
CITY COUNCIL REPORT

FORMAL AGENDA

TO: Ed Zuercher
City Manager

AGENDA DATE: March 25, 2015

FROM: Rick Naimark
Deputy City Manager

ITEM:37 PAGE: 43

SUBJECT: ADDITIONAL INFORMATION ON REFERRAL TO THE BALLOT OF
PENSION REFORM RECOMMENDATIONS

This report provides back-up information to Item 37 on the March 25, 2015 Formal agenda. Staff requests the City Council refer the proposed Charter amendments to the ballot for consideration by Phoenix voters.

THE ISSUE

On November 20, 2014, Mayor Greg Stanton appointed members to the Civilian Retirement Security Ad Hoc Committee ("Committee"), including Council members Thelda Williams and Daniel Valenzuela, who served as co-chairs, along with five community and business leaders.

The Committee met over the course of three months and reviewed extensive actuarial analyses and received advice from consultants and outside legal counsel. On Wednesday, February 11, 2015 the Committee made a unanimous recommendation for additional pension reform. Below are the recommendations, and attached is a full report ([Attachment A](#)) with information on the general status of the City of Phoenix Employees' Retirement System (COPERS), information on the alternatives considered by the Committee and additional detail on the recommendation from the Committee.

Recommendation from the Committee

The Committee made a unanimous recommendation for an option called a Stacked Hybrid Plan, discussed in more detail below, which combines a defined benefit plan for compensation up to \$125,000 and a defined contribution plan above that cap. The plan recommended by the Committee would:

- Create additional savings of \$38.8 million over 20 years.
- Improve the recruitment and retention of employees by lowering the Tier 2 and future hire employee contribution rates to no more than 11 percent.
- Implement best practices in pension administration for future hires, including a change to a five-year final average salary calculation, the elimination of the sick leave service credit, and changes to the benefit multiplier. Those changes will better match COPERS benefits and calculations to national trends in pension administration.
- This plan is expected to avoid costly litigation because benefits are reduced only for future new hires, and current employees' retirement benefits are not impacted by these changes.

This proposal has no effect on Tier 1 employees who retire from the City.

Under the proposed recommendation, Tier 2 and all future hires would continue to share equally with the City in the contribution rate, with a ceiling of 11 percent for employee contribution rates. The City would pay the rest of the required contribution. There would be no changes to retirement benefits for Tier 2 employees.

The most significant changes under this proposal are for employees hired after a future implementation date; those new employees would go into a new tier, Tier 3. For Tier 3 employees, compensation up to \$125,000 would count towards the traditional pension system, with that cap increasing each year to match inflation. Compensation above the cap would receive a 2 percent contribution from the City in a 401k-style plan.

Tier 3 would also have other changes to benefits, including:

- A self-funded cost-of-living adjustment (COLA) option at retirement. Employees could choose at retirement to reduce their initial benefit in order to receive COLAs throughout their retirement.
- Change the Final Average Salary (FAS) calculation to a five-year average.
- Change the benefit multiplier for Tier 3 as follows:

Years of Service	Tier 3
Less than 10 years	1.85% all years
10-19 years	1.9% all years
20 – 30 years	2.0% all years
More than 30 years	2.1% all years

- Eliminate the sick leave service credit.
- Eliminate the ability for some employees previously employed by the state or other cities in Arizona to start as Tier 1 employees.

There is one change that will impact all tiers of employees, but it is not a retirement benefit. Currently, if employees leave the City and withdraw their contributions to COPERS, they receive an interest credit on their contributions based on a formula set by the COPERS Board with a current maximum of the assumed rate of return (7.5 percent). One recommended change would reduce the interest credit to a maximum of 3.75 percent for employees, in any tier, who leave the City and withdraw their contributions.

Below is a chart of the costs and savings and the total net savings.

\$125,000 Cap on Compensation Self-Funded COLA 3.75% Interest Credit for T1-3 Changed Multiplier Eliminate Sick Leave Service Credit Change to 5 Year FAS No "Grandfathering" of ASRS into T1	\$303.7 million savings
11% Ceiling on Tier 2 and Tier 3	\$261.7 million cost
2% Contribution to DC Above Cap	\$3.2 million cost

TOTAL SAVINGS (OVER 20 YEARS)	\$38.8 million savings
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The above recommendations were approved by the City Council by a 6-3 vote on March 4, 2015. All of the recommendations above are included in the proposed Charter language in [Attachment B](#).

OTHER INFORMATION

At the March 4, 2015 City Council meeting, the Mayor and City Council requested additional information from City staff on various potential changes to the recommendations from the Committee. Below is additional information in response to those questions. [Attachment C](#) provides the necessary modifications to the proposed Charter language which would enact the first three changes described below.

1. Change the Cap on Pensionable Compensation to \$75,000 or \$100,000

Council members asked for additional information on other options for the cap on pensionable compensation. In the recommendations, the cap for pensionable compensation is set at \$125,000, indexed to inflation. This number was selected by the Committee because it had an impact on only the highest-paid employees and did not generally impact employees below the Middle Manager or Executive levels.

The lower caps on pensionable compensation would create some additional net savings over the next 20 years. With additional savings, however, there would be additional costs for the 2 percent contribution to a 401k-style plan above the compensation cap. The savings and costs are listed in the table below.

Compensation Cap Level	Cost of 2% Contribution to 401k-Style Plan*	Total Additional Savings*	Total Plan Savings**
\$75,000	(\$15.8 million)	\$40.1 million	\$63.1 million
\$100,000	(\$7.1 million)	\$15.1 million	\$46.8 million
\$125,000	(\$3.2 million)	--	\$38.8 million

*All numbers over 20 years.

**Total Plan Savings includes all other changes recommended by the Committee.

2. Change to Rule of 85 for Tier 3

Councilman Nowakowski asked about changing the retirement eligibility to a "Rule of 85" for Tier 3 employees. The Rule of 85 refers to the formula used to determine retirement eligibility, which adds the number of years of service to an employee's age to reach a set number. For current Tier 2 employees, the number is 87 (Rule of 87) and for current Tier 1 employees, the number is 80 (Rule of 80). Changing to a Rule of 85 would match the practices of the Arizona State Retirement System (ASRS).

Lowering retirement eligibility to a Rule of 85 would add an additional \$8.6 million in costs over 20 years, which would reduce the total net savings of the proposal to \$30.2 million over 20 years.

3. Remove Contributions to DCP from Pensionable Compensation for Tier 3

Councilman Gates asked for additional information on removing City contributions to the Deferred Compensation Plan (DCP) from pensionable compensation for Tier 3 employees.

DCP contributions from the City are part of the negotiated benefit package for all groups of employees. Various employee groups receive contributions ranging from 0 percent to 8.68 percent in the current fiscal year.

Removing DCP contributions from the calculation of pensionable compensation for Tier 3 employees could be expected to create additional costs of \$1.5 million over 20 years, for a total net savings of \$37.3 million over 20 years for all recommendations, including this change. This change creates additional costs due to the interactions of the various components of the proposed reforms, including the 11 percent ceiling on employee contributions and the \$125,000 cap on pensionable compensation.

In addition, DCP is a negotiated benefit. If DCP is removed from pensionable compensation for Tier 3 employees, it is possible employee groups would negotiate to replace DCP contributions with a different form of compensation that is pensionable. In that case, none of the projected costs from removing DCP contributions from the calculation would be realized.

Analysis of the Assumed Rate of Return

Information about the assumed rate of return was also requested at the City Council meeting. The assumed rate of return is the percent return on investments that can be expected to be earned over the future life of the plan. The current assumed rate of return is 7.5 percent, and that rate is set by the COPERS Board with the advice of its actuary. Over the life of the plan, the actual average rate of return achieved has been 8.17 percent.

Table VI-2 on page 28 of the latest COPERS actuarial valuation ([Attachment D](#)) shows the sensitivity of the "Net Pension Liability," previously known as the "unfunded actuarial liability," to changes in the "Discount Rate," which is identical to the assumed rate of return. That table shows that if the fund were to use a discount rate of 6.5 percent, the Net Pension Liability would rise by approximately \$430 million. In contrast, if the fund were to use a discount rate of 8.5 percent, the Net Pension Liability would decrease by more than \$360 million. This information shows the sensitivity of the fund's liabilities if the fund realized a 1 percent higher or lower return than the assumed rate of return.

2 Percent Contribution to a Defined Contribution Plan

When this item was presented to the Mayor and City Council on March 4, it was anticipated that the 2 percent contribution to a Defined Contribution Plan above the \$125,000 compensation cap would be included in the Charter amendments. Upon further advice of the City's outside legal counsel, this item is not included in the proposed Charter amendments. The item on the Council agenda includes approval to implement this provision if the Charter amendments are approved by the voters.

RECOMMENDATION

Staff requests the City Council refer the proposed Charter amendments to the ballot for consideration by Phoenix voters and approval to implement a 2 percent contribution to a Defined Contribution Plan above the \$125,000 compensation cap if the Charter amendments are approved by the voters.

Attachment A

Report from the Civilian Retirement Security Ad Hoc Committee

On November 20, 2014, Mayor Greg Stanton appointed members to the Civilian Retirement Security Ad Hoc Committee ("Committee"), including Council members Thelda Williams and Daniel Valenzuela along with five community and business leaders.

The Committee met over three months and considered several options for reform, including moving new employees to ASRS, a 401k-style plan, and a Cash Balance Plan. The Committee reviewed extensive actuarial analyses and received advice from consultants and outside legal counsel. On Wednesday, February 11, the Ad Hoc Committee made a unanimous recommendation for additional pension reform. This report provides information on the general status of the City of Phoenix Employees' Retirement System (COPERS), the background on pension reform in Phoenix, information on the alternatives considered by the Committee and detail on the recommendation from the Committee.

Pension Reform History

In January 2011, the Pension Reform Task Force was appointed by the Mayor and City Council to work with management, outside consultants, and other stakeholders to review and recommend changes to COPERS. Following a thorough review of the plan and actuarial and legal analysis, Task Force recommendations were presented to the City Council on February 14, 2012.

Staff returned to Council with an update and potential options for pension reform on June 19, 2012. At that time, City Council adopted a pension reform timeline and directed staff to conduct an actuarial analysis of three reform models that apply only to new employees. On September 25, 2012, staff presented the models, and City Council directed staff to draft proposed revisions to the City Charter for referral to the March 2013 ballot.

Voters overwhelmingly approved changes to COPERS for employees hired after July 1, 2013, which included the following:

- Change Rule of 80 provision to Rule of 87;
- 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;
- Change new employee contribution rate to a 50/50 split of the actuarially determined rate;
- Allow new City hires with service on account with ASRS prior to 7/1/2011 to join COPERS under current provisions;
- Option for the City to contribute more than the actuarially required contribution; and
- Allow for a more flexible investment strategy.

The changes were implemented in July 2013, and were projected to save the City \$596 million through 2037.

In addition to the changes approved by voters, the City implemented a “snapshot” of sick leave balance taken on July 1, 2012 for non-sworn employees, so that unused sick leave payouts are not used to calculate pension for employees with fewer than 250 available hours as of July 1, 2012, or any new employees hired after that date.

On September 9, 2013, Mayor Greg Stanton created the Pension Fairness and Spiking Elimination Ad Hoc City Council Subcommittee, which was charged to:

- (1) Identify each current practice that qualifies as pension “spiking” within COPERS, PSPRS and EORP;
- (2) Identify which changes can be made administratively and which ones must occur during contract negotiations, and further identify which reforms may require amending the City Code or Charter; and
- (3) Create a timeline for implementing recommended reforms.

On October 31, 2013 the Mayor and City Council approved recommendations made by the Pension Fairness and Spiking Elimination Subcommittee and directed the City Manager to implement the changes, and to negotiate with City labor groups toward that end.

Major elements of the anti-spiking reforms exclude the following items from pension calculations:

- Transportation and communication allowances;
- Lump-sum payouts on unused accrued sick leave upon retirement, accrued after the snapshot on July 1, 2013;
- Lump-sum payouts on unused accrued vacation leave upon separation after a similar snapshot;
- Reimbursements to employees for retirement contributions; and
- The Public Safety Enhanced Regular Compensation payments.

These changes were implemented for City middle managers and executive staff effective December 31, 2013, and were implemented for all employees as of July 2014 based on the approved labor agreements or Council-imposed contracts. The impact of the anti-spiking reforms was projected to save the City more than \$233 million through 2038.

Background on COPERS

Defined benefit plans are commonly used in the public sector as a benefit to recruit and retain employees. The plans are typically financed as a partnership between the employer and employees. COPERS is a defined benefit plan established in the City Charter by a vote of the residents of Phoenix in 1947. Since that time, 25 amendments, both major and minor, have been approved by voters.

COPERS includes classified civil service employees and full-time appointed employees, but not public safety employees and elected officials who are enrolled in retirement systems administered by the State of Arizona. As of June 30, 2014, COPERS

membership included 7,731 active members and 6,290 retirees with an average annual benefit of \$30,109.

Even with previous pension reform efforts, costs, contribution rates, and funded ratios continue to present challenges to the City of Phoenix. Some of these challenges are:

- Pension costs continue to increase for COPERS, with \$5 million of increased costs to the City's General Fund for the City in fiscal year (FY) 2014-15.
- COPERS Tier 1 (employees hired before July 1, 2013) City contribution rates have more than doubled in the last decade, to 24.6 percent in FY 2014-15, with employee contribution rates held at 5 percent per the City Charter. City contribution rates are expected to continue to increase in the near term.
- COPERS Tier 2 (employees hired on or after July 1, 2013) City and employee contribution rates are expected to be a combined 31.02 percent (15.51 percent each) in FY 2015-16, with projected increases in the near term. The high employee contribution rate is presenting recruiting and retention challenges. Tier 2 contribution rates will be discussed further in this report.
- The funded ratio of COPERS has fallen from 107 percent in 1999 to 58.7 percent in 2014. However, the current unfunded liability is expected to be paid by 2038.

In September 2013, the COPERS Board made changes to actuarial assumptions. These changes were a result of statements issued by the Governmental Accounting Standards Board (GASB), commonly called GASB 67 and 68. The assumptions changes made by the COPERS Board included:

- Changed the assumed rate of inflation from 4.5 percent to 3.0 percent.
- Changed the assumed rate of wage inflation from 5.0 percent to 3.5 percent.
- Changed the expected rate of return on investments from 8 percent to 7.5 percent. This change alone increased the unfunded liability by approximately \$400 million.
- Changed the amortization method from a rolling period to a closed 25-year period. This change meant that the City needed to assume that the entire unfunded liability would be paid in 25 years, and not over a rolling 20-year period.
- Value the Pension Equalization Reserve (PER) as part of the plan. The PER is used to pay for formula-based cost-of-living adjustments.

The effect of all of these changes was to increase the plan's liabilities, which increased the plan's unfunded liabilities and reduced the funded status from 64.2 percent to 56.4 percent in the same plan year. With an increased unfunded liability, higher contributions from both the employer and Tier 2 employees were necessary.

Tier 2 Employee Contribution Rates

One of the primary issues identified by the Committee was the high employee contribution rate paid by Tier 2 employees. When the split in the employee contribution rate was originally approved by the voters, employee contribution rates were not expected to increase above approximately 12 or 13 percent. However, in part because of the assumption changes described above, contribution rates increased higher and earlier than previously expected.

The Tier 2 employee contribution rate is 14.6 percent as of July 1, 2014; as of July 1, 2015, the new Tier 2 employee contribution rate will be 15.51 percent. Without any

changes, the Tier 2 employee contribution rate is expected to increase to at least 17 percent in the next three years and remain at that high level until the unfunded liability is paid off in 2038.

The Committee reviewed information about employee contribution rates in other United States government pension plans. In a 2011 multi-city survey, employee contribution rates were between 3 percent and 10.3 percent. In a January 2014 survey of state pension plans, there were a wide variety of contribution rates, from 3 percent (Florida Retirement System) to 20.75 percent (Nevada Police Officer and Firefighter). For plans for civilian employees, where the members also participate in Social Security, the highest contribution rate is the Arizona State Retirement System (ASRS) at 11.30 percent. An employee contribution rate of 15.51 percent for COPERS members would far exceed other similar plans in the United States.

The Committee also reviewed information about the impact of the Tier 2 contribution rates on employee net pay. Below are two example employees, based on real employees, who were hired as Solid Waste Equipment Operators around the same time. The Tier 1 employee had prior service with the City of Phoenix, so he or she was able to stay in Tier 1. The Tier 2 employee is a new hire, and therefore started in Tier 2. This chart adjusts for the 15.51 percent contribution rate that will be effective July 1, 2015.

	Tier 1 Employee	Tier 2 Employee
Hourly Wage	\$16.67 (Step 1)	\$16.67 (Step 1)
Biweekly Gross	\$1,333.60	\$1,333.60
Health Insurance	\$158.87	\$158.87
Dental Insurance	\$34.72	\$34.72
COPERS	\$66.68 (5%)	\$206.84 (15.51%)
Taxes	\$232.00	\$197.72
Biweekly Net	\$841.33	\$735.44

With all other things equal, the Tier 2 employee has \$105.89 less per paycheck, or \$2,753.04 less per year. For two workers performing the same work at the same level of experience, the Tier 2 employee has 12.6 percent less take-home pay.

The high contribution rates appear to be causing a retention and recruitment issue, based on anecdotal evidence since July 1, 2013. There are reports of potential hires turning down job offers due to the high employee contribution rate, and some new employees have separated from the City due to the impact on their net paycheck. The reduced take home pay is a significant loss for employees and is a cause for concern among current Tier 2 employees. The high contribution rates also impact the competitiveness of the City's total compensation package for new hires, which could impact the ability of the City to attract the best workforce.

Framework for Reform

Based on the Committee's discussions, presentations on research, and analyses from outside consultants, the Committee used a general framework for reform to guide their recommendations. The framework required that additional pension reform:

- *Save Money:* Any recommendation for additional pension reform needed to produce net savings to the City to help reduce the future costs of the pension system.
- *Support Recruitment and Retention of Employees:* The Tier 2 employee contribution rate, expected to increase to 17 percent over the next few years, was a major cause for concern for the Committee. The Committee saw a need to reduce the employee contribution rate for current Tier 2 employees and future new hires. The Committee determined that some level of future benefit reductions would be acceptable if contribution rates were also lowered.
- *Implement Best Practices:* The Committee saw the need to implement best practices in pension administration and benefits to ensure the system is appropriately structured for the long-term health of the system.
- *Avoids Costly Litigation:* The Committee received legal advice from outside counsel that helped guide the focus of the efforts to those changes that would most likely avoid costly litigation. Under provisions in the Arizona State Constitution, and legal rulings that stem from those provisions, changes to existing pension benefits for current employees are likely to face legal challenges.

Options Considered for New Employees

The Committee examined many options as part of its work. The options were based on a wide variety of research from other pension reform efforts and proposals in other states and municipalities.

Defined Contribution

Defined Contribution (401k-style) plans create a set contribution to an investment account for employees based on their salary, generally averaging 5 percent of salary. Many plans in the private sector require a matching contribution from employees in order to receive the full match.

A new Defined Contribution plan for new employees could reduce risk for the City as the City would only need to fund a set contribution level for each employee. Retirement benefits for an employee under this system would be based on the balance of the employee's account at retirement. Defined Contribution systems generally require individuals to contribute significantly more than the matching level in order to have a sustainable balance at retirement that creates enough replacement income for retirees.

With the existing COPERS system, moving to a Defined Contribution plan for future employees would create significant additional costs, and very little savings would be achieved over 20 years. Some of the additional estimated costs associated with closing COPERS to new hires and funding a new 5 percent Defined Compensation plan would include:

- The City would still be required to pay the unfunded liability of the current COPERS system, even if no new employees enter the system. This would require approximately the same level of City contributions over the next 20 years.

When analyzed in June 2014, savings of approximately \$25 million over 20 years would be possible.

- For new hires in a Defined Contribution plan, it is estimated that a 5 percent contribution from the City would be required. When analyzed in June 2014, the estimated cost of that contribution over 20 years was \$370 million.
- Since the June 2014 analysis, another cost has been identified. Because COPERS would have an eventual termination date, rather than the infinite time horizon it now has, the investment portfolio would need to be changed immediately to reduce the risk in the portfolio. The anticipated returns would, in turn, also go down, as would the plan's assumed rate of return. Reducing the assumed rate of return would significantly increase the current liabilities of the plan, thereby increasing the unfunded liability and future contributions.

In total, closing COPERS to new hires and creating a new Defined Contribution plan would have the following impacts:

- Additional costs of at least \$345 million would be required, not including the cost of "de-risking" investments.
- Future hires would likely have a lower contribution rate to the Defined Contribution plan, depending on the design of a matching program, however the retirement benefits would be much lower. With lower benefits, recruitment could be even more difficult because Phoenix would be the only governmental entity in Arizona without a Defined Benefit plan. Additionally, this option does not improve retention of current Tier 2 employees.
- This does not implement best practices, due to the increased cost and lower benefits for employees. These problems are not unique to COPERS. For example, the West Virginia Teachers Retirement System closed their pension plan in 1991 and started a Defined Contribution plan for new hires. By 2008, however, West Virginia re-opened the defined benefit pension plan and allowed individuals hired since 1991 to re-join the plan. Other governmental entities that have switched to Defined Contribution systems have shown increased costs (not savings) and inadequate retirement security for employees.

Join Arizona State Retirement System for New Hires

Another option briefly discussed by the Committee would be to close COPERS and require new hires to join the Arizona State Retirement System (ASRS), which provides pension benefits for 551,000 retired, active and inactive state and municipal employees in Arizona. There does not appear to be recent precedent for a move like this in Arizona, and an examination of the legality of this proposal was not conducted.

Joining ASRS for new hires would require the City to close COPERS, which would create the same issues identified above for a Defined Contribution plan. The current ASRS employer contribution rate is 11.60 percent, and no significant savings would be expected to offset this additional cost. The estimated cost of joining ASRS would be at least \$500 million over 20 years, and could increase to \$1 billion or more depending on future contribution rates and the cost of de-risking investments. Due to the basic estimated cost, this option was not examined further.

Cash Balance Plan

The Cash Balance Plan was an alternative examined in some detail. Cash Balance plans have features of both Defined Benefit and Defined Contribution plans. The Cash

Balance plan would be created as a Tier 3 in COPERS, and investments and administration of the plan would still be overseen by the COPERS Board. The final model examined by the Committee had the following structure:

- A "paper account" would be created for each Tier 3 employee. The funds from all Tier 3 employees would be pooled and professionally invested, unlike in a traditional 401k-style system.
- Employees would receive a "pay credit" in their account equal to a percentage of their salary based on their years of service. The pay credit would be structured as follows:

Years of Service	Total Pay Credit
0-4 Years	12%
5-9 Years	14%
10-14 Years	16%
15-19 Years	18%
20+ Years	20%

- Employees would contribute a portion of their pay credit, fixed at 11 percent throughout their career. This means that during the first five years of employment with the City, employees would be paying 11 percent of their total pay credit, and the City would be paying 1 percent.
- Employees would also receive an "interest credit" on their account balance based on the actual rate of return on investments. Interest credits would be provided at the rate of return on actuarial assets minus 1.5 percent, but not less than 0 percent and not more than 9.5 percent. To demonstrate, three examples follow:

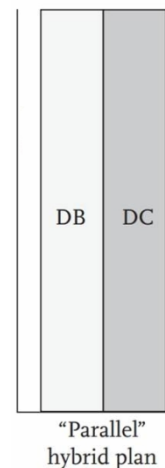
If rate of return is...	Interest credit would be...
8%	6.5% (8% - 1.5%)
15%	9.5% (maximum)
-4.2%	0% (minimum)

- There would be a one-year vesting period. At separation from the City, Cash Balance plan participants could choose to receive their account balance as a lump-sum or an annuity. Annuity amounts would be based on the mortality table and interest rates used in the COPERS valuation.

The Cash Balance plan as modeled above would create \$18.4 million of savings and provide reduced benefits of between 23.1 percent and 33.9 percent. This model also assumes the elimination of provisions allowing some new hires who had previous service with an ASRS employer to enter as Tier 1 employees. This change is discussed in the Stacked Hybrid recommendation section later in the report.

Parallel Hybrid

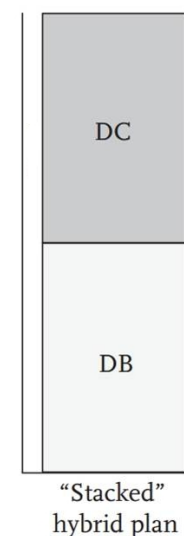
Parallel Hybrid plans are a mix of a Defined Benefit (pension) plan and a Defined Contribution (401k-style) plan. Parallel Hybrid systems combine a pension plan for all levels of income, usually with a smaller benefit than traditional pension plans, with a 401k-style plan for all levels of income. The chart at the right provides a visual demonstration of these kinds of plans.



The benefit of a parallel hybrid plan is that the employer provides a stable but reduced, and therefore lower-cost, pension benefit for their employees while also providing increased benefits, at a lower risk, from a 401k-style plan. Plans with this design attempt to lower costs and risk for the employer through a smaller pension benefit, while still providing adequate replacement income at retirement through both the pension system and the secondary 401k-style plan. This model was not discussed or analyzed in detail.

Stacked Hybrid

Stacked Hybrid plans set a cap on compensation that is used for calculating defined benefits, with employers providing a contribution to a separate 401k-style plan for amounts above the cap. The chart at the right provides a visual demonstration of these kinds of plans.



The benefit of a Stacked Hybrid plan is that employees with earnings below the compensation cap still receive the full protection of a pension plan. For employees with earnings above the cap, their earnings below the cap still receive the benefit of a pension system and their earnings above the cap would receive a contribution from their employer to a 401k-style system.

For employers, the benefits of a stacked hybrid system are that risk continues to be shared between the employer and employee, with more risk on employees above the cap and less risk on employees below the cap. Stacked hybrid systems also generally create cost savings as income above the cap is not pensionable compensation.

Recommendation from the Committee

After examining the options above, the Committee made a unanimous recommendation for the Stacked Hybrid Plan. The plan recommended by the Committee would:

- Create additional savings of \$38.8 million over 20 years.
- Improve the recruitment and retention of employees by lowering the Tier 2 and future hire employee contribution rates to no more than 11 percent.
- Implement best practices in pension administration for future hires, including a change to a five-year final average salary calculation, the elimination of the sick leave service credit, and changes to the benefit multiplier. Those changes will better match COPERS benefits and calculations to national trends in pension administration.
- This plan is expected to avoid costly litigation because benefits are only reduced for future new hires, and current employees' retirement benefits are not impacted by these changes.

Under the proposed recommendation, Tier 2 and all future hires would continue to share equally with the City in the contribution rate, with a ceiling of 11 percent for employee contribution rates. The City would pay the rest of the required contribution. There would be no changes to retirement benefits for Tier 2 employees.

The most significant changes under this proposal are for employees hired after a future implementation date; those new employees would go into a new tier, Tier 3. For Tier 3 employees, compensation up to \$125,000 would count towards the traditional pension system, with that cap increasing each year to match inflation. Compensation above \$125,000 would receive a 2% contribution from the City in a 401k-style plan.

Tier 3 would also have other changes to benefits, including:

- A self-funded cost-of-living adjustment (COLA) option at retirement. Under the current system, a yearly COLA is calculated based on inflation and the average return on investments. For Tier 3 employees, there would be no automatic COLA. Instead, employees could choose at retirement to reduce their initial benefit in order to receive COLAs throughout their retirement.
- Change the Final Average Salary (FAS) calculation to a five-year average. Currently, FAS is calculated based on the highest consecutive three years of compensation out of the last ten years. If implemented, the City would calculate FAS for Tier 3 employees using an average of the highest consecutive five years of compensation out of the last ten years.
- Changes to the benefit multiplier. Pension benefits are based on a formula of:
 $(\text{Final Average Salary}) \times (\text{Years of Service}) \times (\text{Benefit Multiplier})$
 So, for an employee with a final average salary of \$50,000, and 30 years of service, with a 2 percent benefit multiplier would receive 60% (30 years x 2 percent) of \$50,000, or \$30,000. The multipliers for Tiers 1, 2 and 3 follow:

Years of Service	Tier 1	Tier 2	Tier 3
Less than 10 years	2% per year	2.1% all years	1.85% all years
10-19 years			1.9% all years
20 – 25 years		2.15% all years	2.0% all years
25 – 30 years		2.2% all years	
30 years – 32.5 years		1% per year	2.3% all years
32.5 – 35.5 years			
Over 35.5 years	0.5% per year		

The Tier 2 benefit multiplier is the same multiplier as used by ASRS, which was identified through previous pension reform efforts as a good practice to match. However, benefit multipliers higher than 2% are no longer common, and tend to lead to much higher costs. With this in mind, the Tier 3 multiplier was modified to encourage long-term employment with a graduated multiplier that has a minimum of 1.85 percent for shorter-term employees and a maximum of 2.1 percent for employees with more than 30 years of service.

- Elimination of the sick leave service credit. One unique characteristic of COPERS is the ability for employees to count any accumulated sick leave that is not paid out at retirement as part of their service credit. Eliminating the sick leave service credit is a best practice and continues to limit pension spiking.

To illustrate the impact, consider an employee who has worked for the City for 30 years and 3 months and has 12 months of accumulated sick leave. She is eligible to cash out 25 percent of her sick leave below the recently-implemented snapshot based on her labor unit. After selling 25 percent, or 3 months, of her sick leave, she is then left with 9 months of sick leave. These 9 months would be added to her 30 years and 3 months of service, so she would have 31 years of service. This additional 9 months of sick leave service credit may allow her to retire earlier and will increase her benefit.

- Eliminate the ability for some employees previously employed by the state or other cities in Arizona to start as Tier 1 employees.

Under the reforms approved by the voters in March 2013, all new employees enter Tier 2 unless one of two conditions is met: 1) if the employee had service prior to July 1, 2011 in ASRS and is an active or inactive member of ASRS; or 2) if the employee had service in COPERS before July 1, 2013 and did not withdraw prior contributions. New employees who fit either of those rules would be hired into the City as a Tier 1 employee.

The first rule was originally developed for the approximately 20 percent of employees who come from the state or other cities and have service in ASRS prior to July 1, 2011. This date was chosen because it is the date when the Rule of 80 was changed for ASRS employees. When the City moved to the Rule of 87, this exemption was included in order to support the recruitment of employees from other state or local government employers in Arizona.

Based on hiring trends over the past few years, this exemption is likely not necessary for recruitment and retention of employees. With an 11 percent ceiling on the employee contribution rate, rates would not be significantly different than ASRS rates. Additionally, there have been changes to how service is transferred between ASRS and COPERS over the last several years, so many employees who move from ASRS to the City do not transfer their accumulated service. Instead, these employees are either retiring from ASRS or leaving their service in ASRS for when they become eligible to retire by age. By removing this exemption, all new hires (those without prior service with the City) would be members of Tier 3.

The second exemption, for City employees who separated from the City but did not withdraw their contributions from COPERS, would continue to exist because it is likely to face legal challenge if eliminated. Tier 1 employees with prior service arguably have a legal right, if they do not withdraw their contributions and terminate their membership in COPERS, to return to COPERS under the same terms they originally had. Additionally, this provision would be revised to include a similar exemption for Tier 2 employees who separate from the City, leave their contributions in COPERS and wish to return to the City at a future date.

This proposal has no effect on Tier 1 employees who retire from the City. There is one change that will impact all tiers of employees, but it is not a retirement benefit. Currently, if any employee leaves the City and withdraws their contributions to COPERS, they receive an interest credit on their contributions based on a formula set by the COPERS Board with a current maximum of the assumed rate of return (7.5 percent). One recommended change would reduce the interest credit to a maximum of 3.75 percent for employees in any tier who leave the City and withdraw their contributions.

The total package creates additional savings of \$38.8 million over 20 years. Below is a chart of the costs and savings and the total net savings.

\$125,000 Cap on Compensation Self-Funded COLA 3.75% Interest Credit for T1-3 Changed Multiplier Eliminate Sick Leave Service Credit Change to 5 Year FAS No "Grandfathering" of ASRS into T1	\$303.7 million savings
11% Ceiling on Tier 2 and Tier 3	\$261.7 million cost
2% Contribution to DC Above Cap	\$3.2 million cost
TOTAL SAVINGS	\$38.8 million savings

Straw Employees

The Committee also reviewed Straw Employee analyses that examined the impact of these changes on Tier 3 employees as compared to Tier 2 employees. The employee profiles below are based on a few typical employee scenarios to provide a range of potential impacts. All dollar figures are adjusted to today's dollars for easy comparison purposes.

Profile at Starting Date + Retirement Profile	Tier 2 Benefit	Stacked Hybrid Plan	% Reduced Benefit
25 Year Old, \$35k Salary, Retires at 56 with 31 Years	\$1,937	\$1,466	-24.3%
30 Year Old, \$75k Salary, Retires at 59 with 29 Years	\$3,737	\$2,686**	-28.2%**
35 Year Old, \$40k Salary, Retires at 60 with 25 Years	\$1,682	\$1,316	-21.8%
45 Years Old, \$45k Salary, Retires at 60 with 15 years	\$1,109	\$844	-23.9%

**Includes the annuitized value of the City's contribution above the compensation cap. This is the only sample employee who exceeded these caps by the end of his/her career.

The above chart does not consider the additional savings that are accumulated by employees by having a lower employee contribution rate during their career. The following chart considers the difference between the 11 percent ceiling under the Stacked Hybrid plan and assumes the employee invested the difference between the ceiling and the future expected contribution rates without the ceiling. At retirement, the

model below assumes the individual annuitized those contributions and added them to their monthly retirement income.

Profile at Starting Date + Retirement Profile	Tier 2 Benefit	Stacked Hybrid + Savings from 11% Ceiling*	Stacked Hybrid + Savings from 11% Ceiling*
25 Year Old, \$35k Salary, Retires at 56 with 31 Years	\$1,937	\$1,740	-10.2%
30 Year Old, \$75k Salary, Retires at 59 with 29 Years	\$3,737	\$3,319**	-11.2%**
35 Year Old, \$40k Salary, Retires at 60 with 25 Years	\$1,682	\$1,633	-3.0%
45 Years Old, \$45k Salary, Retires at 60 with 15 years	\$1,109	\$1,033	-6.9%

**Includes the annuitized value of the City's contribution above the compensation cap. This is the only sample employee who exceeded these caps by the end of his/her career.

The above chart shows that the adjusted benefit, including the savings from the 11 percent ceiling, is between 3 percent and 11.2 percent lower than for current Tier 2 employees without a ceiling. The committee thought these benefit reductions were appropriately sized given the immediate need for reduced employee contributions.

Attachment B

Proposed Charter Language

(Following the Plan Approved at the March 4, 2015 City Council meeting.)

Sec. 2. – Definitions.

* * * *

2.14. “Final average compensation” means:

(a) for a Tier 1 Member and Tier 2 Member, the average of the highest annual compensations paid a member for a period of 3 consecutive, but not necessarily continuous, years of his credited service contained within his 10 years of credited service immediately preceding the date of his City employment last terminates. If he has less than 3 years of credited service, his final average compensation shall be the average of his compensations for his total period of service.

(b) for a Tier 3 Member, the average of the highest annual compensations paid a member for a period of 5 consecutive, but not necessarily continuous, years of his credited service contained within his 10 years of credited service immediately preceding the date his City employment last terminates. If he has less than 5 years of credited service, his final average compensation shall be the average of his compensations for his total period of service.

For the purposes of determining benefits based on final average compensation, any compensation in excess of the limitations established by Section 401(a)(17) of the Internal Revenue Code (including applicable adjustments), shall be disregarded; further, for any Tier 3 Member, any annual compensation in excess of \$125,000 in any one year shall be disregarded, provided that such \$125,000 limitation shall be adjusted annually each January 1, commencing on January 1, 2017, by the annual unadjusted percentage increase or decrease in The Consumer Price Index for All Urban Consumers (CPI-U); U.S. City Average; All items, not seasonably adjusted, 1982-1984=100 reference base, published by the Bureau of Labor Statistics of the United States Department of Labor (such adjustments to be cumulative and compounded) for the twelve month period ending on the immediately preceding September 30. For an individual who was a member of the retirement plan before the first plan year beginning after December 31, 1995, the

limitation on compensation for eligible employees under Section 401(a)(17) of the Internal Revenue Code shall not be less than the amount which was allowed to be taken into account under the plan as in effect on July 1, 1993. ~~For this purpose an eligible employee is an individual who was a member of the retirement plan before the first plan year beginning after December 31, 1995.~~

* * * *

2.22. "Tier 1 Member" means: (A) any member hired into a position of employment with the City before July 1, 2013; and (B) any member hired into a position of employment with the City ~~on or after~~ between July 1, 2013 and December 31, 2016 who prior to July 1, 2011 participated in the Arizona State Retirement System established pursuant to Title 38, Chapter 5, Articles 1, 2 and 2.1 of the Arizona Revised Statutes ("ASRS"), and is either an active member or an inactive member of the ASRS as defined by Title 38, Chapter 5, Article 2, Section 38-711 of the Arizona Revised Statutes at the time of hire by the City. Additionally, if a member is hired into a position of employment with the City on or after July 1, 2013, but was previously employed with the City prior to July 1, 2013, and the member is not eligible to be a Tier 1 Member under the terms of the preceding sentence, the member shall be a Tier 1 Member only if the member did not withdraw his or her accumulated contributions from the retirement plan as provided for in Section 26 prior to his or her most recent date of hire with the City.

2.23. "Tier 2 Member" means any member hired into a position of employment with the City ~~on or after~~ between July 1, 2013 and December 31, 2015 who is not a Tier 1 Member. Additionally, if a member is hired into a position of employment with the City on or after January 1, 2016, but was previously employed with the City prior to January 1, 2016, and the member is not eligible to be a Tier 1 Member or Tier 2 Member under the terms of the preceding sentence, the member shall be a Tier 2 Member only if the member did not withdraw his or her accumulated contributions from the Retirement Plan as provided for in Section 26 prior to his or her most recent date of hire with the City.

2.24. "Tier 3 Member" means any member hired into a position of employment with the City on or after January 1, 2016 who is not a Tier 1 Member or a Tier 2 Member.

* * * *

Sec. 14. – Credited service.

14.1. The Retirement Board shall fix and determine by appropriate rules and regulations, consistent with the provisions of this Article, the amount of service to be credited any member; provided, that in no case shall less than 10 days of service rendered by a member in any calendar month be credited him as a month of service, nor shall less than 6 months of service rendered in any calendar year be credited as a year of service, nor shall more than one year of service be credited any member for all service rendered him in any calendar year. Additionally, for all Tier 2 Members and Tier 3 Members, in no case shall a month of service be credited to such a member unless the member has rendered at least 20 days of service in the calendar month at issue.

* * * *

14.4. A member, other than a Tier 3 Member, shall be granted unused sick leave credited service for the period of unused sick leave standing to the member’s credit at time of retirement, death or termination of City employment. Unused sick leave credited service may be used only as credited service under the provisions of Section 17, Section 18, Section 20, Section 21 and Section 25 and further as provided in Section 19.1(a).

* * * *

Sec. 17. – Voluntary retirement.

17.3. Any Tier 1 Member whose age and years of service, when added, equals 80 or more may retire upon the member’s written application filed with the Retirement Board setting forth the date the member desires to be retired. Any Tier 2 Member or Tier 3 Member whose age and years of service, when added, equals 87 or more may retire upon the member’s written application filed with the Retirement Board setting forth the date the member desires to be retired. Upon retirement, the member shall be paid the pension provided in Section 19.1.

* * * *

Sec. 19. – Pension.

19.1. The amount of a member’s straight life pension, payable upon retirement as provided in this Article, shall be calculated as follows:

(a) A Tier 1 member's straight life pension, payable upon retirement as provided in this Article, shall be the greater of the sum of subsections (i), (ii), and (iii) below, or the amount set forth in subsection (iv)(1) or (iv)(2) below.

(i) 2.0 percent of the member's final average compensation multiplied by the sum of the member's credited service, subject to a maximum of 32.5 years, plus the member's unused sick leave credited service; and

(ii) 1.0 percent of the member's final average compensation multiplied by the portion, if any, of the member's credited service which is in excess of 32.5 years, subject to a maximum of 3 years; and

(iii) 0.5 percent of the member's final average compensation multiplied by the portion, if any, of the member's credited service which is in excess of 35.5 years;

(iv)

(1) or \$500.00 per month if member has 15 or more years of credited service, or

(2) \$250.00 per month if member has less than 15 years of credited service.

(v) Unused sick leave shall not be included as credited service for computation of years of service under foregoing subsections 19.1(a)(ii), 19.1(a)(iii),—19.1(a)(iv), and Tier 2 Members shall have the portion of their straight life pension attributable to unused sick leave credited service calculated in accordance with subsection 19.1(a)(i) above.

(b) A Tier 2 Member's straight life pension, payable upon retirement as provided in this Article, shall be calculated as provided in subsections (i), (ii), (iii) and (iv) below, but without including unused sick leave credited service in the calculation:

(i) if the member has less than 20 years of credited service, 2.1 percent of the member's

final average compensation multiplied by the sum of the member's credited service; or

(ii) if the member has 20 or more years of credited service, but less than 25 years of credited service, 2.15 percent of the member's final average compensation multiplied by the sum of the member's credited service; or

(iii) if the member has 25 or more years of credited service, but less than 30 years of credited service, 2.20 percent of the member's final average compensation multiplied by the sum of the member's credited service; or

(iv) if the member has 30 or more years of credited service, 2.30 percent of the member's final average compensation multiplied by the sum of the member's credited service.

(c) In addition to the amount specified in subsections (b)(i), (b)(ii), (b)(iii) and (b)(iv) above, an amount will be added to each Tier 2 Member's straight life pension, payable upon retirement as provided in this Article, as specified in subsection 19.1(a)(v) above.

(d) A Tier 3 Member's straight life pension, payable upon retirement as provided in this Article, shall be calculated as provided in subsections (i), (ii), (iii) and (iv) below:

(i) if the member has less than 10 years of credited service, 1.85 percent of the member's final average compensation multiplied by the sum of the member's credited service; or

(ii) if the member has 10 or more years of credited service, but less than 20 years of credited service, 1.9 percent of the member's final average compensation multiplied by the sum of the member's credited service; or

(iii) if the member has 20 or more years of credited service, but less than 30 years of credited service, 2.0 percent of the member's final average compensation multiplied by the sum of the member's credited service; or

(iv) if the member has 30 or more years of credited service, 2.1 percent of the member's final average compensation multiplied by the sum of the member's credited service.

A member may elect, at any time prior to the date of the first payment of the member's pension is made, to be paid the pension under an optional form of payment provided in Section 24.1 in lieu of the straight life form of payment.

* * * *

Sec. 20 – Deferred pension.

20.1. Should any member who has five or more years of credited service leave City employment for any reason except his retirement or death he shall be entitled to a pension as provided in Section 19.1 as that section was in effect at the time he left City employment. His pension shall begin the first day of the calendar month next following the month in which his written application for same is filed with the Retirement Board on or after his attainment of age 62 years. In the event he withdraws his accumulated contributions from the Employees' Savings Fund, he shall thereupon forfeit his rights to a deferred pension as provided in this section. Except as otherwise provided in this Article, he shall not receive service credit for the period of his absence from City employment and his balance in the Employees' Savings Fund shall accumulate at regular interest, not to exceed 3.75 percent per annum beginning January 1, 2016.

* * * *

Sec. 24. – Pension Options

24.2. Optional Cost of Living Adjustment. Any Tier 3 Member who is eligible to retire with a pension benefit under the Retirement Plan shall have the option of receiving a pension in the form of an annuity for the life of the member, or for any optional form otherwise permitted under Section 24.1, but reduced by a percentage determined by the Retirement Board's actuary to allow for the member to receive an annual cost of living adjustment in the future, funded by the reduction in the initial amount of the member's annuity benefit. A Tier 3 Member who elects to participate in this Optional Cost of Living Adjustment will be eligible to receive a cost of living adjustment to the member's pension benefit equal to the percentage increase, not less than zero, in the Phoenix area Consumer Price Index as determined by

the Center for Business Research at Arizona State University, or if this index is not available, the Consumer Price Index of the Department of Labor.. A Tier 3 Member who elects to participate in this Optional Cost of Living Adjustment will not be eligible to receive a cost of living adjustment hereunder unless the Member has received 36 monthly pension payments as of the January 1 of the year in which such adjustment is to be provided. The final percentage adjustment, if any, shall be applied to each Eligible Person's annual benefit and paid on a monthly basis, commencing in March of each year for which applicable, retroactive to January 1 of that year, and shall constitute a permanent adjustment to such pension benefit.

* * * *

Sec. 27. – Employees’ savings fund.

27.1. (a) The employees’ savings fund is hereby continued. It shall be the fund in which shall be accumulated, at regular interest (not to exceed 3.75 percent per annum beginning January 1, 2016), the contributions deducted from the compensations of members and from which shall be made transfers and refunds of accumulated contributions as provided in this Article.

(b) The contributions of a Tier 1 Member to the Retirement Plan shall be 5 percent of his annual compensation as reflected in Section 28.1(b). The contributions of a Tier 2 or Tier 3 Member to the Retirement Plan shall be a percentage of his annual compensation determined pursuant to Section 28.1(b). The officer or officers responsible for preparing the payroll shall cause the contributions provided herein to be deducted from the compensation of each member on each and every payroll, for each and every payroll period so long as he remains a member of the Retirement Plan. When deducted each of said amounts shall be paid to the Plan and shall be credited to the individual account in the employees’ savings fund of the member from whose compensations said deductions were made.

* * * *

Sec. 28. – Pension accumulation fund.

28.1. (b) Upon the basis of such mortality and other tables of

experience, and regular interest, as the Retirement Board shall from time to time adopt the actuary shall annually compute (1) the actuarially-required pension reserves for pensions being paid retirants and beneficiaries, and (2) the actuarially-required pension reserves for service rendered and to be rendered by members. The pension reserves so computed shall include the reserves already held in (and to be deposited in) the employees' savings fund and the pension accumulation fund for purposes of the calculation of the annual contributions determined under this Section. The actuarially-required pension reserves shall be financed jointly by the City and members by annual contributions determined by the Retirement Board in accordance with the provisions of paragraphs (1) and (2) below:

(1) The total required annual contribution to the Retirement Plan for members' current and accrued service, as well as for pensions being paid retirants and beneficiaries, shall be calculated as follows:

(i) an amount which if paid annually during the members' future service is expected to be sufficient to provide the actuarially-required pension reserves at the time of their retirements for the portions of the pensions to be paid them based upon their future service; plus

(ii) an amount which if paid annually over a period of years, to be determined by the Retirement Board, will amortize at regular interest the actuarially-required pension reserves (to the extent not funded by current assets), if any, for the accrued service portions of the pension to be paid members upon their retirements and pensions being paid retirants and beneficiaries.

(2) Once calculated, the total required annual contribution to the Retirement Plan described in subparagraph (b)(1) above will be stated in the form of a percentage of members' projected annual compensations for the applicable fiscal year (the "Projected Percentage"). The total required annual contribution will then be paid to the Retirement Plan by both the City and members as follows:

(i) Each Tier 1 Member will pay to the Retirement Plan 5 percent of his annual compensation.

(ii) Each Tier 2 Member and Tier 3 Member will pay to the Retirement Plan a percentage of his annual compensation equal to one-half of the Projected Percentage, but with such percentage not to exceed 11 percent of the member's annual compensation (i.e., if one-half of the Projected Percentage is 11 percent or less of the member's annual compensation then the member pays one-half of the Projected Percentage, but if one-half of the Projected Percentage is more than 11 percent of the member's annual compensation then the member pays only 11 percent of his annual compensation).

(iii) The City will pay to the Retirement Plan (A) one-half of the Projected Percentage of the aggregate compensation of all Tier 2 Members and Tier 3 Members, plus (B) if one-half of the Projected Percentage is in excess of 11 percent of members' projected annual compensations for the applicable fiscal year, the difference between 11 percent of the aggregate compensation of all Tier 2 Members and Tier 3 members for that fiscal year and one-half of the Projected Percentage of the aggregate compensation of all Tier 2 Members and Tier 3 Members, plus (C) the Projected Percentage less 5 percent (but not less than zero) of the aggregate compensation of all Tier 1 Members.

(iv) If the Projected Percentage is less than 5 percent, each Tier 1 Member will still pay to the Retirement Plan 5 percent of his annual compensation as specified in subparagraph (b)(2)(i) above, however, the Projected Percentage shall be adjusted (but shall not be less than zero) so that 5 percent of the projected aggregate compensation of all Tier 1 Members plus the Projected Percentage times the projected aggregate compensation of all Tier 2 Members and Tier 3 Members equals the total required annual contribution.

(c) The Retirement Board shall, in each fiscal year, certify to the City Council the contributions determined in Subsection (b) of this Section and the City Council shall appropriate and the City and members shall pay, within the

next fiscal year, the contributions so certified. When paid the contributions from the City shall be credited to the pension accumulation fund. When paid the contributions from members shall be credited to the individual account in the employees' savings fund of the member from whose compensation said deductions were made in accordance with Section 27.

* * * *

Sec. 32 – Allowance of regular interest.

32.1. At the end of each fiscal year the Retirement Board shall allow and credit regular interest, not to exceed 3.75 percent per annum beginning January 1, 2016, to each member's account in the employees' savings fund; said interest for a member shall be computed on the mean balance in his account during the year. At the end of each fiscal year the Board shall allow and credit regular interest on the mean balances in the pension accumulation fund and the pension reserve fund. The interest so allowed and credited shall be transferred from the income fund.

* * * *

Sec. 41. – Post-retirement distribution benefit for City employees.

41.7. The terms of this Section 41 will not apply to Tier 3 Members.

* * * *

Sec. 42. – Post-retirement pension benefits equalization program.

42.7. The terms of this Section 42 will not apply to Tier 3 Members.

Attachment C

Alternative Charter Language

Implementing \$100,000 (or \$75,000) Final Average Salary Compensation Cap Instead Of \$125,000

***NOTE: The proposed language below would be a replacement of the proposed Section 2.14 revisions in **Attachment B**. Also, if a \$75,000 cap is desired instead of a \$100,000 cap, then a simple substitution of the amount in the language below would be the only change needed. ***END NOTE

2.14. "Final average compensation" means:

(a) for a Tier 1 Member and Tier 2 Member, the average of the highest annual compensations paid a member for a period of 3 consecutive, but not necessarily continuous, years of his credited service contained within his 10 years of credited service immediately preceding the date of his City employment last terminates. If he has less than 3 years of credited service, his final average compensation shall be the average of his compensations for his total period of service.

(b) for a Tier 3 Member, the average of the highest annual compensations paid a member for a period of 5 consecutive, but not necessarily continuous, years of his credited service contained within his 10 years of credited service immediately preceding the date his City employment last terminates. If he has less than 5 years of credited service, his final average compensation shall be the average of his compensations for his total period of service.

For the purposes of determining benefits based on final average compensation, any compensation in excess of the limitations established by Section 401(a)(17) of the Internal Revenue Code (including applicable adjustments), shall be disregarded; further, for any Tier 3 Member, any annual compensation in excess of \$100,000 in any one year shall be disregarded, provided that such \$100,000 limitation shall be adjusted annually each January 1, commencing on January 1, 2017, by the annual unadjusted percentage increase or decrease in The Consumer Price Index for All Urban Consumers (CPI-U); U.S. City Average; All items, not seasonably adjusted, 1982-1984=100 reference base, published by the Bureau of Labor Statistics of the United

States Department of Labor (such adjustments to be cumulative and compounded) for the twelve month period ending on the immediately preceding September 30. For an individual who was a member of the retirement plan before the first plan year beginning after December 31, 1995, the limitation on compensation for eligible employees under Section 401(a)(17) of the Internal Revenue Code shall not be less than the amount which was allowed to be taken into account under the plan as in effect on July 1, 1993. For this purpose an eligible employee is an individual who was a member of the retirement plan before the first plan year beginning after December 31, 1995.

Implementing Rule of 85 For Tier 3 Members

*****NOTE:** The proposed language below would be a replacement of the proposed Section 17 revisions in **Attachment B**. *****END NOTE**

Sec. 17. – Voluntary retirement.

17.3. Any Tier 1 Member whose age and years of service, when added, equals 80 or more may retire upon the member's written application filed with the Retirement Board setting forth the date the member desires to be retired. Any Tier 2 Member whose age and years of service, when added, equals 87 or more may retire upon the member's written application filed with the Retirement Board setting forth the date the member desires to be retired. Any Tier 3 Member whose age and years of service, when added, equals 85 or more may retire upon the member's written application filed with the Retirement Board setting forth the date the member desires to be retired. Upon retirement, the member shall be paid the pension provided in Section 19.1.

Removing 401(a) Plan Contributions From Compensation

*****NOTE:** This change is an addition to the revisions in **Attachment B**, as no change to the definition of "compensation" was included in those proposed reforms. *****END NOTE**

2.13. "Compensation" means a member's salary or wages paid him by the City for personal services rendered by him to the City. In case a member's compensation is not all paid in money the City Council shall, upon recommendation of the City Manager, fix the value of the portion of his compensation which is not paid in money. For Tier 3 Members, compensation shall not include City contributions on behalf of the Tier 3 Member to the City's 401(a) Defined Contribution Plan.

Attachment D

Source: COPERS Actuarial Valuation Report as of June 30, 2014
Page 28

Table VI - 2			
Sensitivity of Net Pension Liability to Changes in Discount Rate			
	1% Decrease 6.50%	Discount Rate 7.50%	1% Increase 8.50%
Total Pension Liability	\$ 4,043,923	\$ 3,614,784	\$ 3,252,342
Plan Fiduciary Net Position	<u>2,222,242</u>	<u>2,222,242</u>	<u>2,222,242</u>
Net Pension Liability	<u>\$ 1,821,681</u>	<u>\$ 1,392,543</u>	<u>\$ 1,030,101</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	55.0%	61.5%	68.3%

Amounts in Thousands



City of Phoenix

To: Rick Naimark
Deputy City Manager

Date: March 20, 2015

From: Sam Feldman 
Management Assistant II

Subject: CORRECTION TO REQUEST FOR COUNCIL ACTION - REFERRAL TO THE
BALLOT OF PENSION REFORM RECOMMENDATIONS

The following memo requests a correction to the Request for Council Action (RCA) for Item 37 – "Referral to the Ballot of Pension Reform Recommendations."

The corrections are:

- Remove changes to Sections 2.11 and 26.1; and,
- Add a change to Section 20.1.

Approved:



Rick Naimark
Deputy City Manager