

Compensation Overview



Greater Phoenix Chamber of
Commerce

August 15, 2012



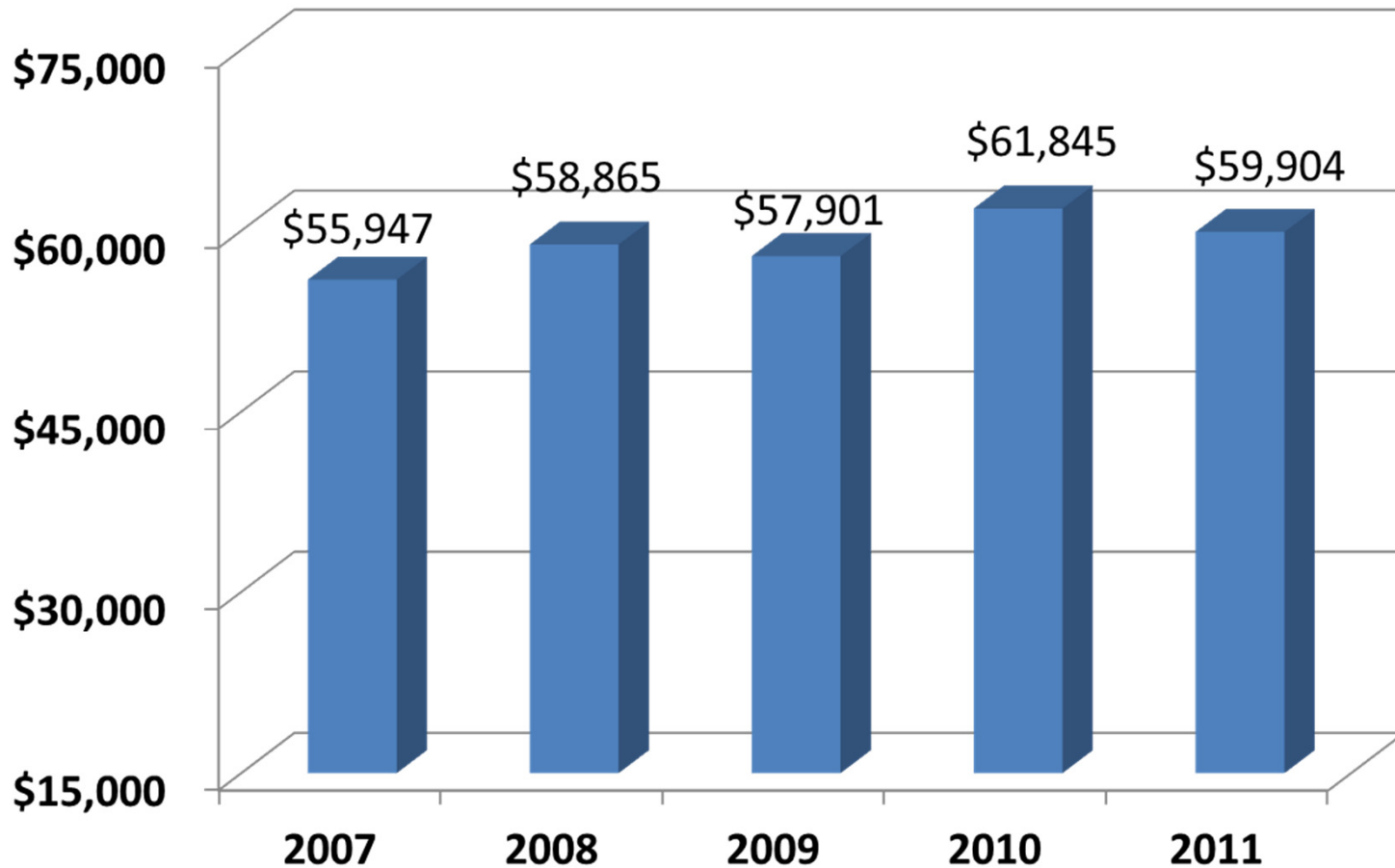


Topics

- City's compensation system and practices
- Pay and Benefits Study
- Other efforts
 - 2012-14 Negotiations
 - Organizational Review processes
 - Changes to health care and other programs



Average Annual Salary



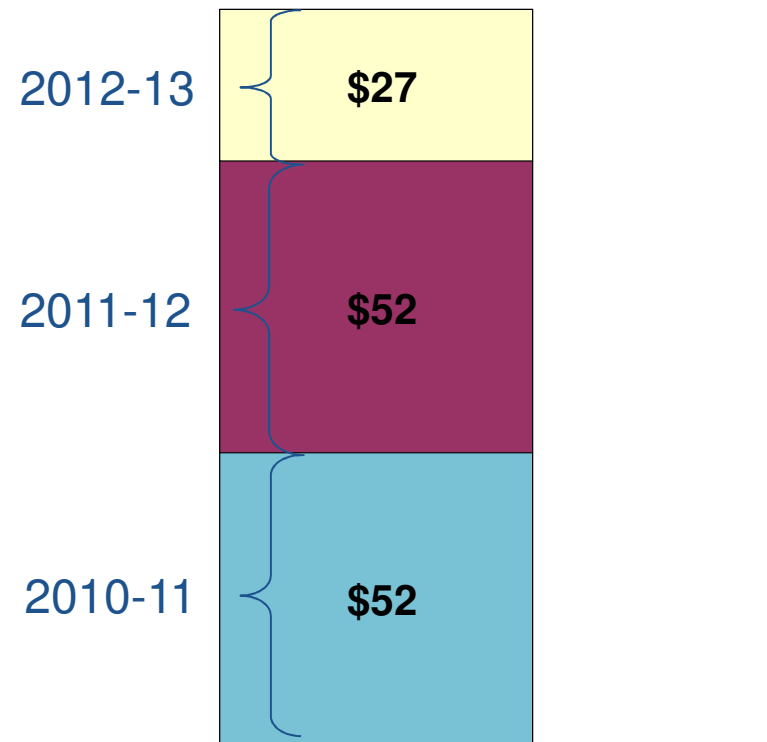


Employee Concessions

- Over 3 years, total employee concessions reduced estimated total employee costs approximately \$131 million

- 2010-11 = \$52 million
- 2011-12 = \$52 million
- 2012-13 = \$27 million

Savings in millions





City Occupations Include:

- Police Officers
- Firefighters
- Street Maintenance Workers
- Equipment Operators
- Administrative Aides
- Emergency Dispatchers
- Code Inspectors
- Engineers
- Planners
- Attorneys
- CPAs
- IT Professionals
- Scientists
- Auditors
- Judges



Compensation

City of Phoenix Information:

- Phoenix uses a pay step progression compensation system
 - New employees begin at the entry step and advance through established pay steps
 - Typically, employees may advance one step each year (as long as performance meets standards) until they reach the top step
 - Designed to reward an individual as they gain needed skills, knowledge and experience
- Middle Managers and Executives – pay for performance system based on results



Compensation

Police Officer





Compensation

Secretary





Longevity Performance Pay

- Negotiated benefit for bargaining units over 25 years
- Retention incentive for employees at the top of their salary ranges
- Lump sum payment, does not increase base wage
- All employees receiving longevity pay received an overall pay reduction due to concessions taken since 2010



Pay and Benefits Study

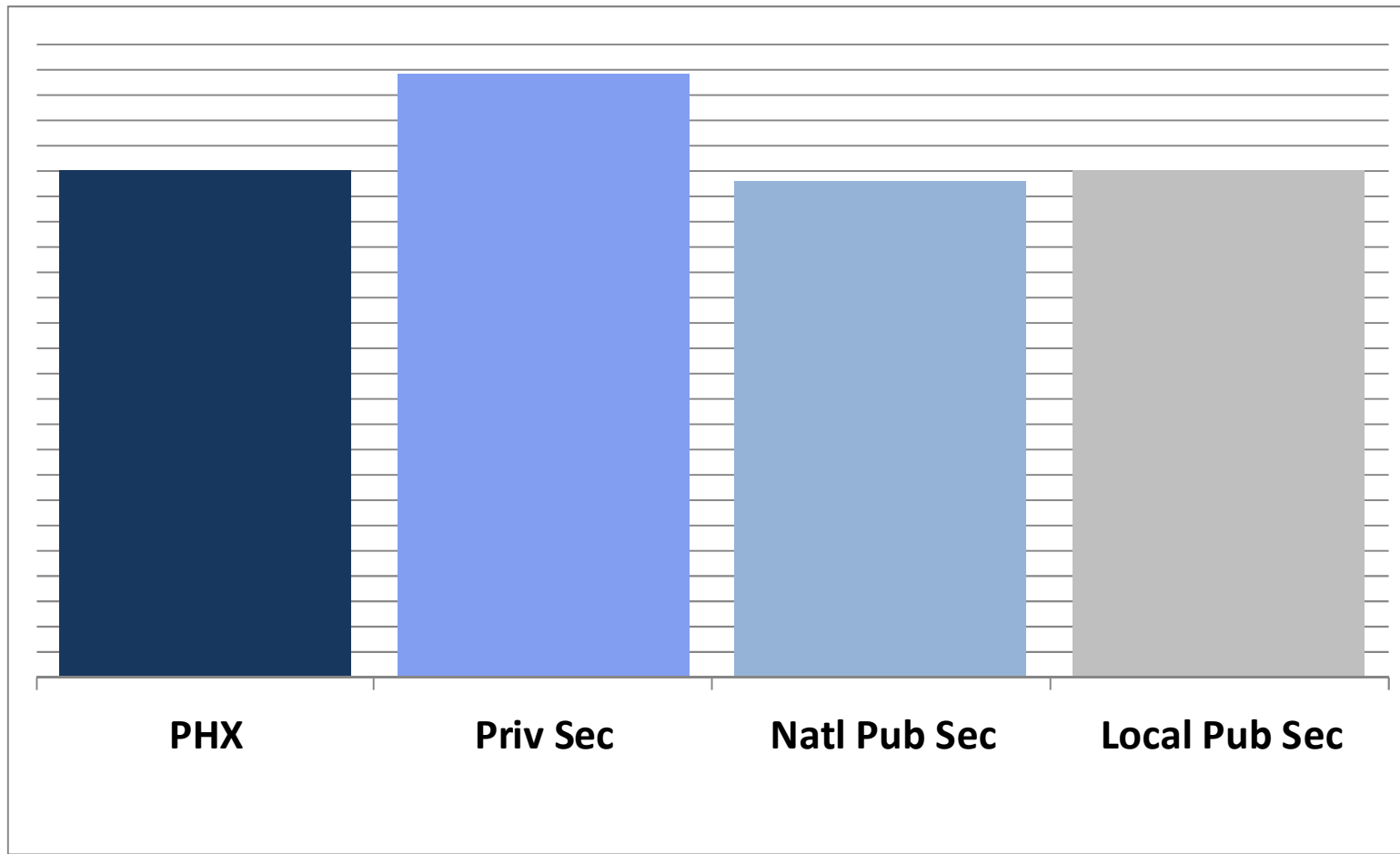
About the Study

- Review compensation and benefits programs to ensure the costs associated with pay and benefits are competitive, fair and equitable based on the work performed
- Ensure the City remains competitive
- Ensure the City continues to be a responsible steward of public funds



Pay and Benefits Study

Key Findings (Base Salary)





2012-2014 Negotiations

- Partial restoration - No raises
- 1st year of the agreement
 - 1.6% of the 3.2% concessions will be restored July 2012
- 2nd year of agreement
 - Remaining concessions will be restored July 2013 under certain conditions



2012-2014 Negotiations – Stability Indicators:

- Additional direct services in 2013-14 are the same dollar amount, or higher, than 2012-13
- Maintain AAA Bond Rating
- Actual revenue collections equal adopted 2013 General Fund budget
- No direct service reductions
- No cuts to state-shared revenue
- \$5 million or more achieved in additional innovation & efficiency cost savings



Organizational Review - Objectives

- **Review department structure**
 - Ensure structure supports the mission and enhances service delivery
 - Continue to remove layers/redundancies
- **Evaluate procedures and programs**
 - Are they business friendly?
- **Continue to assess right-sourcing opportunities**
- **Improve the use of technology for enhanced service delivery**



Organizational Review - Achievements

- Initiated annual review in 2010, since that time:
 - \$9.9 million in savings across all funds
 - Eliminated 36.7 General Fund positions and 91.3 non-General Fund positions
 - Span of control increased to 1 manager/supervisor for every 8 employees
 - Consolidated departments/divisions
 - Reduced twice as many managers as general staff (22% for management, 11% for all other employees)



Other Efforts

- Modifications to the health care plan
 - \$50 million in savings over five years
- Reduction in tuition reimbursement
 - From \$9,208/yr max to \$6,500/yr max
- New accruals for sick leave non-pensionable
 - Currently under litigation
- Revisions to Long Term Disability Program
- Longevity – agreement to explore alternatives
- Flexible workplace programs

A large, stylized phoenix logo in shades of maroon and red, set against a dark maroon background. The phoenix is depicted in profile, facing right, with its wings spread and tail feathers visible. The logo is composed of smooth, flowing lines.

Greater Phoenix
Chamber of Commerce

August 15, 2012

City of Phoenix



Topics

- Review of COPERS Plan
- Pension Reform Task Force
- City Council



COPERS Plan History

- **Defined Benefit Plan**
 - Established in City Charter by a vote of Phoenix residents
 - Initiated in 1947; revised in 1953
 - Periodic changes approved by voters
 - Requires the City to contribute an actuarially determined amount each year ensuring financial solvency



COPERS Membership

- General City Employees
(non-sworn as of 6/30/11)
 - Employees: 8,569
 - Inactive: 680
 - Retirees: 5,191
 - Total: 14,440
- Excludes Police Officers & Firefighters (PSPRS)
- Excludes elected officials (EORP)

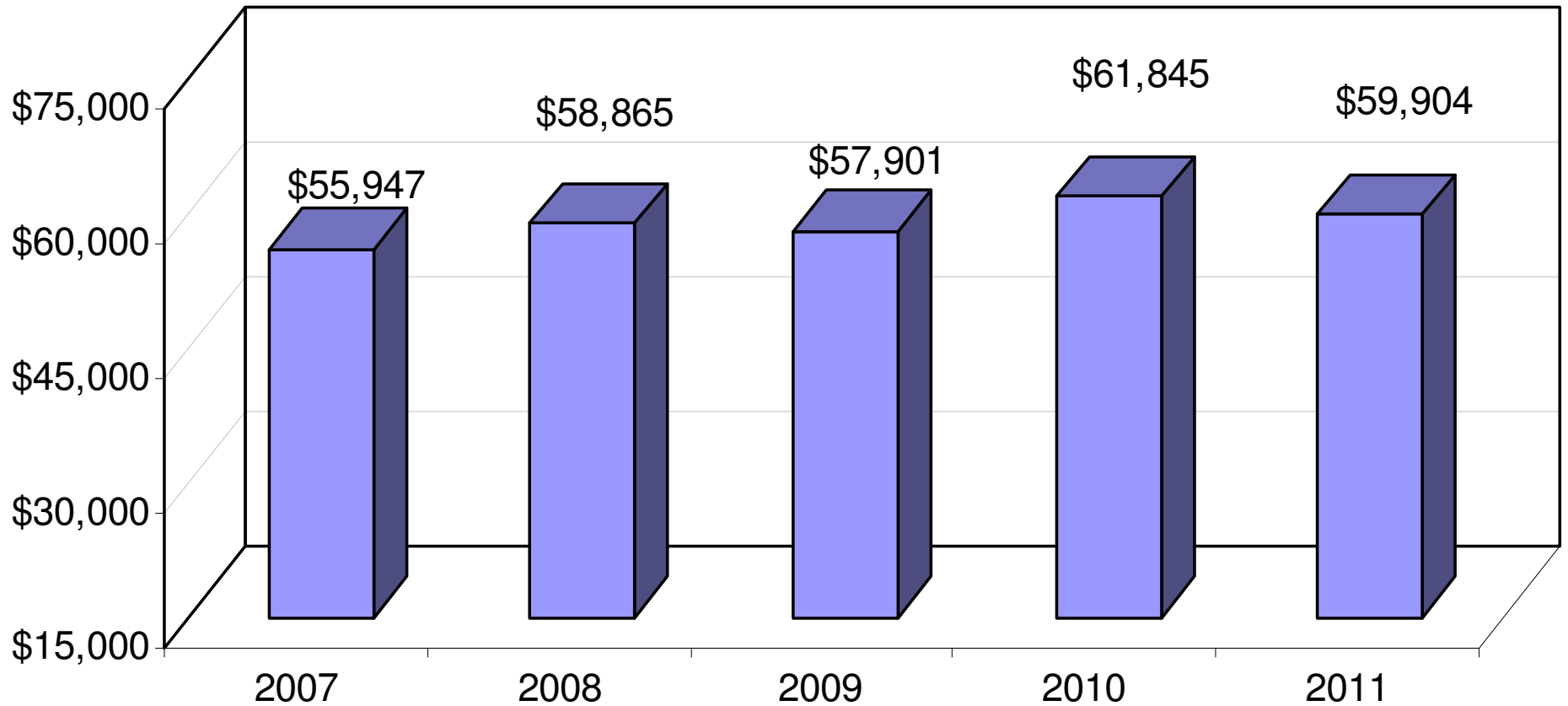


Membership Statistics as of June 30, 2011

- Average annual pension:
\$28,887
- Average annual compensation for active members:
\$59,904
- Average age of active members:
46.1
- Average years of service of active members:
12.8



Average Annual Compensation For Active Members





Contributions

- **Employee**
 - 5% of gross salary
 - Pre-tax deduction
- **Employer**
 - Actuarially determined each year



COPERS Plan Provisions – Retirement Eligibility

Active Employee

- 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

Deferred Vested

- 5* or more years of credited service upon reaching age 62 – must leave contributions in fund

* Vesting period = five years



Benefit Formula Components

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



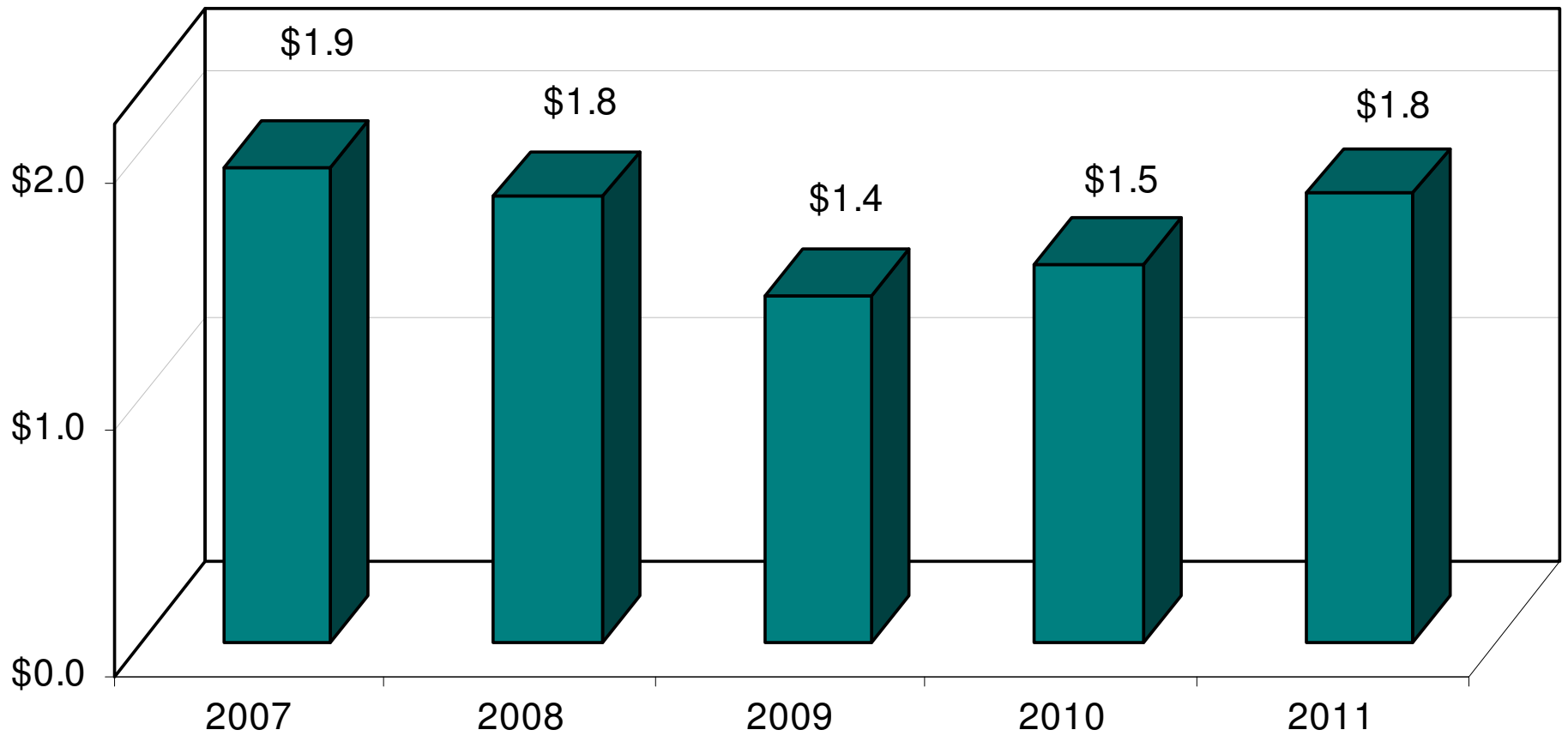
Possible Pension Increases

- Funded through excess investment returns (5 calendar year average over 8 percent)
- Annual permanent increase (PEP)
 - 2009: 1.7%
 - 2010, 2011 & 2012: 0%
- 13th Check
 - 2009: 1%
 - 2010 and 2011: 0%



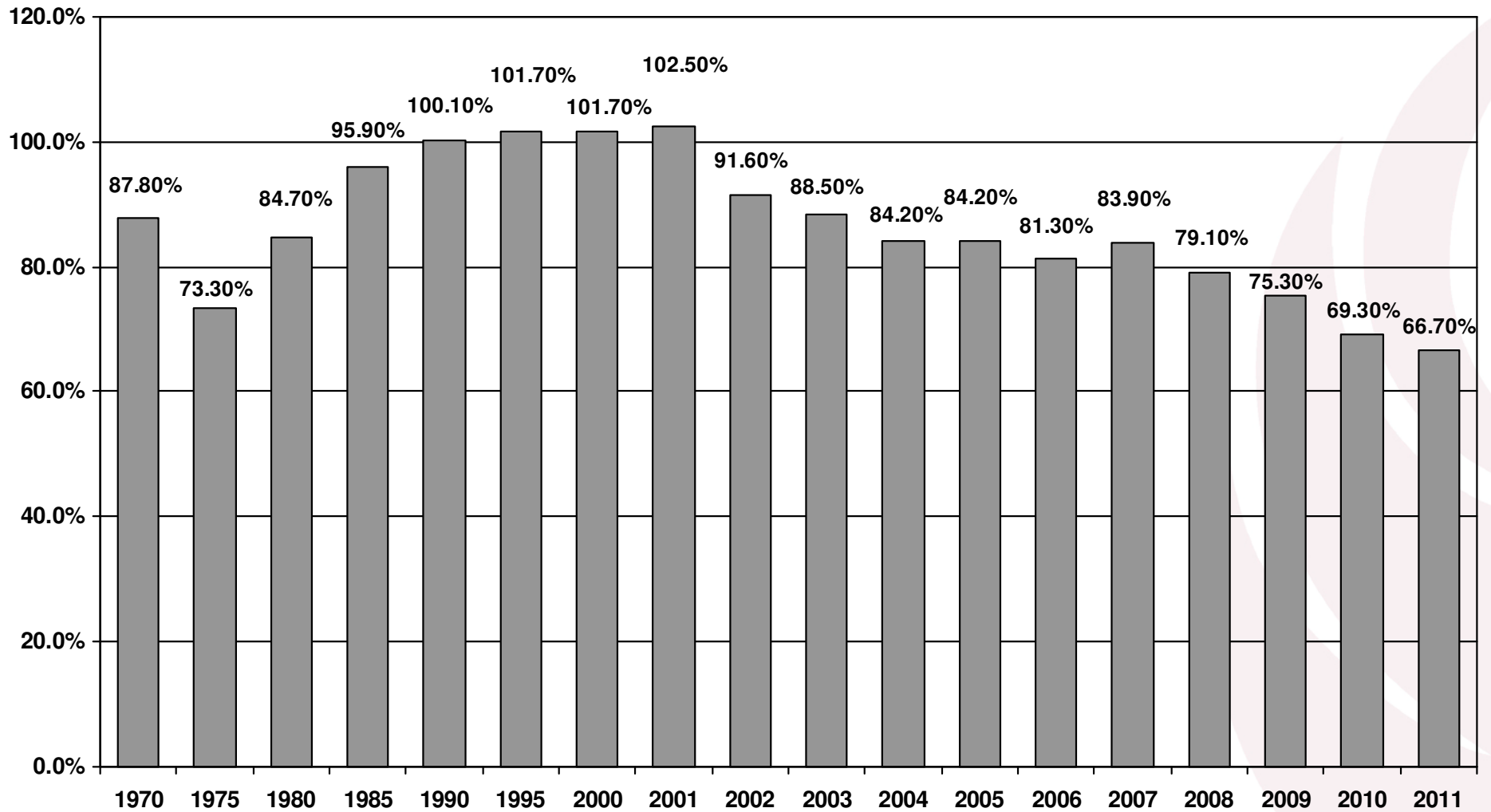
Total Plan Net Assets

(in billions)



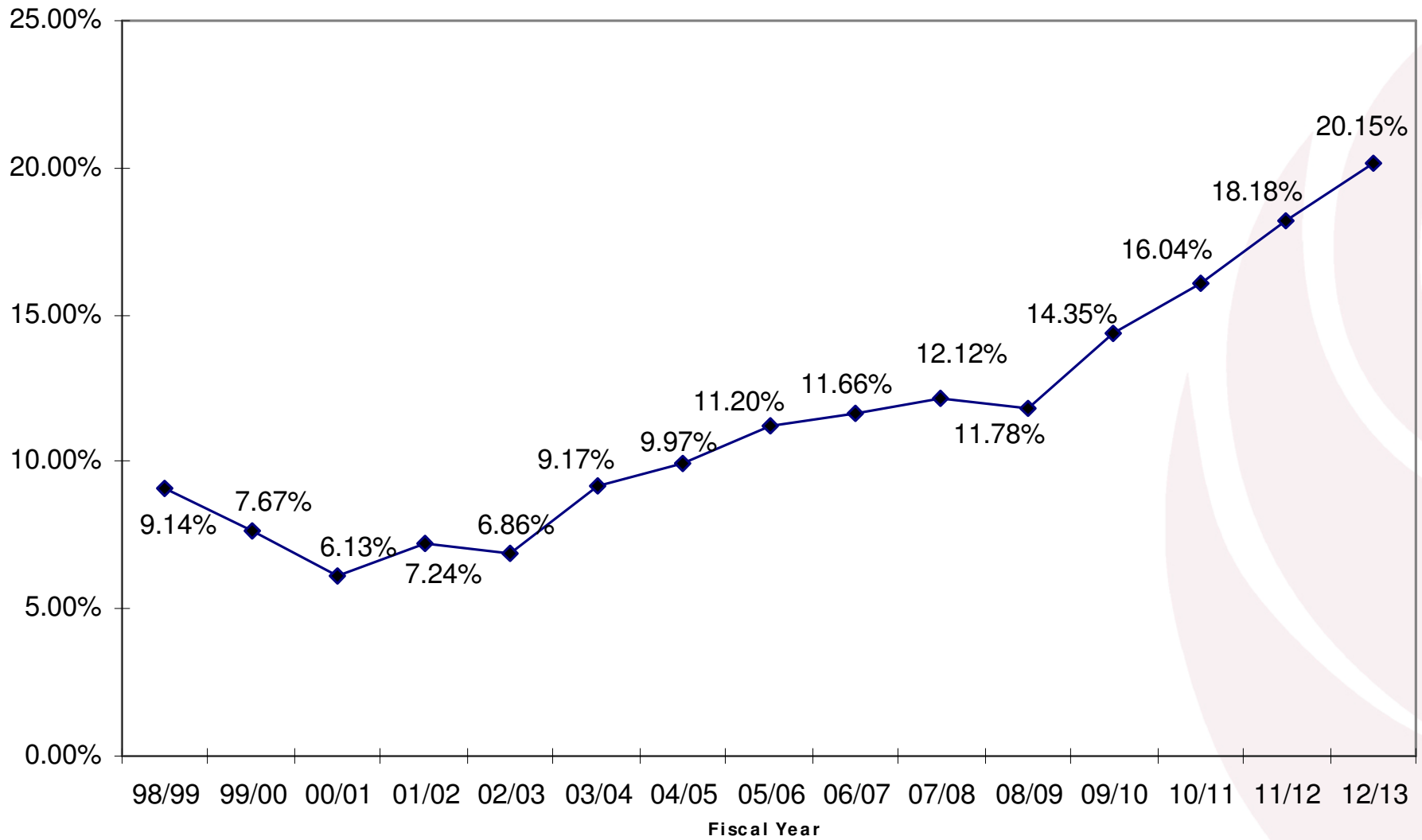


Funded Ratio



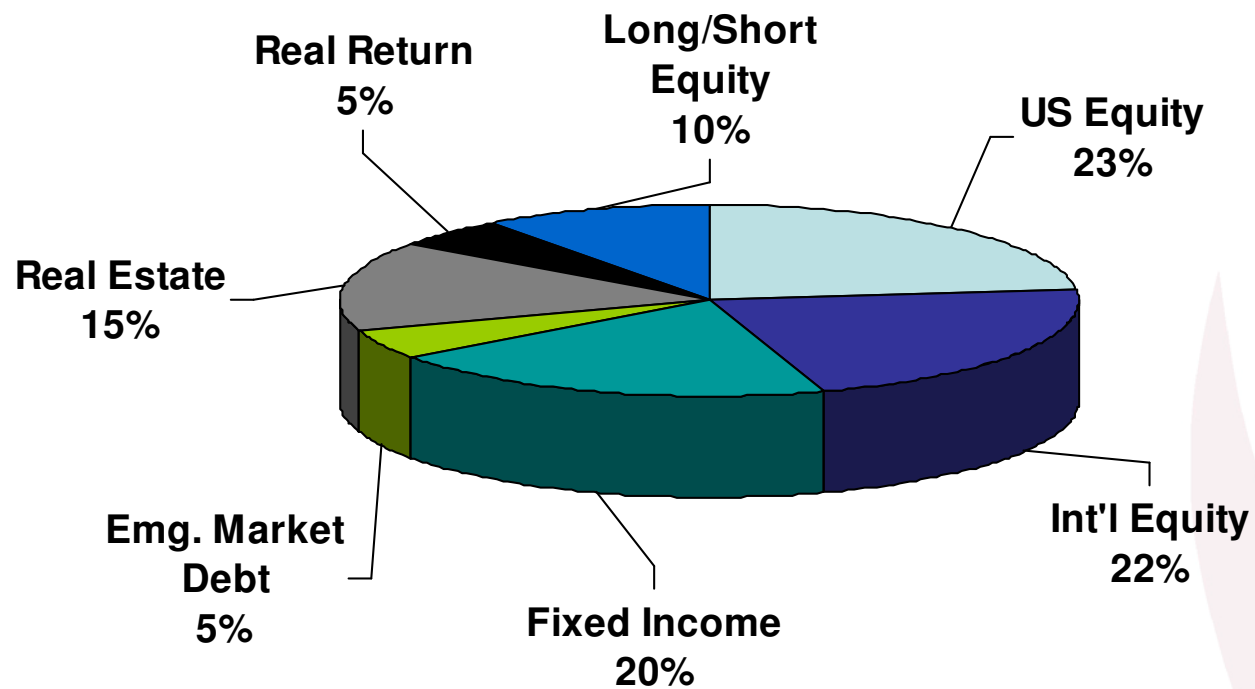


History of Employer Contributions





Current Target Asset Allocation





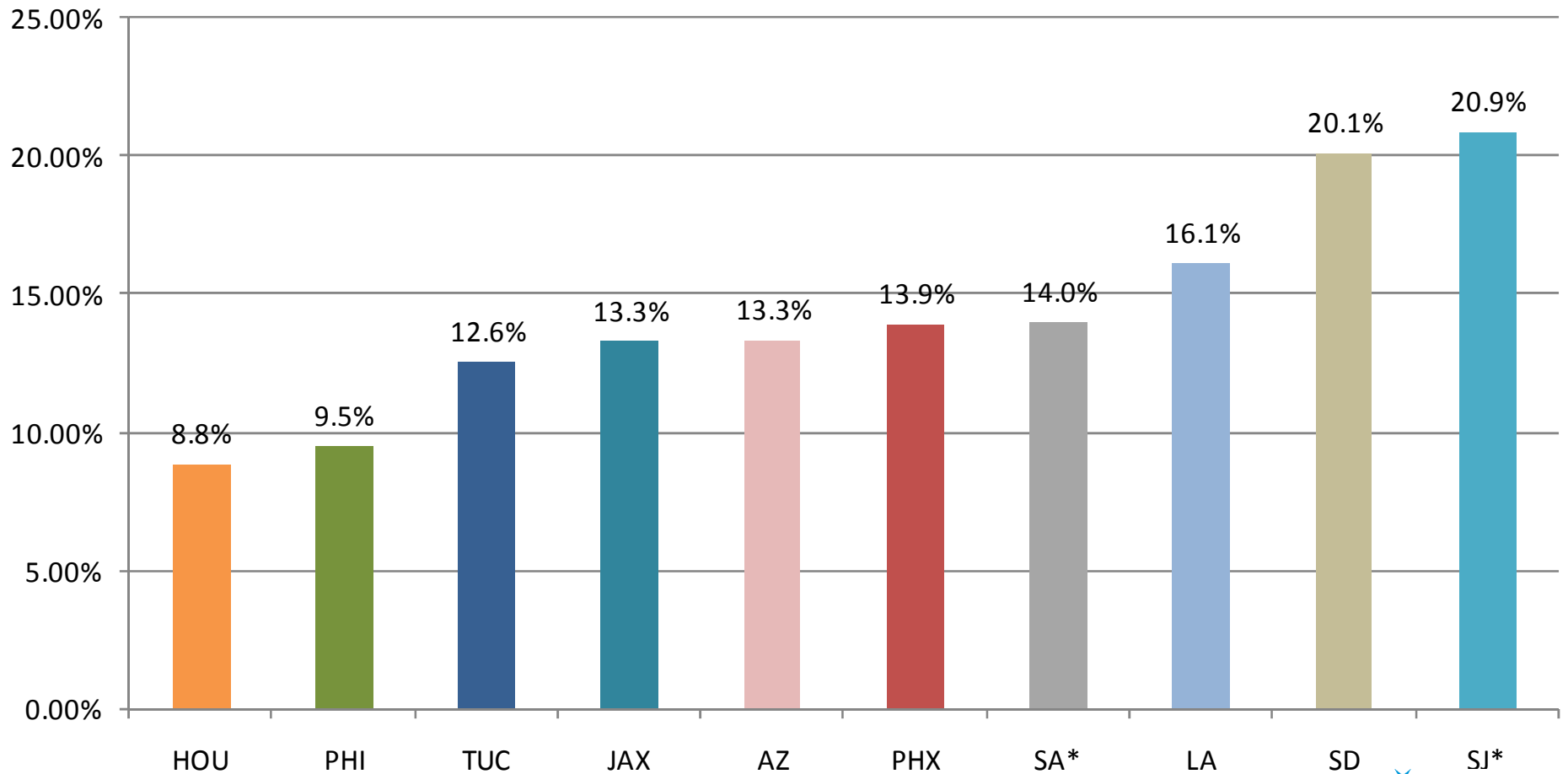
Pension Reform Task Force

- Appointed January 2011
- Worked with management, consultants and other stakeholders to propose recommended changes to the City of Phoenix Employees' Retirement System (COPERS)
- Sunset December 31, 2011
- Phoenix.gov/pensionreform



Task Force - Multi City Survey

Gross Normal Cost

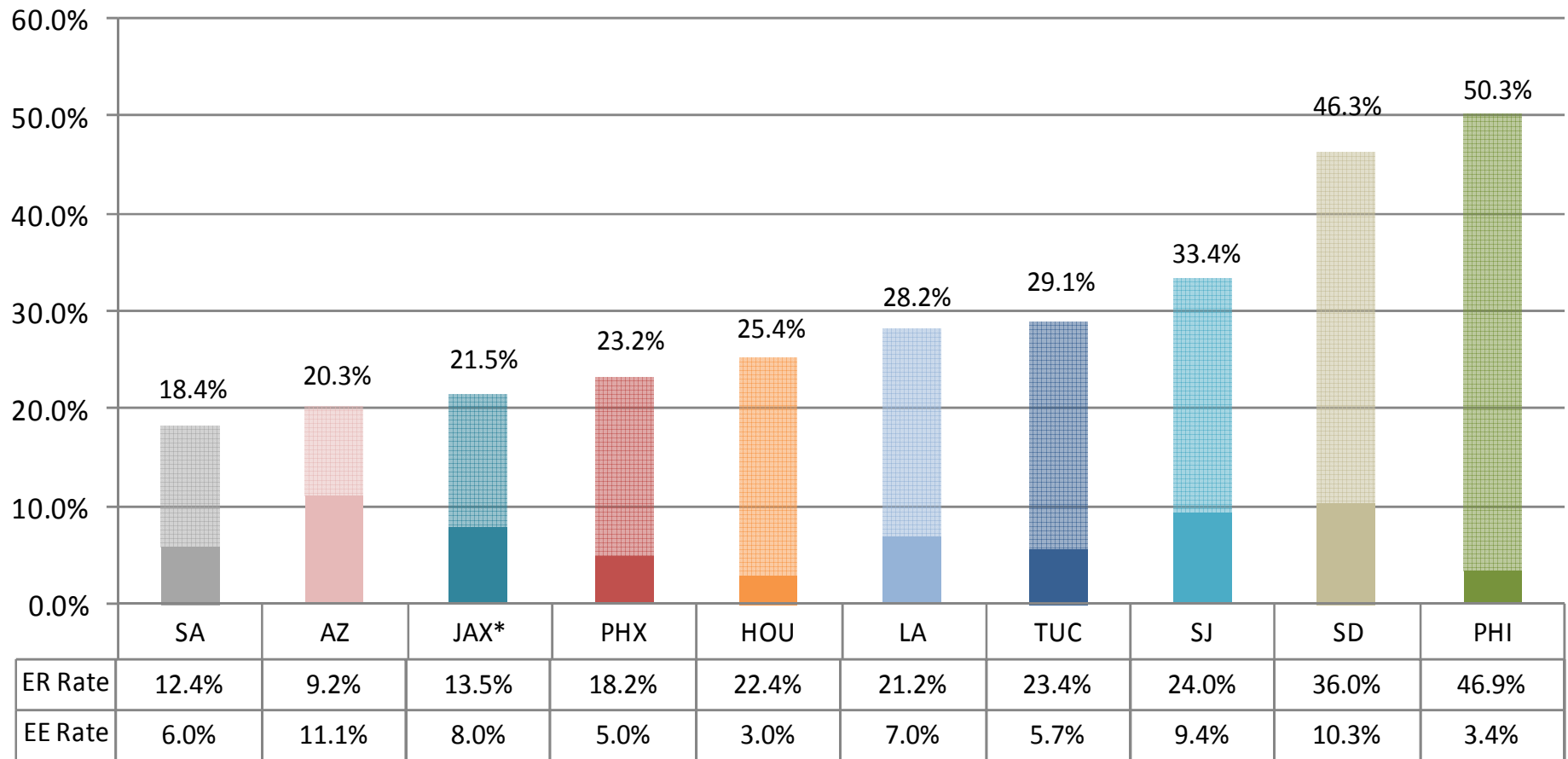


* Estimated



Task Force - Multi City Survey

Current Total Actuarial Cost (% of Pay) ER (top) + EE (bottom)



* As of 2008



Final Task Force Recommendations

- **Changes Affecting New Hires**
 - Modify retirement eligibility
 - Change the pension multiplier
 - Unused vacation time and sick time payments made at retirement cannot be used in Final Average Compensation
 - Final Average Compensation for pension calculations will exclude travel, communications, and technical allowances
- **Changes Affecting New Hires and Current Employees**
 - Institute a floating contribution rate for all new and existing employees



Arizona State Constitution

- **Article XXIX - Section C:**
Membership in a public retirement system is a contractual relationship that is subject to article II, § 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.



City Council Timeline

- February 14 – Task Force recommendations to City Council
- May 18 – County Court judgment appeal period closes
- June 19 – City Council adopts calendar for referral of pension reform to the March 2013 ballot.
- Council requests modeling based on Task Force recommendations, but takes into consideration concerns regarding recruitment and retention.



City Council – Modeling Requested 6/19

- Change the COPERS Rule of 80 to Rule of 87 for other new hires
- Match ASRS graded multiplier for other new hires
- Move to a 50/50 split of the actuarially required contribution for new hires
- ASRS member who joined ASRS prior to July 1, 2011 to join the COPERS Plan under current COPERS provisions



City Council – Modeling Requested 6/19 *continued*

- Cap employer contribution rates at 5%, 7% and 10%.
- Also model a 401(a)-type plan with a 5%, 7% and 10% match by the City.



City Council

- Ballot items requested by Retirement Board:
 - Change to “prudent investor rule”
 - Tax-qualification requirements currently documented in policy



Next Steps

- Modeling presented by actuarial consultants to City Council in September 2012
- Drafting of ballot language
- Election
- Implementation



City of Phoenix