



**City of Phoenix**

# **PENSION REFORM TASK FORCE**

**Recommendations to City Council Adopted December 6, 2011**

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## Final Recommendation – Changes Affecting New Hires

- Model the following changes to *new hires* as part of Final Recommendation
  - Modify retirement eligibility
    - Eliminate Rule of 80 and other current age/time worked retirement provisions
    - Establish Normal Retirement Age of 63 with a minimum of 10 years of service
    - Establish an Early Retirement Age of at least 55 with 10 years of service
      - » Early retirement benefit amount would be actuarially reduced from age 63
  - Change the pension multiplier to a graduated multiplier based on years of service. These are cumulative multipliers applying to all prior years of service.
    - Up to 14.99 years of service: 1.85%
    - 15 to 19.99 years of service: 1.90%
    - 20 to 24.99 years of service: 1.95%
    - 25 to 29.99 years of service: 2.00%
    - 30 or more years of service: 2.10%

## Final Recommendation – Changes Affecting New Hires *continued*

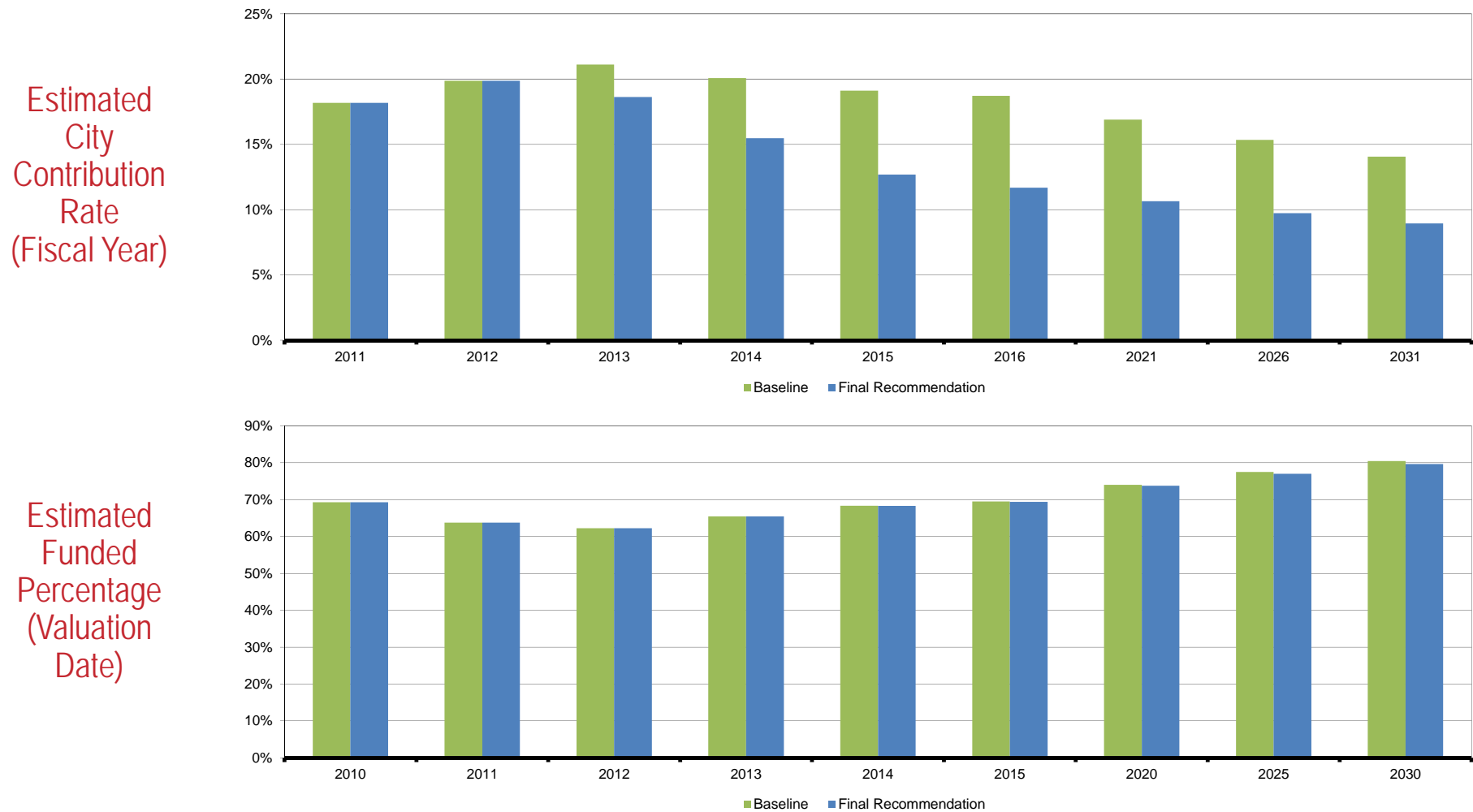
- Vacation and Sick payments made at retirement cannot be used in pension Final Average Compensation
- Final Average Compensation for pension calculations will exclude travel, communications, and technical allowances
- Time of service calculations shall reflect actual service time with 20 days of service required before a month of service is credited and 240 days of service required before a year of service is credited
- Minimum Pension: Terminate any existing minimum pension requirements

## Final Recommendation – Changes Affecting New Hires and Current Employees

- Model the following change to *new hires* and *current employees* as part of Final Recommendation
  - Institute a floating contribution rate for all new and existing employees
    - No grandfather group for existing employees
    - Actuarially determined rate shall be split evenly between employees and the City as determined officially each year
    - The City/employee rate will vary as the determined rate varies, but will be split evenly
    - New rate implemented immediately for new employees and would be phased-in for existing employees beginning with the effective date
    - Existing employee group rate will initially rise no more than 2% of salary per year until the 50:50 split is achieved
      - » Once split rate is achieved, the rate for the existing employee group will equal the rate for the new hire group

# Projection of City Contribution Rate and Funded Percentage Reflecting Final Recommendation

➤ Impact of benefit and contribution changes referred to as Final Recommendation



## Projection of Savings in City Contribution Dollars Under Final Recommendation

- Projection of savings in City contribution amounts under Final Recommendation

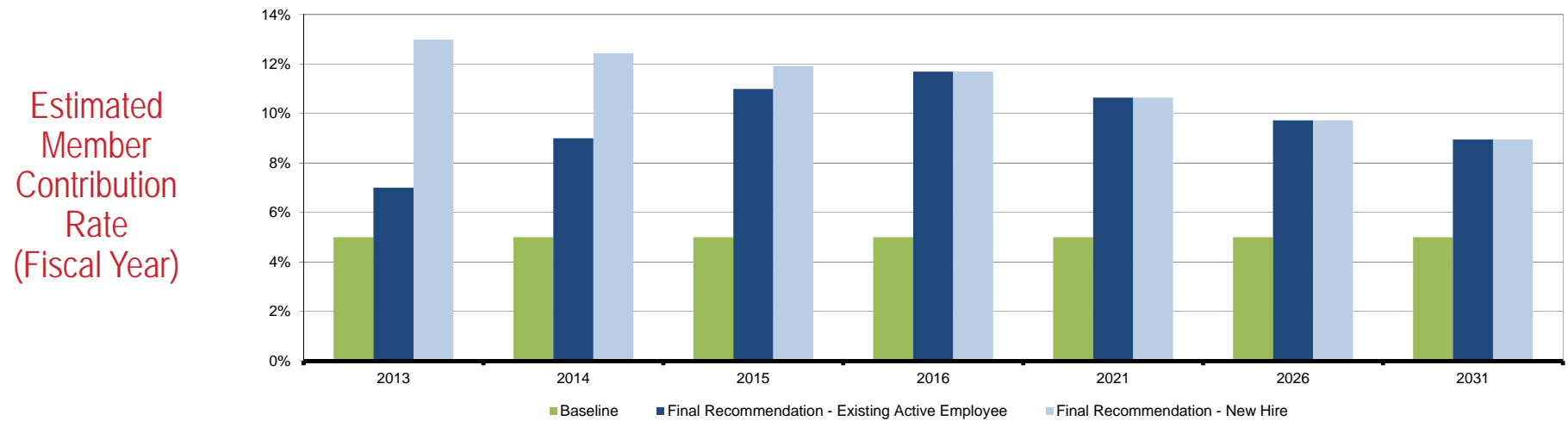
	in \$1,000's	
	Final Recommendation	
Fiscal Year:	Savings	Cumulative
2012	\$0	\$0
2013	-\$15,900	-\$15,900
2014	-\$30,400	-\$46,300
2015	-\$44,000	-\$90,300
2016	-\$50,000	-\$140,300
2021	-\$54,500	-\$403,200
2026	-\$60,900	-\$693,700
2031	-\$69,600	-\$1,023,500

Estimated City Contribution Savings Amount (Fiscal Year)

Note: Dollar amounts are based on 2010 actuarial valuation

# Projection of Member Contribution Rate Under Final Recommendation

## ➤ Comparison of member contribution rate under Final Recommendation



## Straw Employee Comparison Under Final Recommendation

- Comparison of projected replacement ratios and monthly benefit amounts for new hires under Final Recommendation using the following parameters:
  - Retirement at age 63
  - Employment commencement at ages 40 and 30
  - Annual compensation levels of \$40,000 and \$60,000

	Hire Age	Retirement Age	Years of Service	Annual Compensation	Before Changes		Final Recommendation	
Straw Employees								
Sample 1:	40	63	23	\$40,000	46%	\$1,517	41%	\$1,370
Sample 2:	40	63	23	\$60,000	46%	\$2,275	41%	\$2,056
Sample 3:	30	63	33	\$40,000	65%	\$2,160	64%	\$2,117
Sample 4:	30	63	33	\$60,000	65%	\$3,240	64%	\$3,176

Notes: Monthly benefit amounts are shown in today's dollars

Replacement ratios do not include Social Security component



## Appendix

- Summary of projection assumptions and methods

## Actuarial Assumptions and Methods

- Actuarial assumptions are the same as those used in the **July 1, 2010 valuation** performed by Rodwan Consulting, except as noted below:
  - The estimated market value of assets used as of June 30, 2011 is \$1.82B
  - The amortization of unfunded actuarial liability is determined using a 4% payroll growth assumption beginning in the 2012 projection year
- Employee contribution rates under Final Recommendation are assumed to be effective coincident with the actuarial valuation date/beginning of fiscal year.
- The calculations are based upon the results of the July 1, 2010 valuation prepared by Rodwan Consulting. Segal has reproduced the July 1, 2010 valuation to within a range of reasonableness and determined the financial impact of alternative models by applying the changes in liability under the Segal valuations and applying those changes to the Rodwan Consulting valuation results.

Projections, by their nature, are not a guarantee of future results. The modeled projections are intended to serve as estimates of future financial outcomes that are based on the information available to us at the time the modeling is undertaken and completed, and the agreed-upon assumptions and methodologies described herein. Emerging results may differ significantly if the actual experience proves to be different from these assumptions or if alternative methodologies are used. Actual experience may differ due to such variables as demographic experience, the economy, stock market performance and the regulatory environment.