
CITY COUNCIL REPORT

FORMAL AGENDA

TO: Ed Zuercher
City Manager

AGENDA DATE: July 2, 2014

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Interim Retirement Programs
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ITEM: 41 PAGE: 70

SUBJECT: CHARTER AMENDMENT LANGUAGE FOR PACKAGE A

This report provides backup information to Item 41 on the July 2, 2014 Formal agenda on potential pension-reform packages. This report provides additional information on Package A – Additional Reforms to COPERS as a Defined Benefit Plan.

THE ISSUE

At the June 10, 2014 City Council Policy meeting, the Mayor and City Council directed staff to draft potential Charter amendment language to effectuate the pension-reform packages modeled by Buck Consultants and the Segal Company. **Attachment A** is the draft Charter amendment language based on the proposed changes in Package A.

OTHER INFORMATION

Under Package A, a new Tier 3 would be created in COPERS and all new hires after the effective date, which is assumed as July 1, 2015, would participate in Tier 3.

Reforms affecting these new employees would:

- Change the final average compensation calculation from an average of the highest three years to an average of the highest five years of service;
- Impose a \$125,000 cap on compensation, indexed to 3 percent, used to determine member contributions and benefits;
- Eliminate the Sick Leave Service Credit; and
- Revise the Cost of Living Adjustments for these employees upon retirement to be self-funded, which would eliminate PEP and the 13th Check. This would allow retiring members to choose an optional form of pension that includes guaranteed annual increases and an actuarially equivalent reduced initial benefit amount.

Also under Package A, some changes would be made affecting current and new COPERS member. These changes would:

- Reduce future interest credits on member contributions to 2 percent; and
- Codify recent spiking reform provisions in the City Charter.

These changes would achieve a total estimated savings of \$146 million over 20 years, as modeled by Segal.

RECOMMENDATION

This report is for backup information only.

Attachment A

Sec. 2. – Definitions.

2.11. “Regular interest” means such rate or rates of interest per annum, compounded annually, as the Retirement Board shall from time to time adopt, but not to exceed 2 percent.

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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, payments for unused sick leave and unused vacation time made by the City to the member at the time of retirement from or termination of employment with the City, and payments to the member by the City reimbursing the member for any expense incurred in the course of performing his employment duties for the City, are not compensation within the meaning of this Section 2.13. The terms of the immediately preceding sentence are not intended to and do not reflect any interpretation of what constitutes compensation for any Tier 1 Member or Tier 2 Member based on the terms of the retirement plan in effect prior to July 1, 2015.

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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 of 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, such member's annual compensation in any one year cannot exceed the greater of: (a) \$125,000; or (b) \$125,000 adjusted annually each July 1, commencing on July 1, 2016, 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 1. 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.

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2.23. "Tier 2 Member" means: (a) any member hired into a position of employment with the City on or after between July 1, 2013 and June 30, 2015 who is not a Tier 1 Member; and (b) any member hired into a position of employment with the City on or after July 1, 2015, who between July 1, 2013 and June 30, 2015 participated in ASRS, and is either an Active Member or an Inactive Member of 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 and who is not a Tier 1 Member. Additionally, if a member is hired into a position of employment with the City on or after July 1, 2015, but was previously employed with the City prior to July 1, 2015, and the member is not eligible to be a 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 July 1, 2015 who is not a Tier 1 Member or a Tier 2 Member.

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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.

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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).

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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.

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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 or 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, 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.

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.

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Sec. 24. – Pension Options

24.2. 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. Effective each anniversary of the date of the member's retirement, the member will be eligible to receive a cost of living adjustment to the member's pension benefit equal to 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 1, but not to exceed 3% for any annual increase.

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Sec. 27. – Employees' savings fund.

27.1.

(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 Member 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.

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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.

(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) 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.

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

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

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

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

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Sec. 43. – Restrictions on changes to pension plan and retirement plan offerings for City employees.

43.1. The following restrictions are hereby implemented:

(a) While this plan is in effect the City will not create a defined contribution plan for current City employees or new employee hires that has the effect of increasing the overall costs to the City of providing retirement benefits to its employees.

(b) While this plan is in effect the calculation of final average compensation for a Tier 1 Member or Tier 2 Member as set forth in Section 2.14 may not be based on any period longer than three years.

(c) While this plan is in effect all salary or wages paid to a member by the City for personal services rendered by him to the City will be included in compensation as defined in Section 2.13, and will also be included in final average compensation calculations for the member as set forth in Section 2.14; provided, however, that for Tier 3 Members, payments for unused sick leave and unused vacation time made by the City to the member at the time of retirement from or termination of employment with the City, and payments to the member by the City reimbursing the member for any expense incurred in the course of performing his employment duties for the City, are not compensation within the meaning of Section 2.13, and further provided that the terms of this sentence are not intended to and do not reflect any interpretation of what constitutes compensation for any Tier 1 Member or Tier 2 Member based on the terms of the retirement plan in effect prior to July 1, 2015.

(d) Subject to the restrictions in Section 43.1 above, while this plan is in effect there will be no prohibition on the City's ability to make contributions to retirement plans other than this plan on behalf of its employees, with the City retaining full discretion to determine whether to make such contributions not required by law.