
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:42 PAGE: 71

SUBJECT: CHARTER AMENDMENT LANGUAGE FOR PACKAGE B

This report provides backup information to Item 42 on the July 2, 2014 Formal agenda on potential pension-reform packages. This report provides additional information on Package B – Additional Reforms to COPERS Creating a Cash Balance Plan.

THE ISSUE

At the June 10, 2014 City Council Policy meeting, the Mayor and City Council directed staff to begin drafting potential City 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 B.

OTHER INFORMATION

Package B is the creation of a Cash Balance plan that has features of both a defined benefit plan and a defined contribution plan.

- For each year of service, employees would be credited with a percentage of their salary. This model assumes a 10 percent pay credit, and pay credits would be protected from investment losses.
- Annual investment return credits would also be contributed, depending on returns in a given year. Investment return credits would be provided at the rate of return on actuarial assets (assets after the smoothing process) minus 2.5 percent, but not less than 0 percent. For example, if the rate of return on actuarial assets was 5 percent for a year, employees would receive a 2.5 percent interest credit on their balances. Because the plan would credit interest at a lower rate than the rate of earnings used in determining contributions, the total contribution requirement would be lower than the pay-based credits. The plan would also assume an interest credit cap of the investment return assumption plus 2 percent; the current assumption is 7.5 percent, so the maximum interest credit would be 9.5 percent.
- Member contributions would be 8 percent.
- At retirement, participants may choose to receive their balance as a lump-sum or an actuarial-equivalent annuity. Annuity amounts would be based on the mortality table and interest rates used in the COPERS valuation. This would provide a significant benefit over a standard defined contribution plan.

Package B would achieve a total estimated savings of \$64.7 million over 20 years, as modeled by Segal.

RECOMMENDATION

This report is for backup information only.

Attachment A

Sec. 2. – Definitions.

2.9. “Retirant” means a member who retires with a pension or CB Account balance payable by the Retirement Plan.

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2.12. “Accumulated contributions” means the sum of all amounts deducted from the compensation of a member and credited to his individual account in the employees’ saving fund, together with regular interest therein, or, in the case of a Cash Balance Plan Member, amounts deducted from the CB Compensation of the member and credited to his CB Account, together with interest credits thereto. It shall include such other amounts as the member may deposit or have transferred to his employees’ savings fund account, including regular interest thereon, as provided in this Article.

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2.16. “Retirement” means a member’s withdrawal from City employment with a pension or CB Account payable by the Retirement Plan.

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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. "Cash Balance Plan Member" means any member hired into a position of employment with the City on or after July 1, 2015 who does not qualify to be a Tier 1 Member or Tier 2 Member. A Cash Balance Plan Member will not be eligible to receive any benefit from the Retirement Plan other than a cash balance account benefit as set forth in Section 44 of this Chapter.

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Sec. 13. – Membership terminates.

13.1. Should any member leave City employment, for any reason except his retirement or death, he shall thereupon cease to be a member and his credited service in force at that time shall be forfeited by him except as otherwise provided in Section 15 or Section 20 of this Article. In the event he again becomes an employee of the City he shall again become a member. If he was previously a Tier 1 Member or Tier 2 Member, ~~H~~his credited service or a portion thereof last forfeited by him shall be restored to his credit; provided he returns to the employees' savings fund the amount, he withdrew therefrom or a portion thereof equal to the service sought to be credited together with regular interest from the date of withdrawal to the date of repayment. If he was previously a Tier 1 Member or Tier 2 Member, ~~P~~ayment of a portion of withdrawn contributions plus interest will restore that portion of credited service to the employee's account pursuant to policies established by the retirement board. Credited service shall not be restored to a member until he has returned to the employees' savings fund the full amount, including interest, herein before required of him in this section. In the event a member becomes a retirant or dies he shall thereupon cease to be a 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 Cash Balance Plan 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 Cash Balance Plan 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).

14.5. In the event a policeman or fireman employed by the City prior to July 1, 2015 becomes a member of the Retirement Plan the service rendered by him in the employ of the police or fire department of the City may be credited him, pursuant to the provisions of this Article, under such conditions as the Retirement Board may from time to time determine; which shall include, but not be limited to, the following:

(a) He transfer to the employees' savings fund the aggregate amount of contributions made by him to the retirement system or pension plan covering the City's policemen or firemen, together with interest additions, if any; and

(b) In no case shall service credit be given by the Retirement Board for any period for which he is entitled or becomes entitled to a benefit payable by such retirement system or pension plan for the City's policemen and/or firemen.

A policeman or fireman employed by the City on or after July 1, 2015, who becomes a member of the Retirement Plan as a Cash Balance Plan Member, is not eligible for service credit pursuant to this Section 14.5.

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Sec. 15. – Military service credit.

15.2. A Cash Balance Plan Member is not entitled to any additional service credit pursuant to this Section 15.

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Sec. 26. – Return of accumulated contributions.

26.1. Any Tier 1 Member or Tier 2 Member ~~member~~ who leaves the employ of the City before he has satisfied the age and service requirements for retirement provided in Section 17.1, for any reason except his death or retirement, he shall be paid his accumulated contributions standing to his credit in the employees' savings fund upon his request in writing filed with the Retirement Board.

26.2. Should any member die and leave no beneficiary entitled to a pension or CB Account payment provided for in this Article, his accumulated contributions or CB Account balance standing to his credit in the employees savings fund at the time of his death shall be paid to such persons or persons as he shall have nominated by written designation duly executed and filed with the Retirement Board. If there be no such designated person or persons surviving said member, then his accumulated contributions shall be paid to his legal representative.

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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 to the Retirement Plan shall be a percentage of his annual compensation determined pursuant to Section 28.1(b). The contributions of a Cash Balance Plan Member to the Retirement Plan shall be a percentage of his annual compensation determined pursuant to Section 44.2(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 or the CB Account 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 Tier 1 and Tier 2 retirants and beneficiaries, and (2) the actuarially-required pension reserves for service rendered and to be rendered by Tier 1 Members and Tier 2 Members~~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 for Tier 1 Members and Tier 2 Members and their beneficiaries, as well as Tier 1 and Tier 2 retirants and beneficiaries, 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 Tier 1 Members' and Tier 2 Members'~~members'~~ current and accrued service, as well as for pensions being paid Tier 1 and Tier 2 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 for Tier 1 Members' and Tier 2 Members' described in subparagraph (b)(1) above will be stated in the form of a percentage of Tier 1 Members' and Tier 2 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 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, plus (B) the Projected Percentage less 5 percent (but not less than zero) of the aggregate compensation of all Tier 1 Members, plus (C) the City required contributions for all Cash Balance Plan Members as set forth in Section 44.2(b) below.

(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 equals the total required annual contribution for Tier 1 Members and Tier 2 Members.

(c) The Retirement Board shall, in each fiscal year, certify to the City Council the contributions determined in Subsection (b) of this Section, as well as the contributions required for Cash Balance Plan Members as set forth in Section 44.2(b) below, 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 or the CB Account of the member from whose compensation said deductions were made in accordance with Sections 27 and 44.

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Sec. 44. – Cash balance plan for employees hired after July 1, 2015.

44.1. Any member hired into a position of employment with the City on or after July 1, 2015 who does not qualify to be a Tier 1 Member or Tier 2 Member will not be eligible to receive any benefit from the Retirement Plan other than a cash balance account benefit as set forth in this Section 44.

44.2. Cash Balance Plan Definitions:

(a) For purposes of this Section 44 only, “CB Compensation” means a Cash Balance Plan Member’s salary or wages paid him by the City for personal services rendered by him to the City. For clarity and without limitation, payments for unused sick leave and unused vacation time made by the City to the Cash Balance Plan Member at the time of retirement from or termination of employment with the City, and payments to the Cash Balance Plan Member by the City reimbursing the Cash Balance Plan 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 44.2.

44.2. The City will establish a cash balance plan in which all Cash Balance Plan Members will be eligible to participate. The terms of the cash balance plan will be as follows:

(a) A fictitious ledger retirement account (a “CB Account”) will be created for each Cash Balance Plan member, to which applicable credits as discussed in this Section 44.2 will be allocated. However, the credits allocated to the CB Account will not be segregated and maintained separately for each Cash Balance Plan Member, but instead will be maintained along with all other actuarial assets of the Retirement Plan in the employees’ savings fund, pension

accumulation fund, pension reserve fund and income fund, as appropriate, as set forth in this Chapter.

(b) For each year of credited service, each Cash Balance Plan Member's CB Account will receive a pay credit equal to 10 percent of the Cash Balance Plan Member's CB Compensation for that year of service. This pay credit will be comprised of a contribution from the Cash Balance Plan Member in the amount of 8% of CB Compensation for that year of service (such contribution to be maintained with the assets in the employees' savings fund), and a contribution from the City in the amount of 2% of CB Compensation for that year of service (such contribution to be maintained with the assets in the pension accumulation fund).

(c) At the end of each fiscal year, each Cash Balance Plan Member's CB Account will receive an investment return credit in an amount equal to the annualized rate of return on total assets of the Retirement plan for such fiscal year, as determined by the Plan's actuary, minus 2.5% multiplied by the mean balance of the Cash Balance Plan Member's CB Account during the fiscal year (such credit to be maintained with the assets in the income fund and the pension accumulation fund as appropriate). For purposes of the interest credit set forth in this Section 44.2(c), the maximum rate of return percentage that can be used to calculate a Cash Balance Plan Member's interest credit for any fiscal year is 9.5%, and the minimum such percentage is 0%.

(d) Cash Balance Plan Members are immediately vested in all of their own contributions to the CB Account, while employees will obtain a vested right to City contributions to their CB Account at a rate for each year of service to be determined by the Retirement Board. If a Cash Balance Plan Member leaves the employ of the City before becoming fully vested in all City contributions, then the portion of the City contributions which are not vested will remain in the pension reserve fund and be used for the purposes of further administration of the Retirement Plan.

(e) At retirement or termination of employment with the City, a Cash Balance Plan Member will have the option of receiving his CB Account balance in lump-sum or as an actuarial-equivalent annuity

payable throughout his life. The annuity, if elected, will be calculated based on the mortality table and interest rates used to calculate applicable reserves for the Retirement Plan as set forth in Section 10, and will be in the form of a straight life pension or any actuarially-equivalent optional form available under Section 24.1, subject to any requirement of notice and spousal consent otherwise applicable to an election to receive a pension benefit in any form other than a single life or qualified joint and survivor annuity. If the Cash Balance Plan Member dies while in the employ of the City, then his CB Account balance will be paid in accordance with Sections 25.2 and 26.2.

(f) If a lump-sum payment of the CB Account Balance is elected, the Cash Balance Plan Member will receive the lump-sum payment within 30 days of election. If an election is made to receive payment of the CB Account Balance in the form of an actuarial-equivalent annuity, then the annuity payment will commence and terminate as specified in Sections 19.4 and 19.5.

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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.

(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.