pension Reform Task Force Goals

- Limit growth in City's liability
- Risk sharing
- Attract new employees and retain current high-performing employees



Task Force Major Recommendations

- Recommended continued Defined Benefit Program
- Recommended against a Defined Contribution Plan
- Recommended 50/50 contribution split
- Recommended increase in retirement age
- Competitive with State and other Arizona cities



Legal Issues for Existing Employees

- **Article XXIX - Section 1-C:**
 - Membership in a public retirement system is a contractual relationship that is subject to article II, section 25, and public retirement system benefits shall not be diminished or impaired.
- **Article II, Section 25:**
 - No bill of attainder, ex post facto law, or law impairing the obligation of a contract, shall ever be enacted.



June 19 Council Action

- Model 1
 - Changes to current Defined Benefit Program based on Task Force Recommendations
- Model 2
 - Changes to Defined Benefit Program with Employer Contribution Caps of 10%, 7% and 5%
- Model 3
 - 401(a)-type plan with 10%, 7% and 5% employer contribution



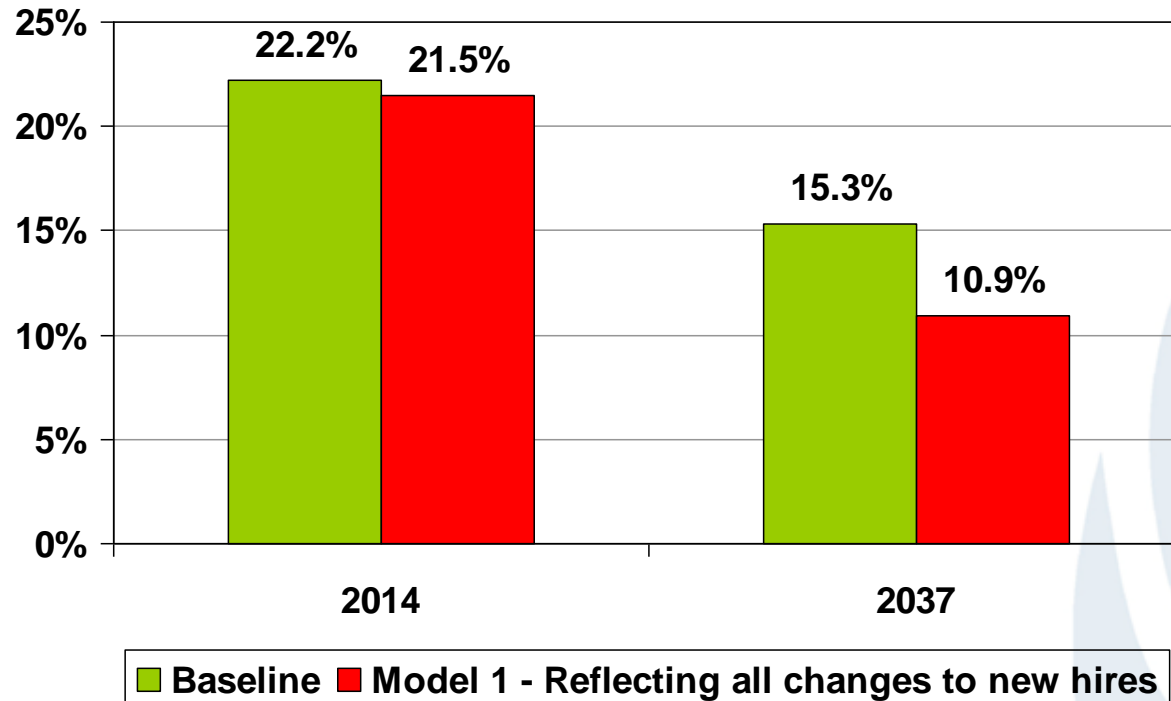
Model 1 – Changes to Defined Benefit Plan

Model 1 projections – model the following changes to ***new hires – two-tier plan:***

- Change Rule of 80 provision to Rule of 87
 - State of Arizona and most Arizona cities utilize a “Rule of 85” for employees hired after July 1, 2011
- Change the pension multiplier to a graduated multiplier based on years of service, matching the Arizona State Retirement System (ASRS) schedule
- Increase time of service requirements and eliminate minimum pensions as recommended by the Pension Reform Task Force
- Employee contribution rate is based on 50/50 split of actuarially determined rate
- Allow new City hires with service on account with ASRS prior to 7/1/2011 to join COPERS under current provisions



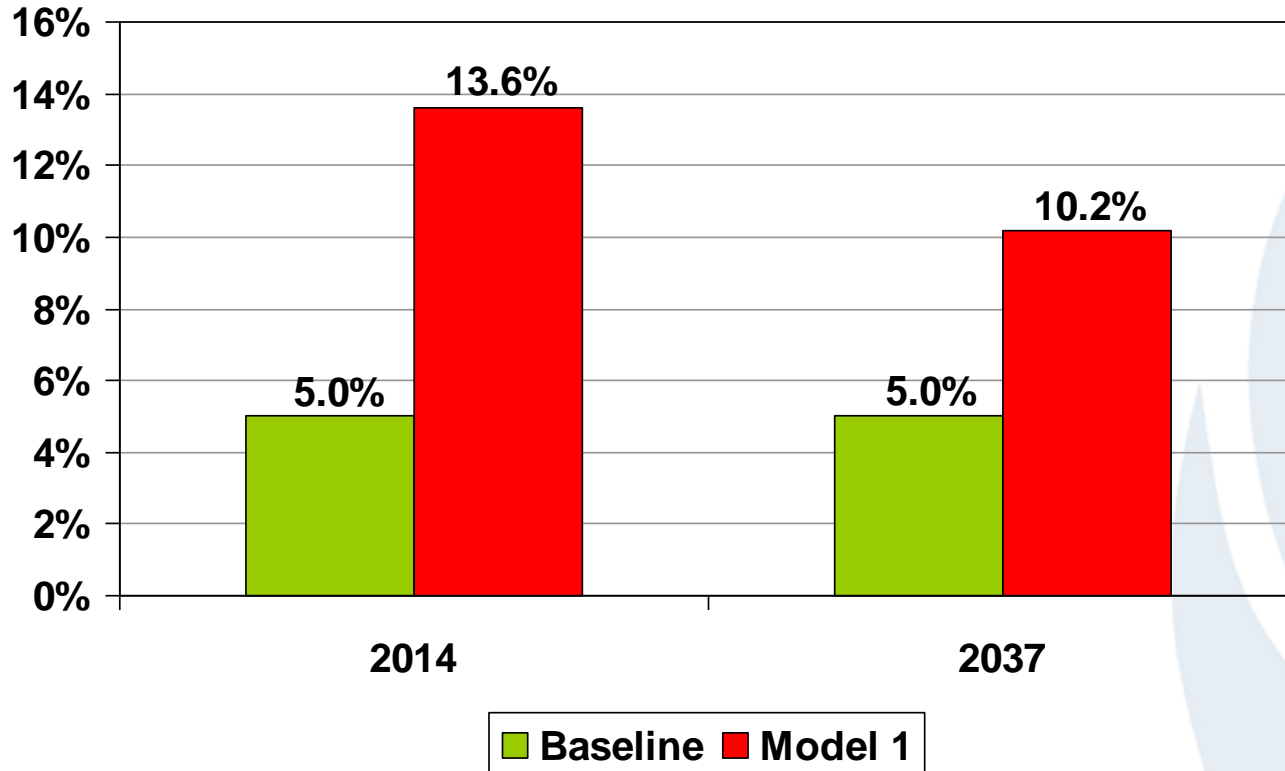
Projection of City Contribution Rate Reflecting Model 1



- The City contribution rate is projected to decrease by 51% by 2037
- Cumulative savings by 2037 is estimated at \$596,000,000



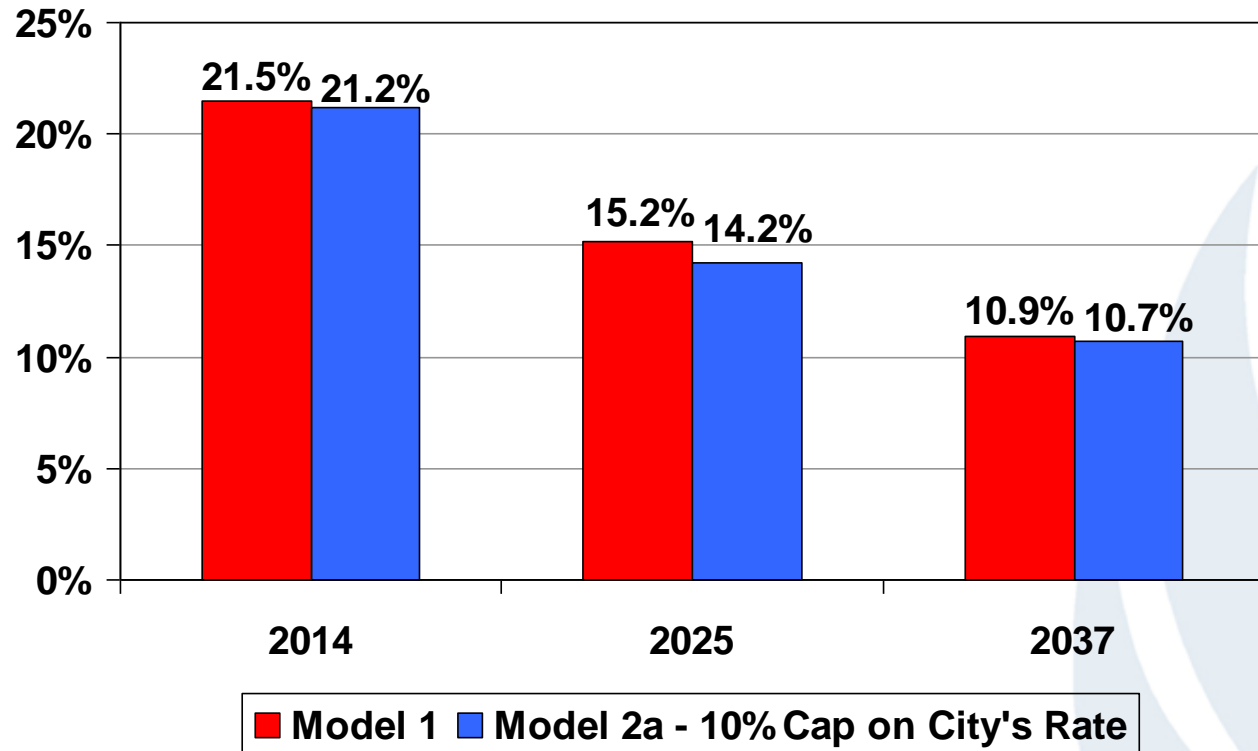
Projection of New Hire Contribution Rate Reflecting Model 1



- New employee contribution rate increases 172%



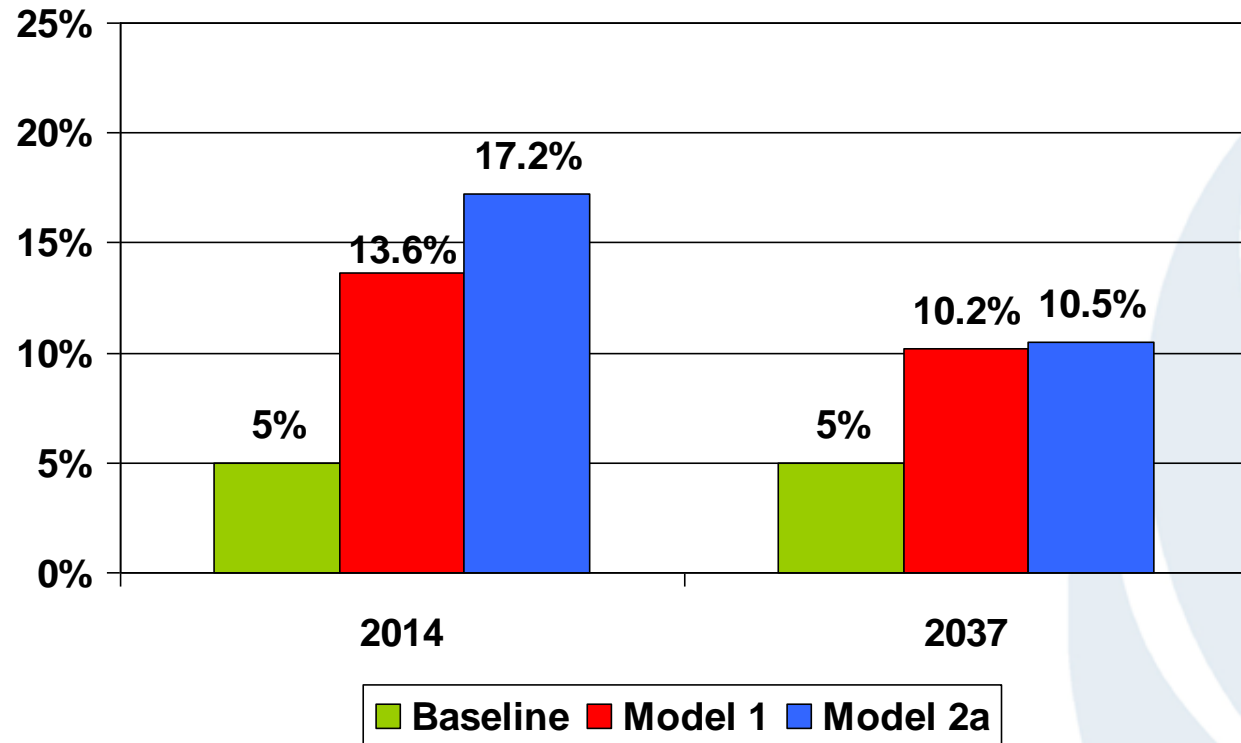
Projection of City Contribution Rate Reflecting Model 2a – 10% Cap on City Contribution Rate



- Under Model 2a, the City rate is projected to decrease by 52% by 2037
- Cumulative savings by 2037 is estimated at \$725,900,000



Projection of New Hire Contribution Rate Reflecting Model 2a

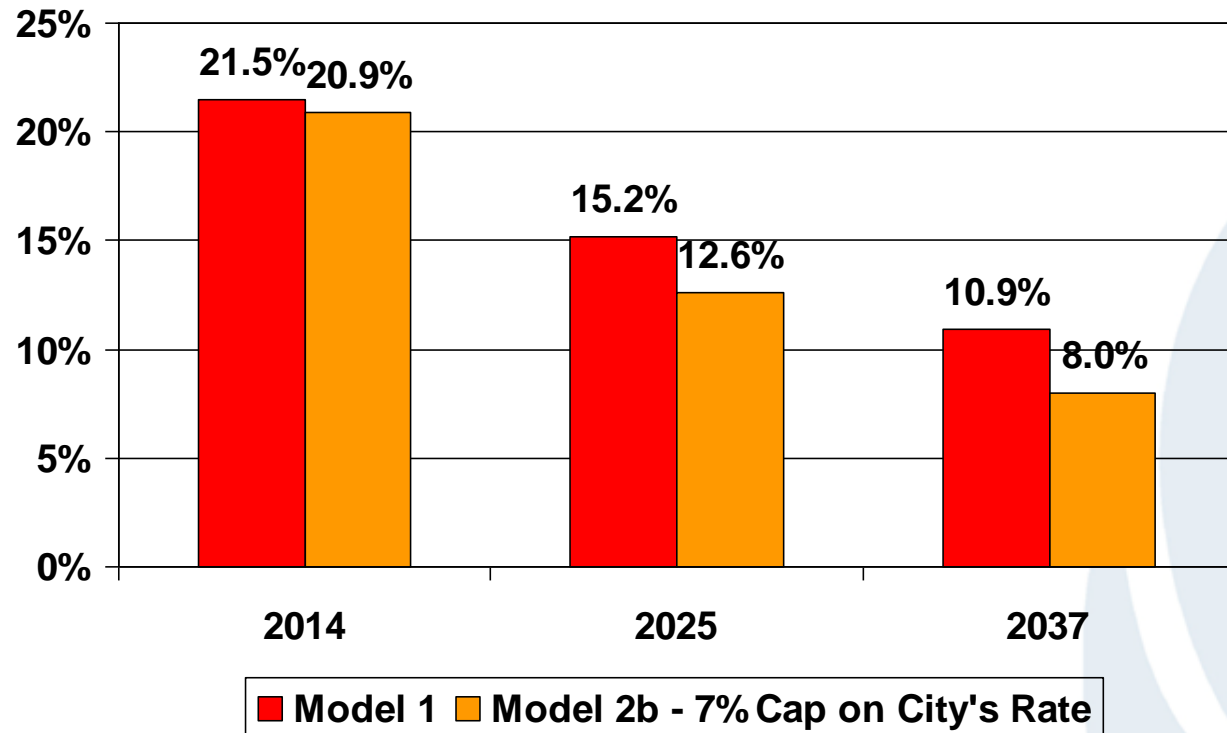


- New employee contribution rate increases 244%



Projection of City Contribution Rate Reflecting Model 2b – 7% Cap on City Contribution Rate

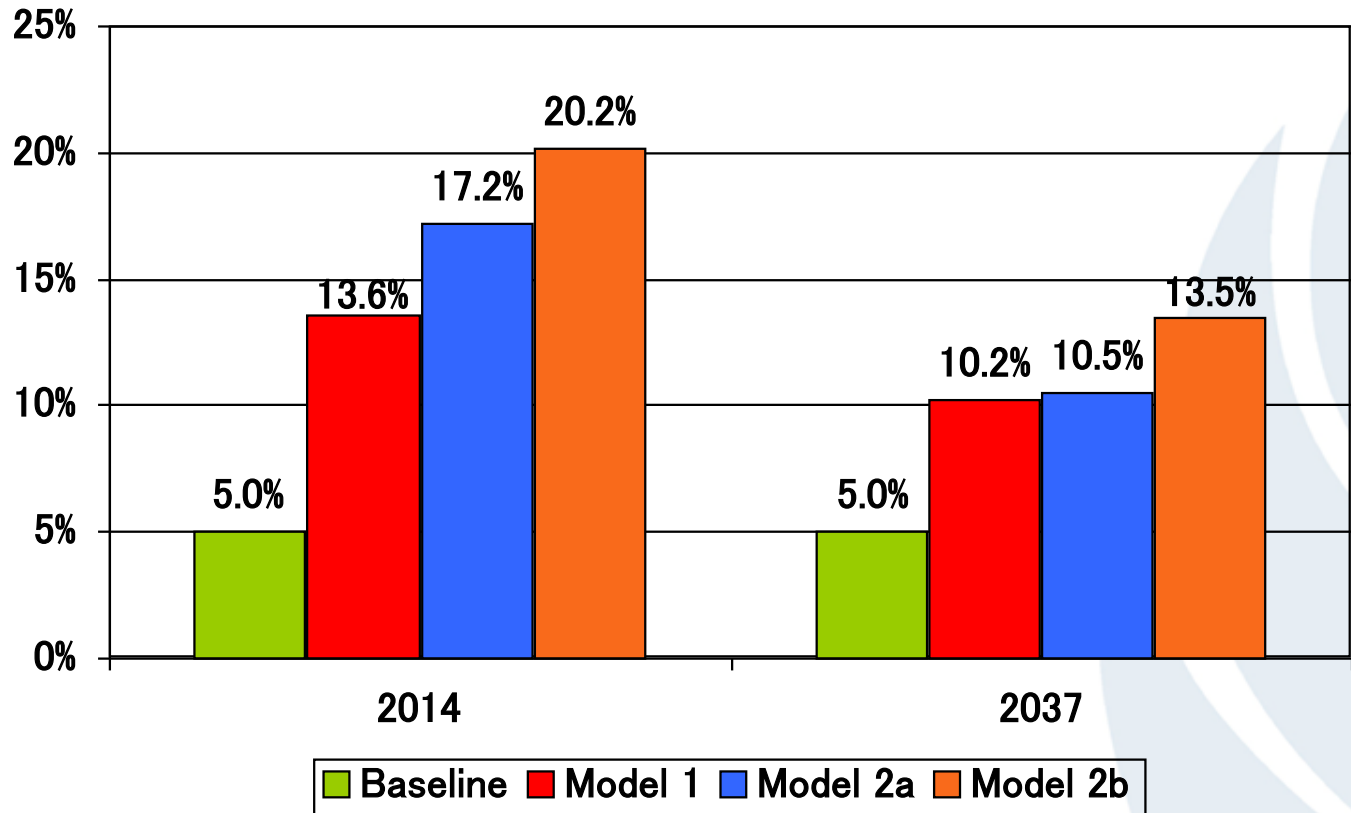
Estimated City Contribution Rate (Fiscal Year)



- Under Model 2b, the City rate is projected to decrease by 64% by 2037
- Cumulative savings by 2037 is estimated at \$1,037,300,000



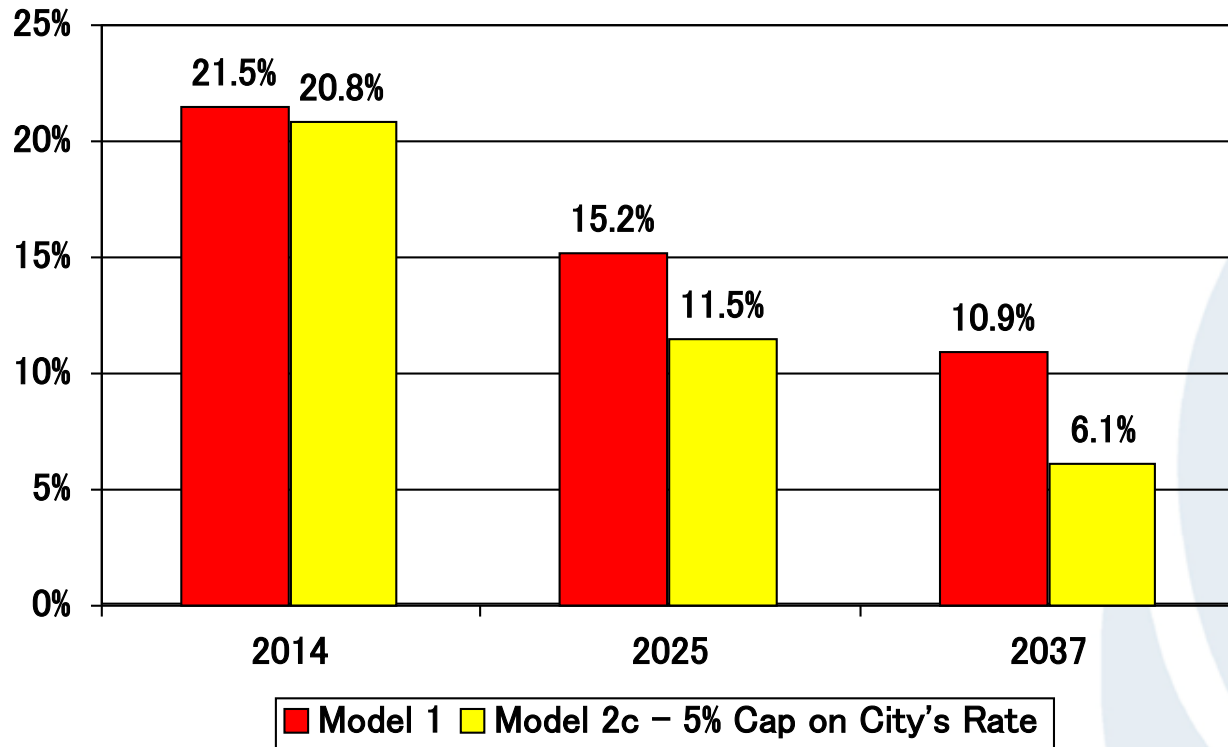
Projection of New Hire Contribution Rate Reflecting Model 2b



- New employee contribution rate increases 304%



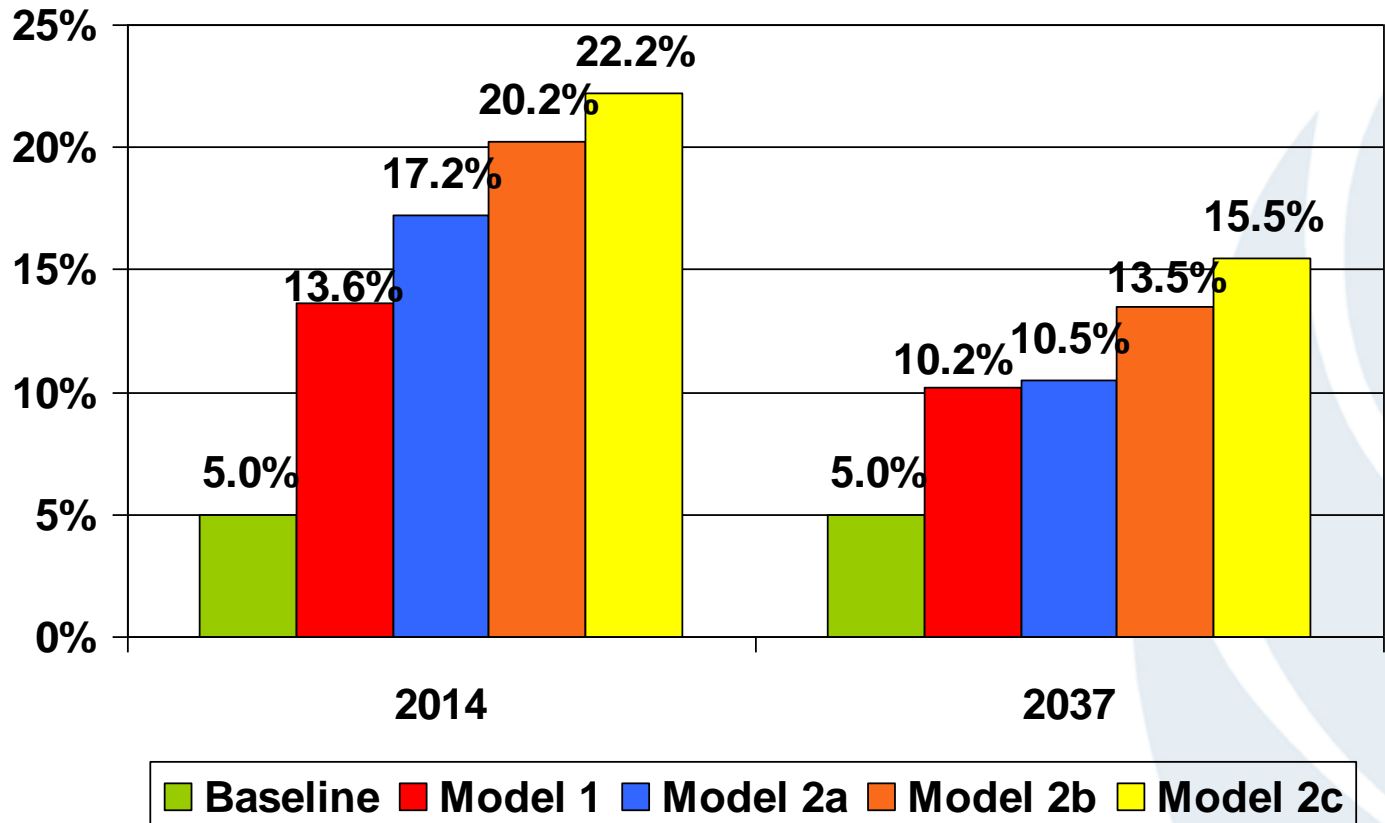
Projection of City Contribution Rate Reflecting Model 2c – 5% Cap on City Contribution Rate



- Under Model 2c, the City rate is projected to decrease by 73% by 2037
- Cumulative savings by 2037 is estimated at \$1,244,700,000



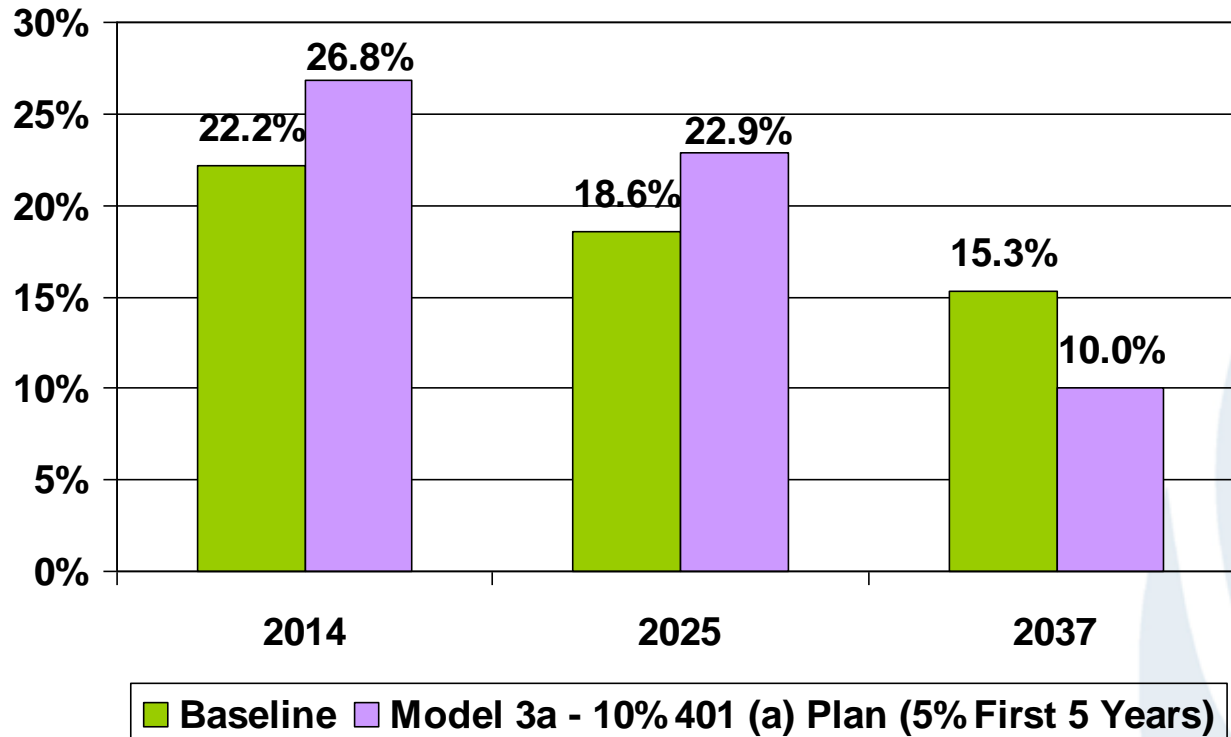
Projection of New Hire Contribution Rate Reflecting Model 2c



- New employee contribution rate increases 344%



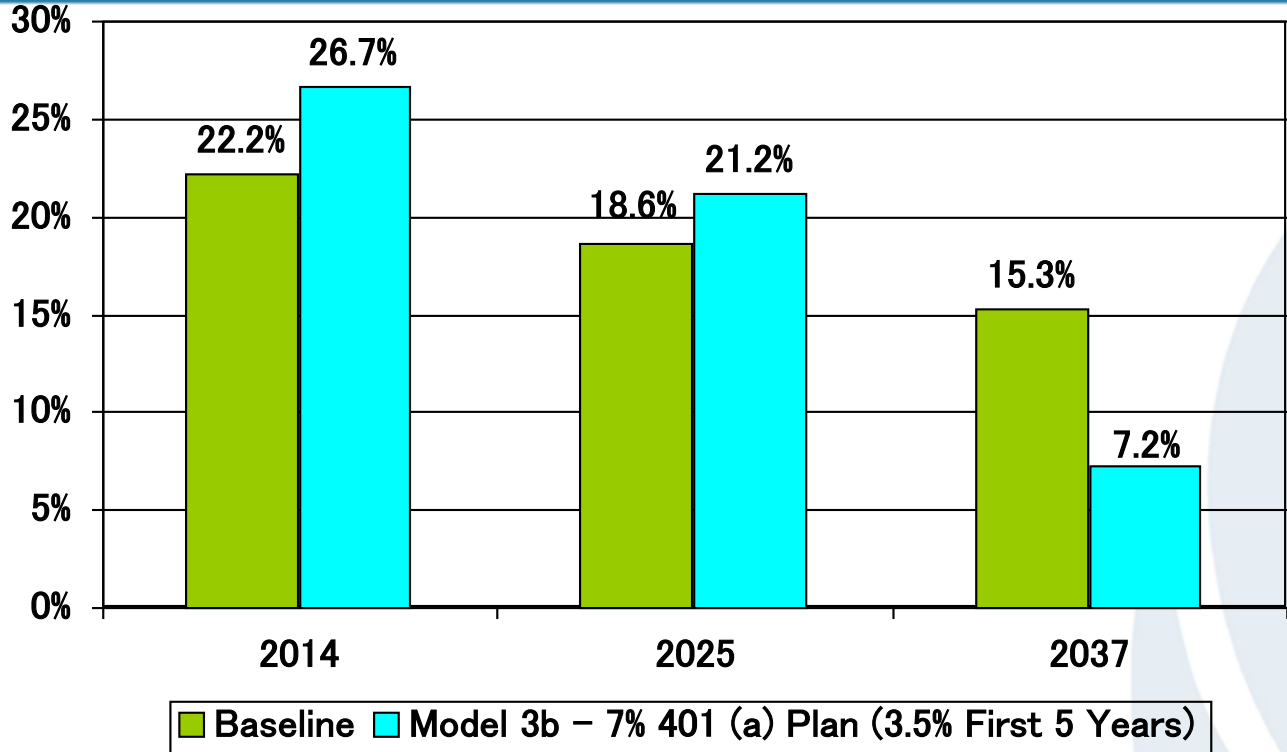
Projection of City Contribution Rate Reflecting Model 3a - 10% 401(a) Defined Contribution Plan



- Under Model 3a, the City rate is projected to increase by approximately \$24 million, or 21%, immediately then decrease by 55% by 2037
- Cumulative cost by 2037 is estimated at \$414,700,000



Projection of City Contribution Rate Reflecting Model 3b - 7% 401(a) Defined Contribution Plan

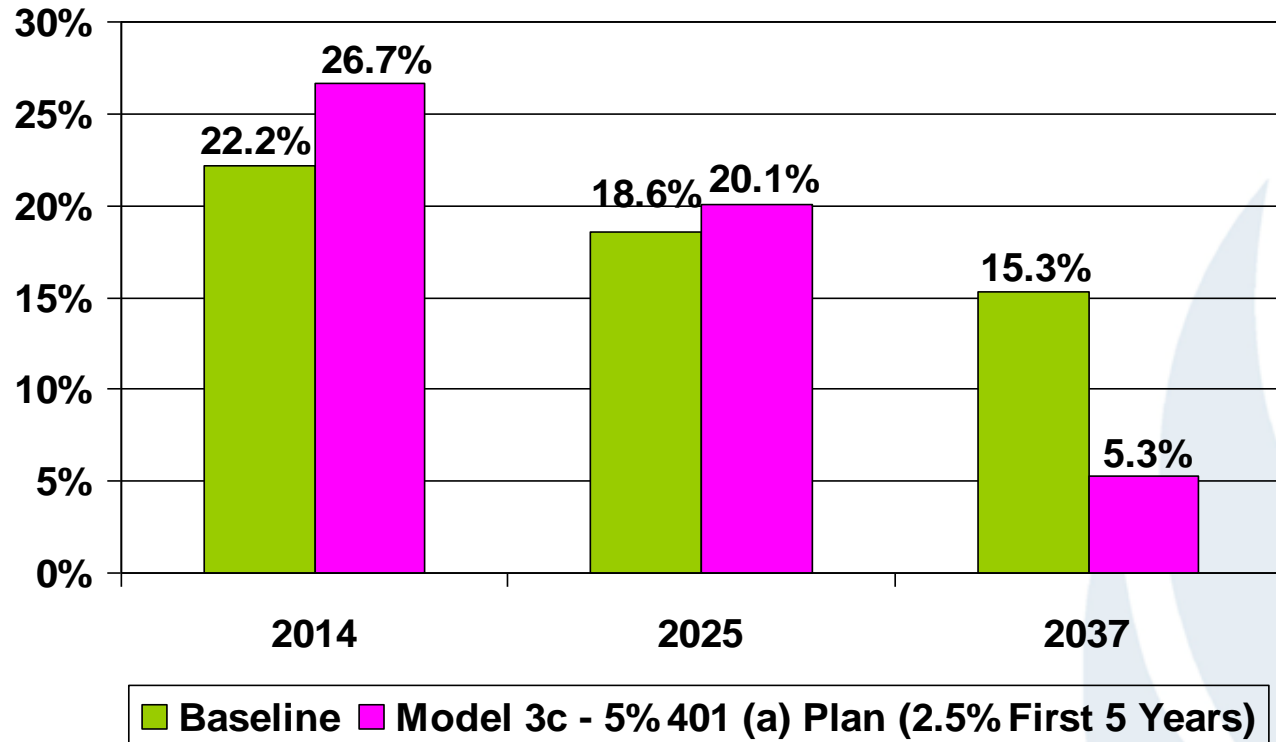


- Under Model 3b, the City rate is projected to increase by approximately \$23 million, or 20% immediately, then decrease by 68% by 2037
- Cumulative cost by 2037 is estimated at \$100,900,000



Projection of City Contribution Rate Reflecting Model 3c - 5% 401(a) Defined Contribution Plan

Estimated City Contribution Rate (Fiscal Year)



- Under Model 3c, the City rate is projected to increase by approximately \$23 million, or 20% immediately, then decrease by 76% by 2037
- Cumulative savings by 2037 is estimated at \$108,600,000

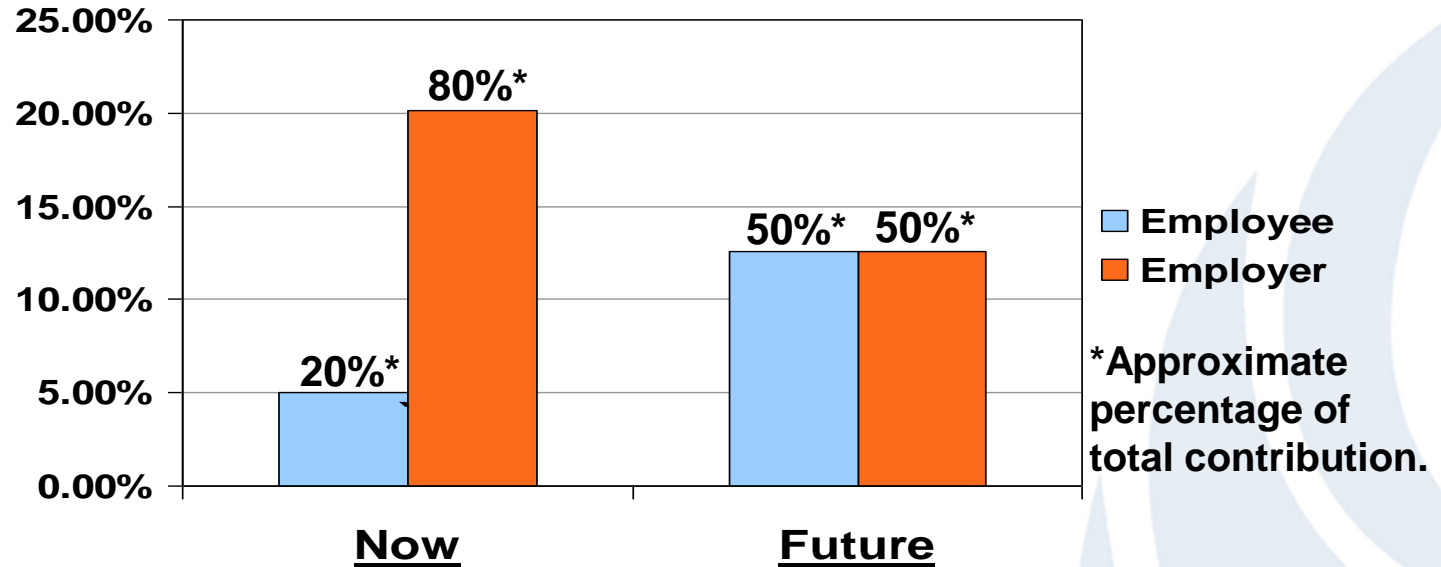


Defined Contribution Plan

- Immediately and over 25 years, increases the City's cost for the pension system
- Provides an uncertain retirement for new employees
- Is not competitive with other major cities
 - 23 of 25 largest cities have a defined benefit plan



Model 1 – Staff Recommendation



Yes

No

Goals



50/50 Partnership



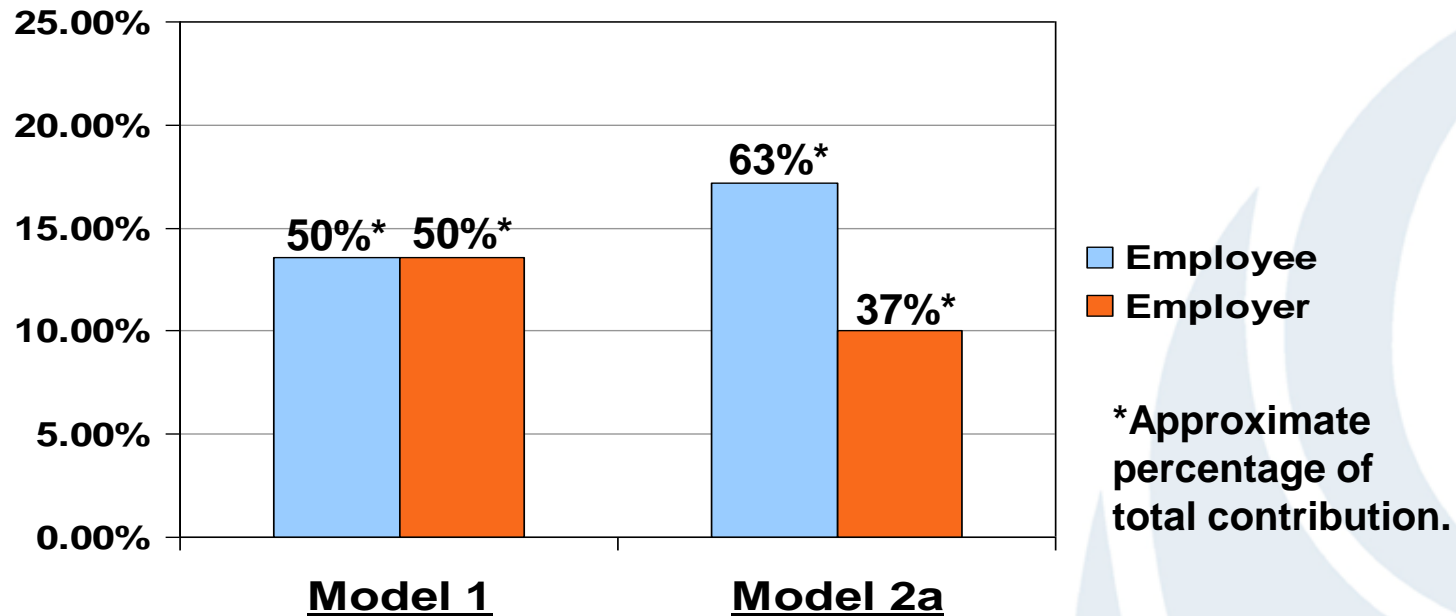
Attract and Retain Top Talent



Save Money – \$596,000,000 over 25 years



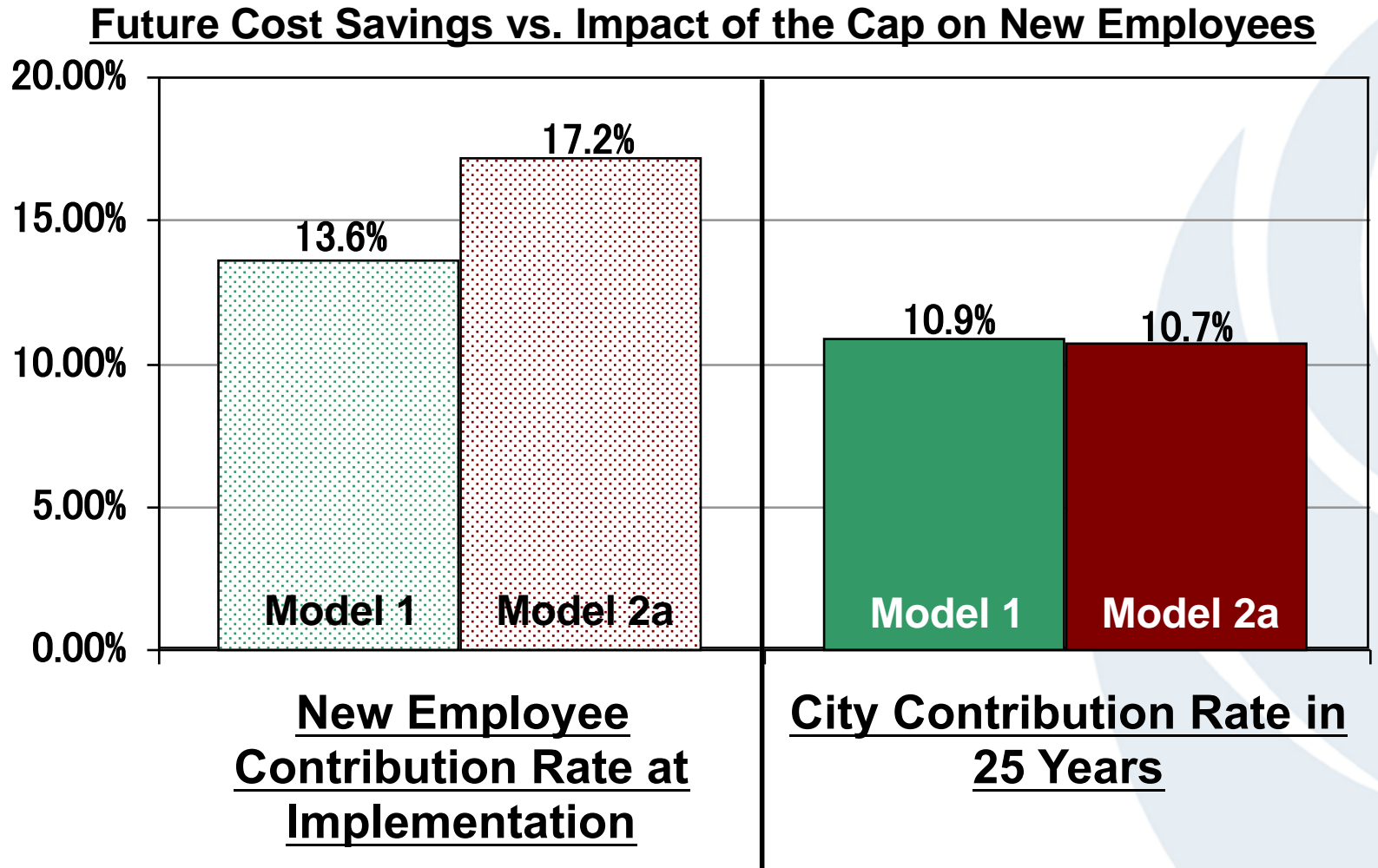
Model 2a – 10% Cap



<u>Yes</u>	<u>No</u>	<u>Goals</u>
	<input checked="" type="checkbox"/>	50/50 Partnership
	<input checked="" type="checkbox"/>	Attract and Retain Top Talent – Employees Pay 17% of Compensation
<input checked="" type="checkbox"/>		Save Money – \$725,900,000 over 25 years



Impact on New Employees Model 1 vs Model 2a



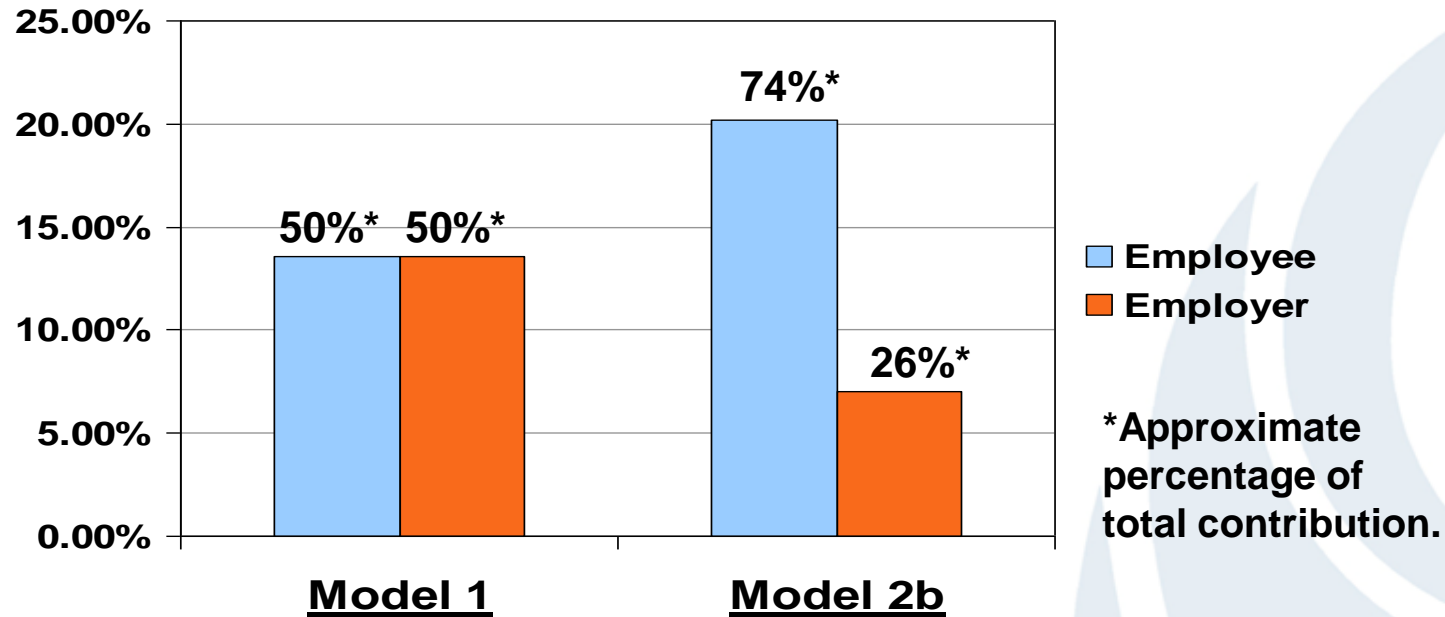


New Employee: Jane Phoenix

	Now	Staff Recommendation	10% Cap
Gross	\$60,000	\$60,000	\$60,000
Taxes and Other	\$14,921	\$13,930	\$13,515
Retirement	\$3,000	\$8,160	\$10,320
Take Home Pay	\$42,079	\$37,910	\$36,165
Percent of Gross	70.1%	63.2%	60.3%



Model 2b – 7% Cap



Yes

No

Goals



50/50 Partnership



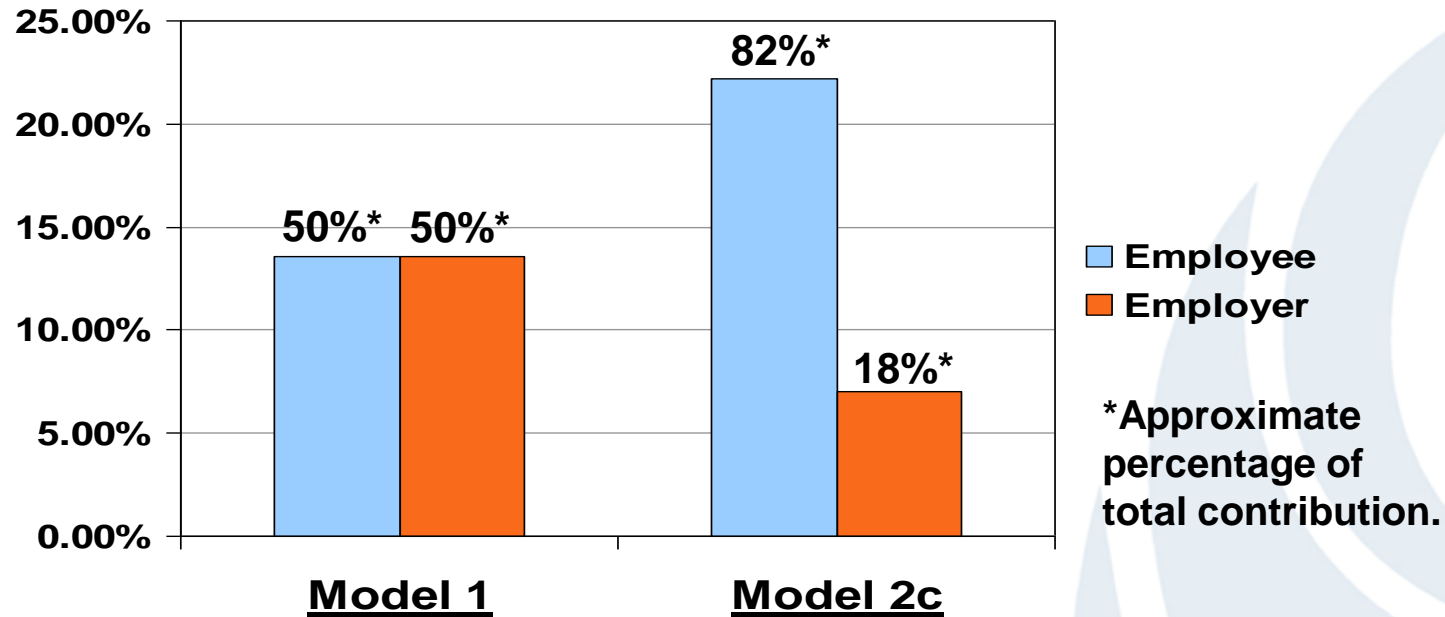
Attract and Retain Top Talent – Employees Pay 20% of Compensation



Save Money – \$1,037,300,000 over 25 years



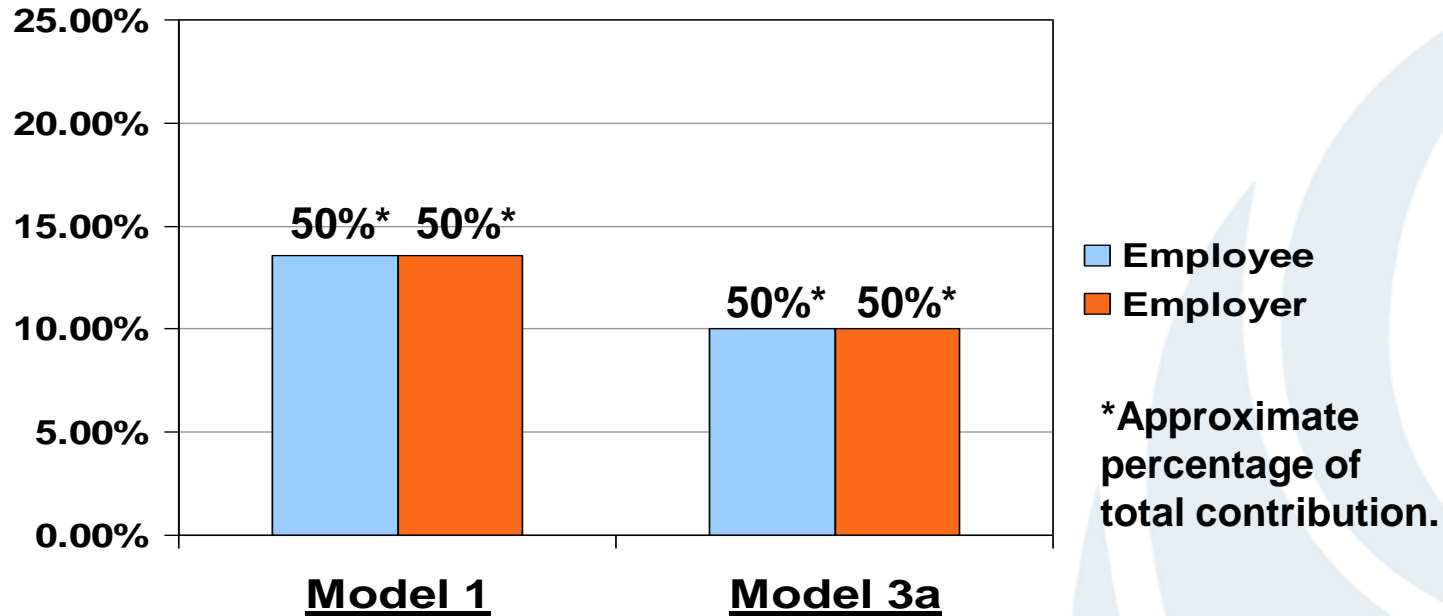
Model 2c – 5% Cap



- | <u>Yes</u> | <u>No</u> | <u>Goals</u> |
|-------------------------------------|-------------------------------------|---|
| | <input checked="" type="checkbox"/> | 50/50 Partnership |
| | <input checked="" type="checkbox"/> | Attract and Retain Top Talent – Employees Pay 22% of Compensation |
| <input checked="" type="checkbox"/> | | Save Money – \$1,244,700,000 over 25 years |



Model 3a – 10% Defined Contribution



Yes

No

Goals



50/50 Partnership



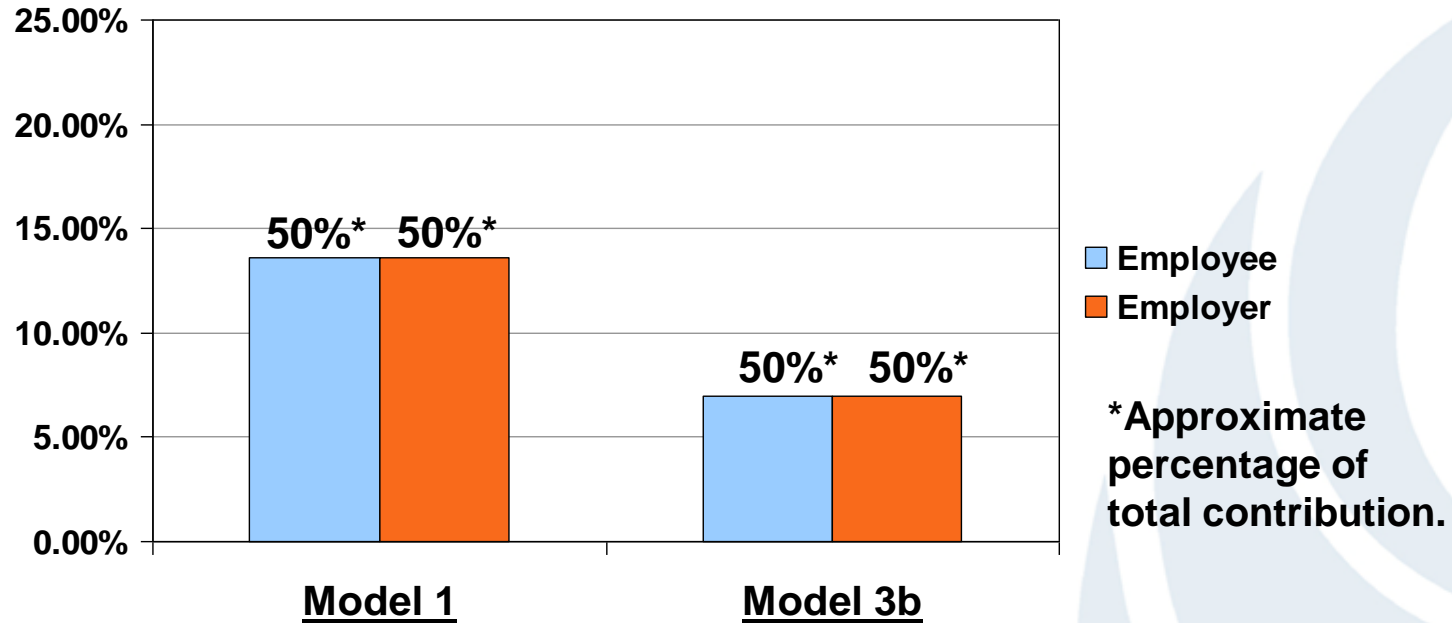
Attract and Retain Top Talent – “Diminished Benefit”



Save Money – costs \$414.7 million over 25 years



Model 3b – 7% Defined Contribution



Yes



No

Goals

50/50 Partnership



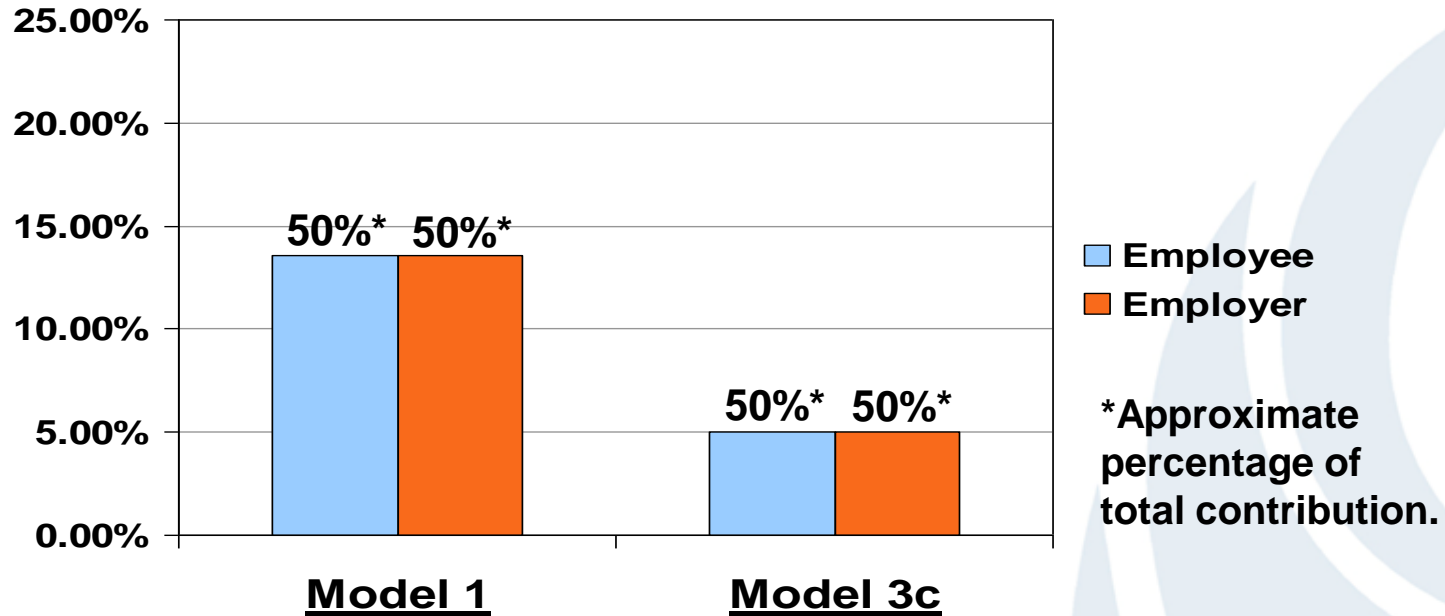
Attract and Retain Top Talent – “Diminished Benefit”



Save Money – costs \$101.9 million over 25 years



Model 3c – 5% Defined Contribution



Yes



No

Goals

50/50 Partnership



Attract and Retain Top Talent – “Diminished Benefit”



Save Money – saves \$108.6 million; saves less than Models 1 and 2



Staff Recommendation

Changes for New Hires

- Employee contribution rate is based on 50/50 split of actuarially determined rate
- Change the pension multiplier to a graduated multiplier based on years of service, matching the Arizona State Retirement System (ASRS) schedule
- Change Rule of 80 provision to Rule of 87
- Increase time of service requirements and eliminate minimum pensions as recommended by the Pension Reform Task Force
- Allow new City hires with service on account with ASRS prior to 7/1/2011 to join COPERS under current provisions



Additional Staff Recommendations

- COPERS Board recommendations
 - Remove some non-standard investment limitations from the Charter to provide the opportunity to maximize investment returns for the Plan.
 - Put into the Charter certain IRS-required operational and documentation provisions that are current practice, but should be placed into Charter, since the COPERS operates as a tax-qualified retirement plan.
- Include in Charter language an option for the City to pay more than the Actuarially Required Contribution.



Proposed Timeline

- September 25 – City Council Policy Session on pension reform
- October 31* – Council to refer proposition to the March 2013 ballot
- November 7* – City Council approves election-related ordinances
- March 12, 2013* – Election Day
- July 1, 2013* – COPERS Reforms effective

*** Pending City Council results**