Pension Reform Task Force Recommendations to City Council

February 14, 2012

City of Phoenix
phoenix.gov/pensionreform

Background

- Pension Reform Task Force
  - Appointed January 2011
  - Worked with management, consultants and other stakeholders to propose recommended changes to the City of Phoenix Employees' Retirement System (COPERS)
  - Sunset December 31, 2011

Pension Reform Task Force Members

Rick DeGraw, Chair
Bill Barquin
Libby Bissa
Gene Blue
Mark Dobbins
Don Hamill
Tee Lambert
Roger Peck
Ron Ramirez
Richard Rea
Karen Schroeder
Ann Seiden
Martin Shultz
Charlene Tarver
Jack Thomas
Donna Buelow, ex officio

Task Force Process

- 13 meetings between February and December 2011
- Public comments and input accepted at meetings and electronically
- Phoenix.gov/pensionreform

Legal and Actuarial Consultants

- Evaluate the financial impact of possible changes to plan provisions
- Discuss alternative strategies for COPERS
- Assess impacts to the City and employees
- Provide legal advice to Task Force and City

Arizona State Constitution

- Article XXIX - Section C:

  Membership in a public retirement system is a contractual relationship that is subject to article II, § 25, and public retirement system benefits shall not be diminished or impaired.

- Article II, Section 25:

  No bill of attainder; ex post facto law or law impairing the obligation of a contract, shall ever be enacted.

COPERS Plan History

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

COPERS Membership

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

Membership Statistics as of June 30, 2011

- Average annual pension:

  $28,887

- Average annual compensation for active members:

  $59,904

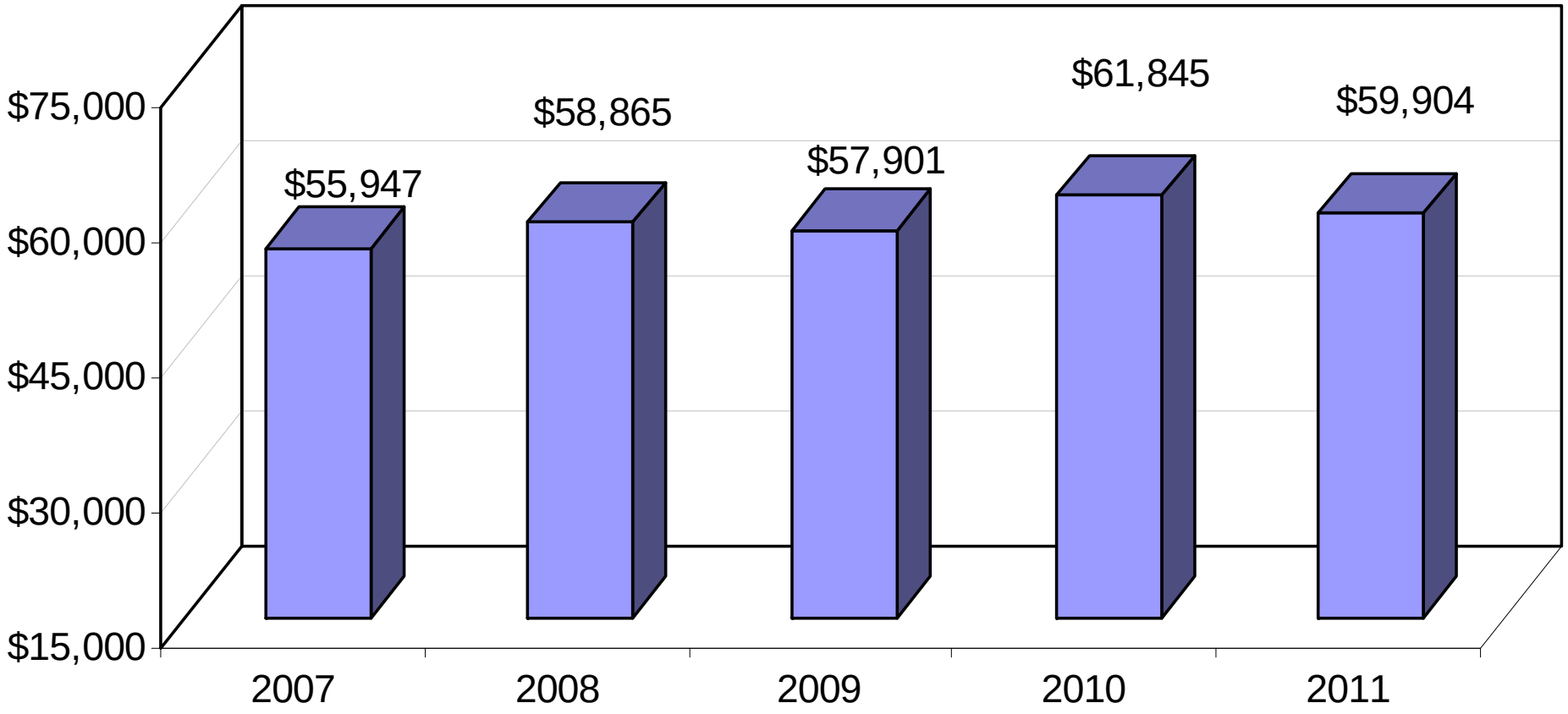
- Average age of active members:

  46.1

- Average years of service of active members:

  12.8

Average Annual Compensation For Active Members



Contributions

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

COPERS Plan Provisions – Retirement Eligibility

Active Employee

- Age 60 with 10 or more years of service
- Age 62 with 5* or more years of service
- Rule of 80: age plus credited service equal 80

Deferred Vested

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

* Vesting period = five years

Benefit Formula Components

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

Benefit Formula

Straight Life Pension Amount:

FAS times credited service times multiplier

Example:

$6,840 x 25.27 x 2% = $3,457

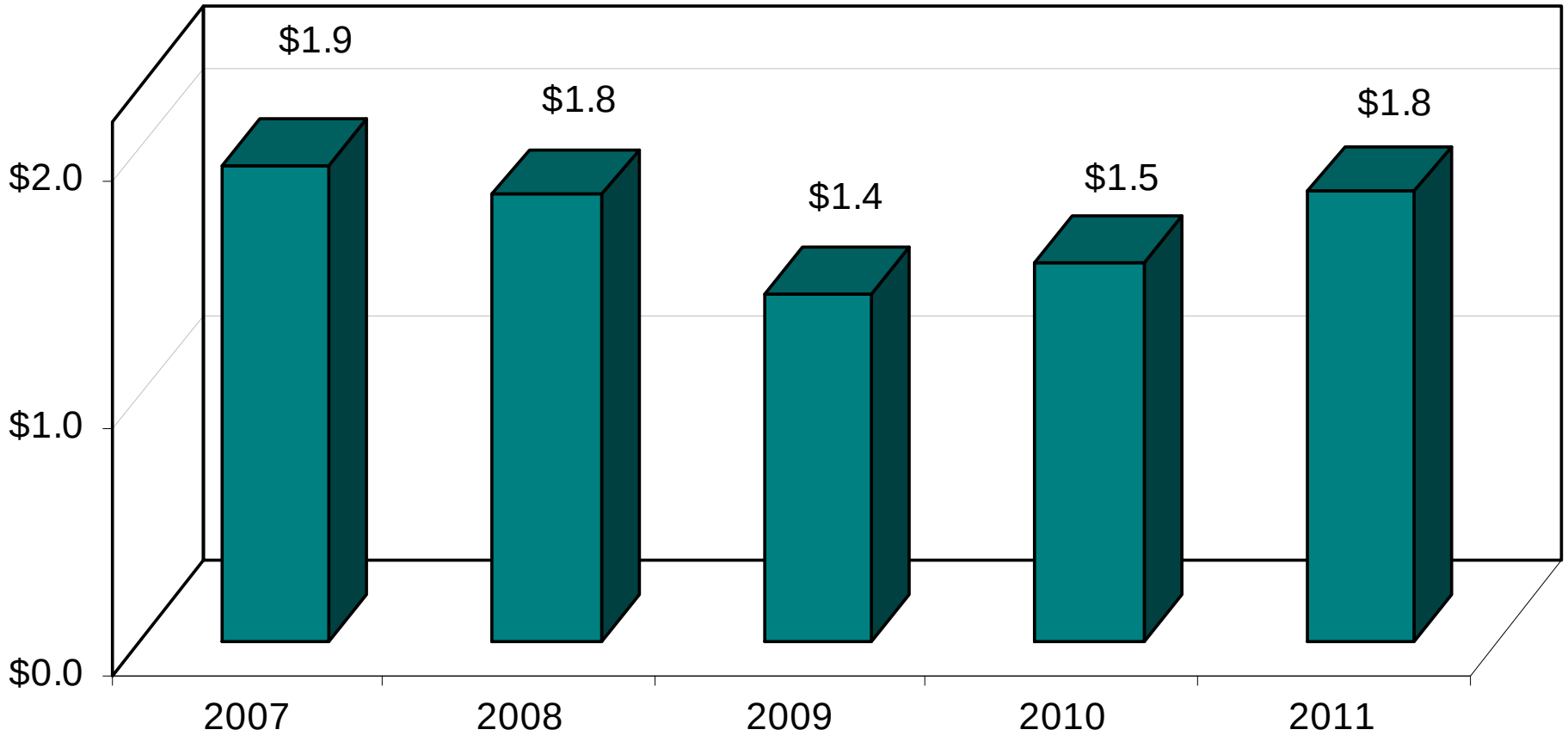
There are six payment options, some include survivor provisions

Possible Pension Increases

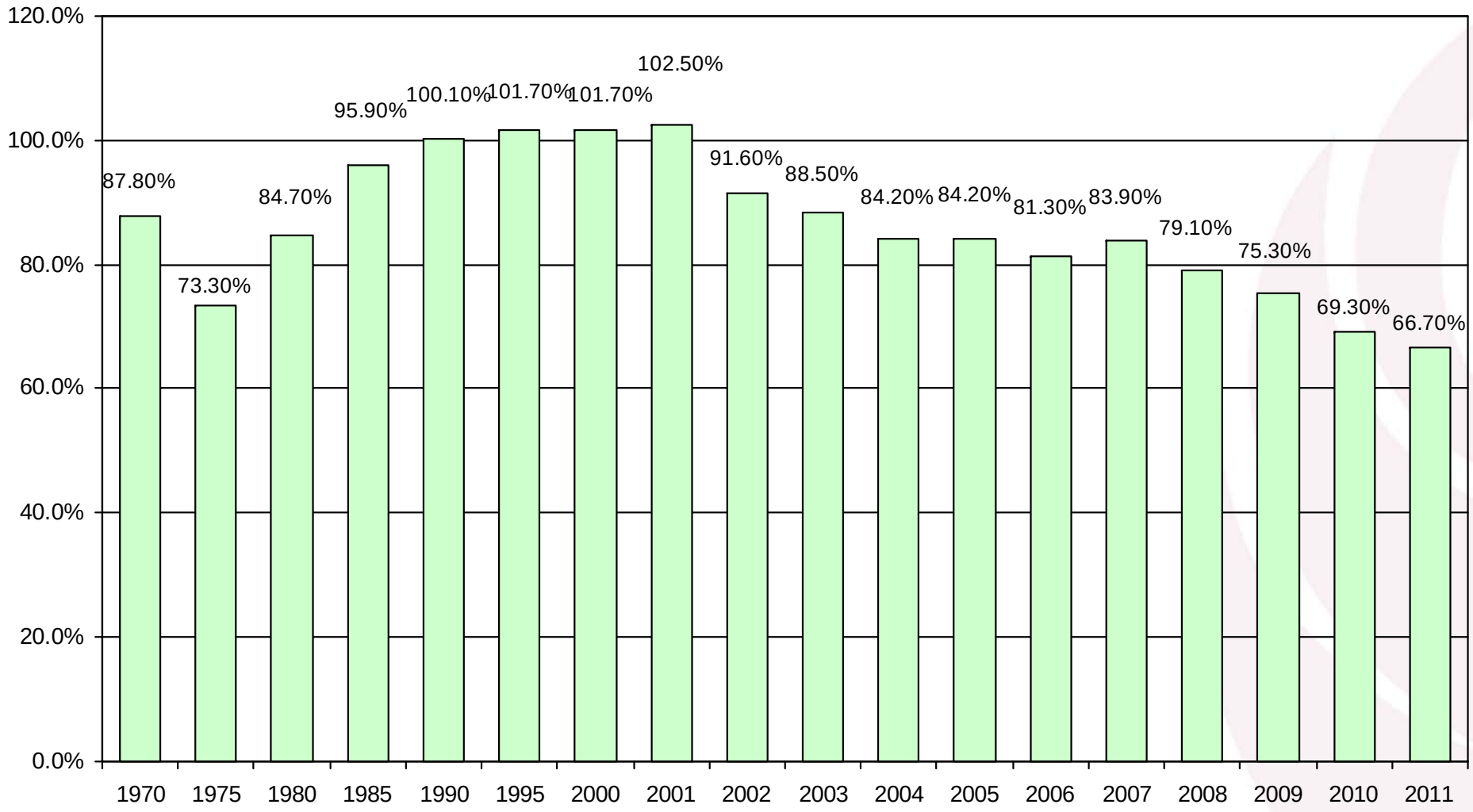
- Funded through excess investment returns (5 calendar year average over 8 percent)
- Annual permanent increase (PEP)
  - 2009: 1.7%
  - 2010 and 2011: 0%
- 13th Check
  - 2009: 1%
  - 2010 and 2011: 0%

Total Plan Net Assets

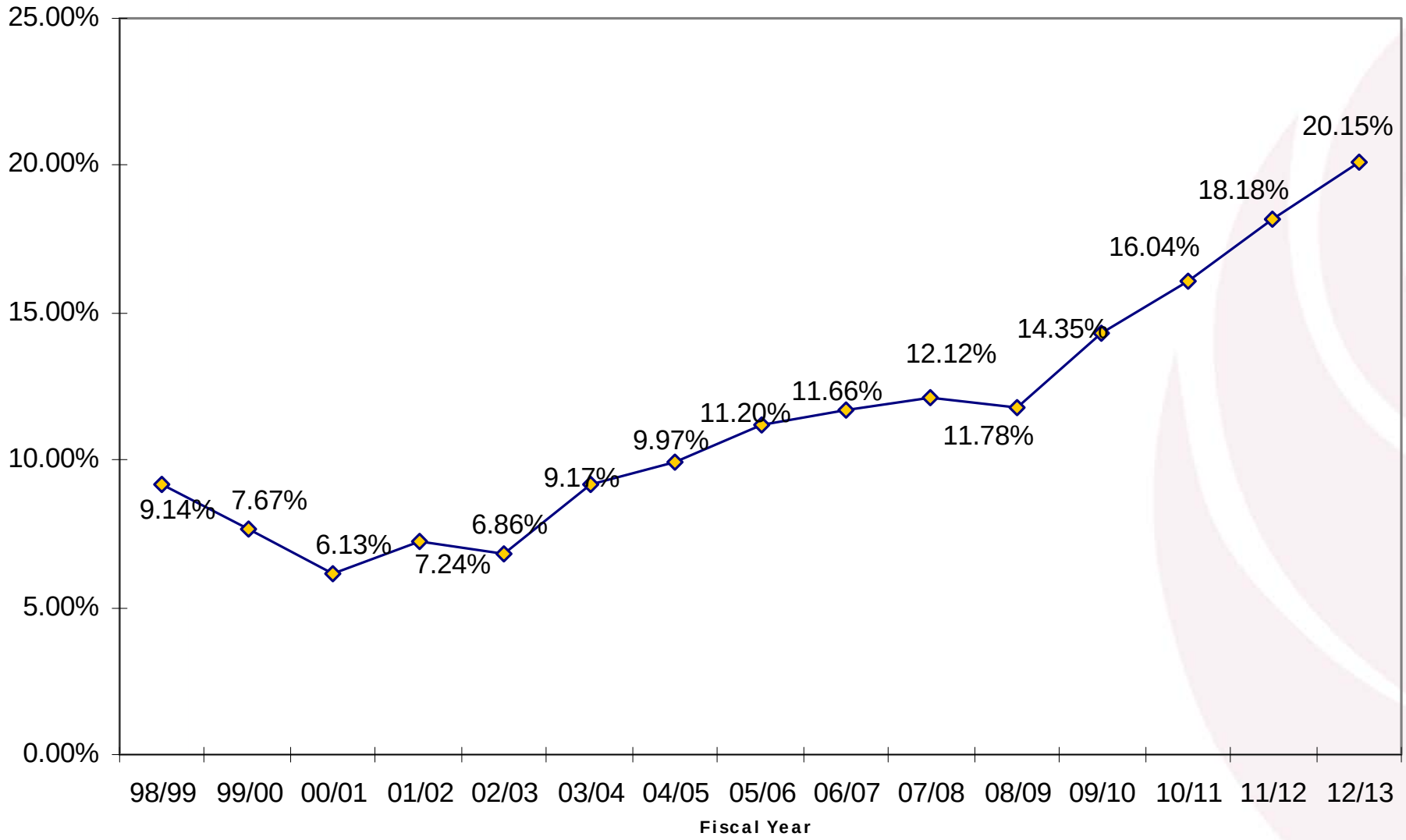
(in billions)



Funded Ratio



History of Employer Contributions



Goal Setting

- Limit growth in City's liability
- Risk sharing
- Attract new employees and retain current high-performing employees

Comprehensive Review

- Comprehensive review of COPERS and other relevant information:
  - Prior studies and audits of COPERS
  - City Charter investment restrictions
  - Annual financial reports
  - The 2010 Actuarial Valuation report
  - A history of changes to the City Charter pertaining to COPERS
  - Examples of sick leave and vacation leave impact on pension benefits
  - A benefit formula overview

Comprehensive Review

- Comprehensive review of COPERS and other relevant information (continued):

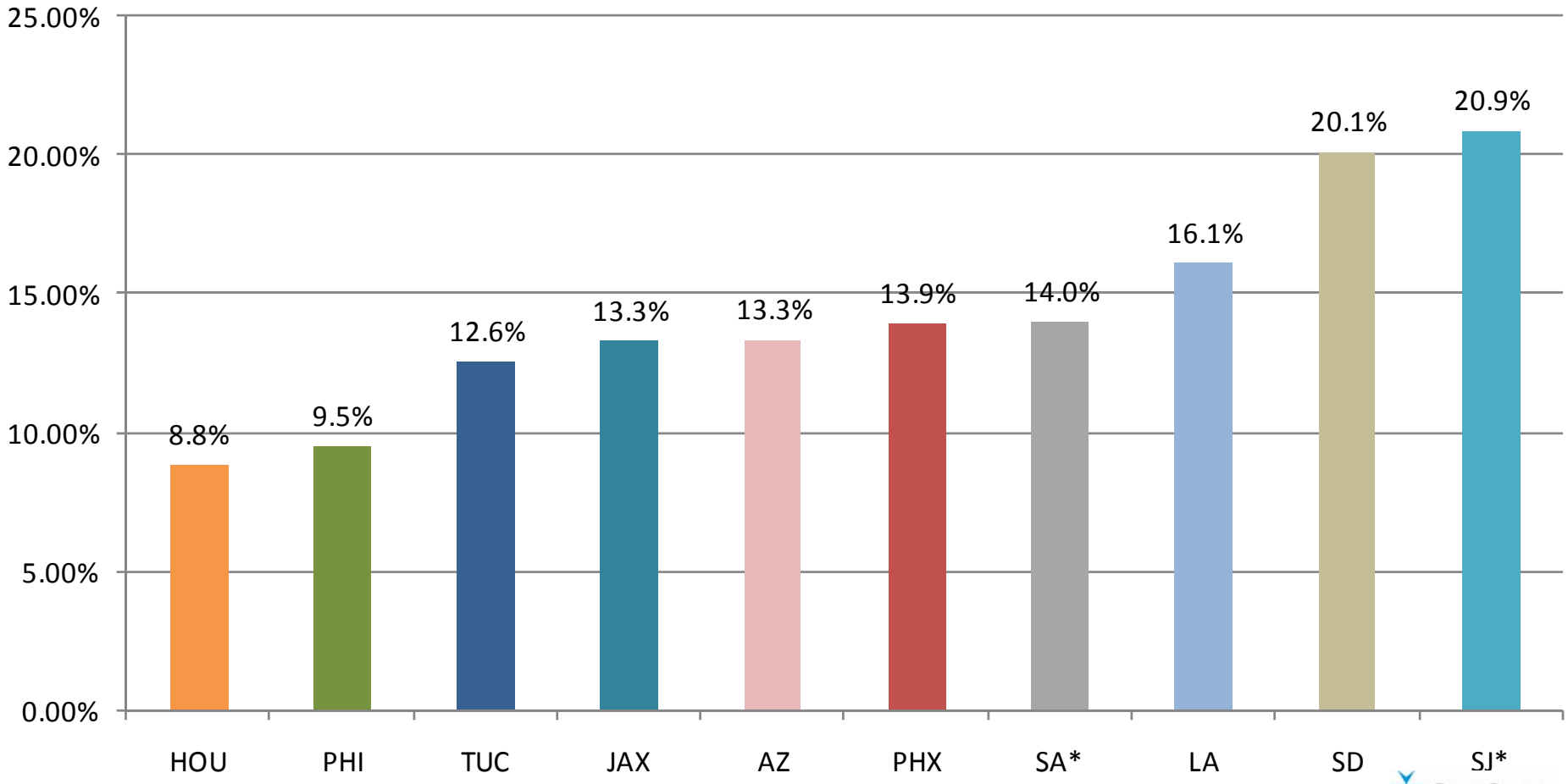
– Retirement eligibility and subsidies
– Monthly and annual benefit payments
– Arizona constitutional provisions pertaining to public pension systems
– Benefit provisions of the Arizona State Retirement System and the Public Safety Personnel Retirement System
– Recent changes to public pension systems from across the country
– Life expectancy data

Multi City Survey

- Cities and plans included in the survey
  - Los Angeles - San Diego
  - Houston - San Jose
  - Philadelphia - Jacksonville
  - Phoenix - Tucson
  - San Antonio - Arizona State Retirement System
- Private sector information
- All information gathered from publicly available sources

Multi City Survey

Gross Normal Cost



* Estimated

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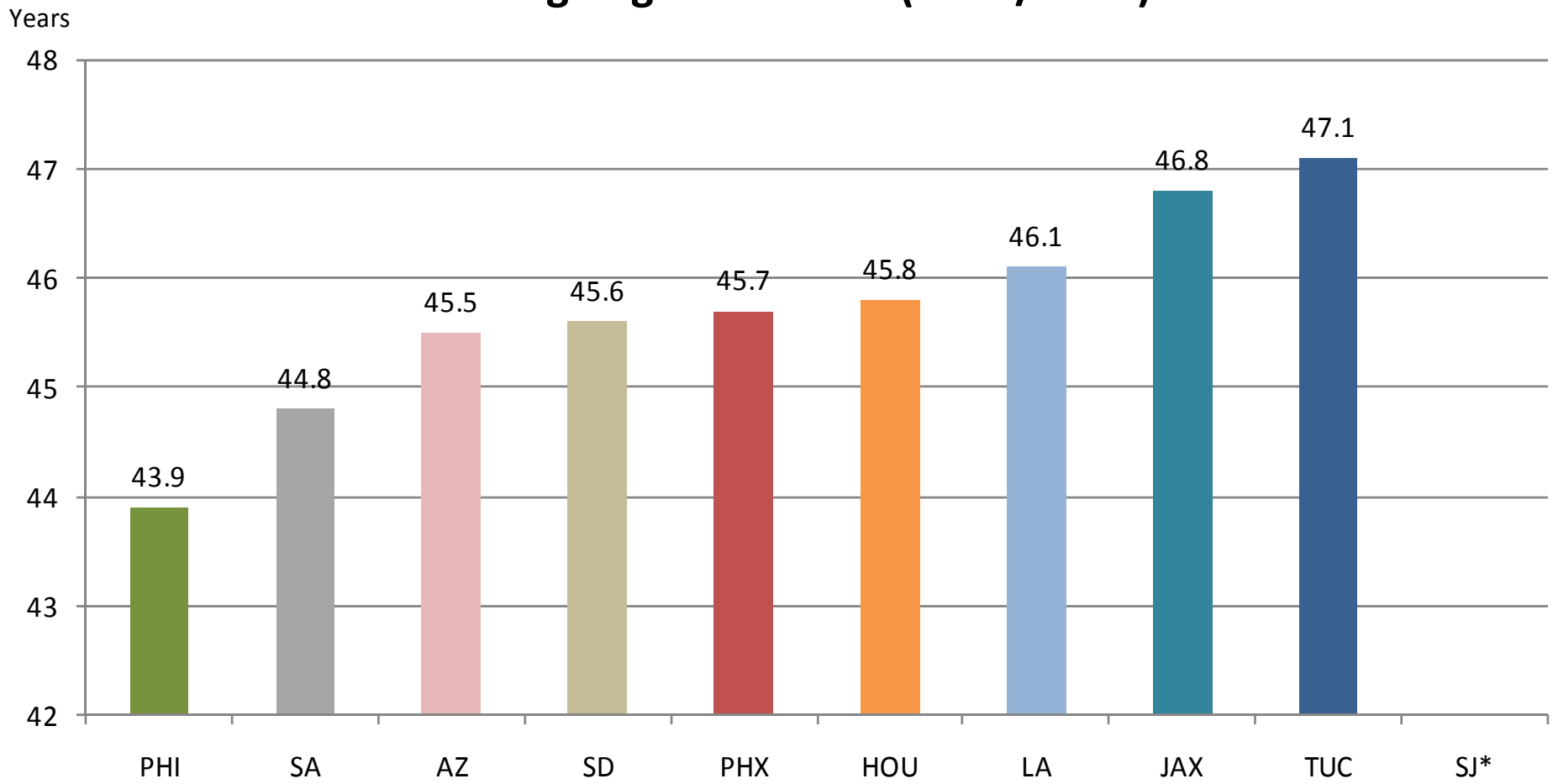
Multi City Survey

Average Age of Actives (2009/2010)



* Not available

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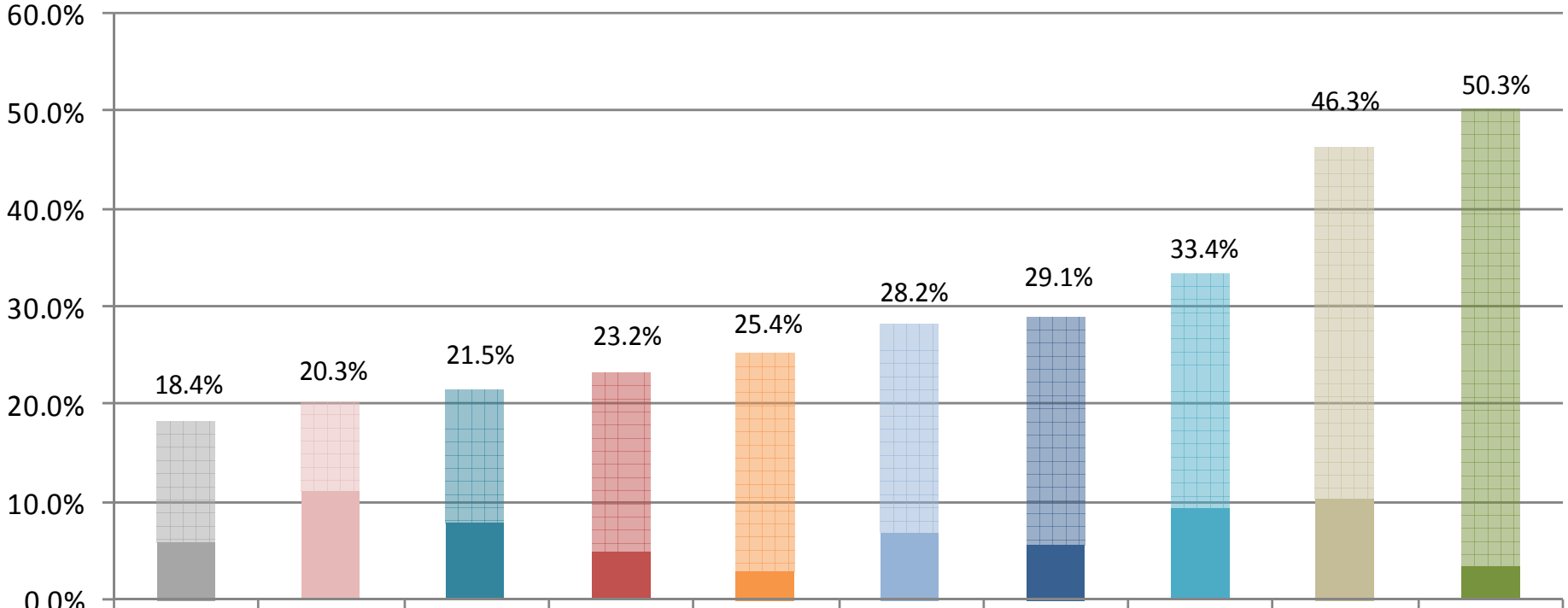
Multi City Survey

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



	SA	AZ	JAX*	PHX	HOU	LA	TUC	SJ	SD	PHI
ER Rate	12.4%	9.2%	13.5%	18.2%	22.4%	21.2%	23.4%	24.0%	36.0%	46.9%
EE Rate	6.0%	11.1%	8.0%	5.0%	3.0%	7.0%	5.7%	9.4%	10.3%	3.4%

* As of 2008

Comprehensive Review of Private Sector Retirement Plans

- Review of private sector information published by:
  - U.S. Department of Labor Employee Benefits Security Administration and Bureau of Labor Statistics
  - Towers Watson
  - Profit Sharing/ 401(K) Council of America
  - Employee Benefit Research Institute

Scenarios Modeled

- Alternative scenarios were modeled on the following variables:
  - Employee contribution rate
  - Benefit multiplier
  - Pensionable earnings
  - Retirement eligibility

- The Task Force also discussed and considered available “hybrid” approaches and defined contribution plans

Scenarios Modeled *(continued)*

- Possible application of changes
  - Impact future hires only
  - Impact future hires and all existing actives
  - Impact future hires and subset of existing actives
    - Identify a “grandfather group”

- The Task Force studied impact of changes on City’s and member’s contributions, as well as impact on estimated benefit amounts of sample “straw employees”

Final Task Force Recommendations – Changes Affecting New Hires

- Modify retirement eligibility
  - Eliminate Rule of 80 and other current age/time worked retirement provisions
  - Establish Normal Retirement Age of 63 with a minimum of 10 years of service
  - Establish an Early Retirement Age of at least 55 with 10 years of service
    - Early retirement benefit amount would be actuarially reduced from age 63

- Change the pension multiplier to a graduated multiplier based on years of service. These are cumulative multipliers applying to all prior years of service.
  - Up to 14.99 years of service: 1.85%
  - 15 to 19.99 years of service: 1.90%
  - 20 to 24.99 years of service: 1.95%
  - 25 to 29.99 years of service: 2.00%
  - 30 or more years of service: 2.10%

Final Task Force Recommendations - Changes Affecting New Hires *continued*

- Unused vacation time and sick time payments made at retirement cannot be used in Final Average Compensation

- Final Average Compensation for pension calculations will exclude travel, communications, and technical allowances

- Time of service calculations shall reflect actual service time with 20 days of service required before a month of service is credited and 240 days of service required before a year of service is credited

- Minimum Pension: Terminate any existing minimum pension requirements

Final Task Force Recommendations – Changes Affecting New Hires And Current Employees

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

Straw Employee Comparison Under Final Recommendation

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

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

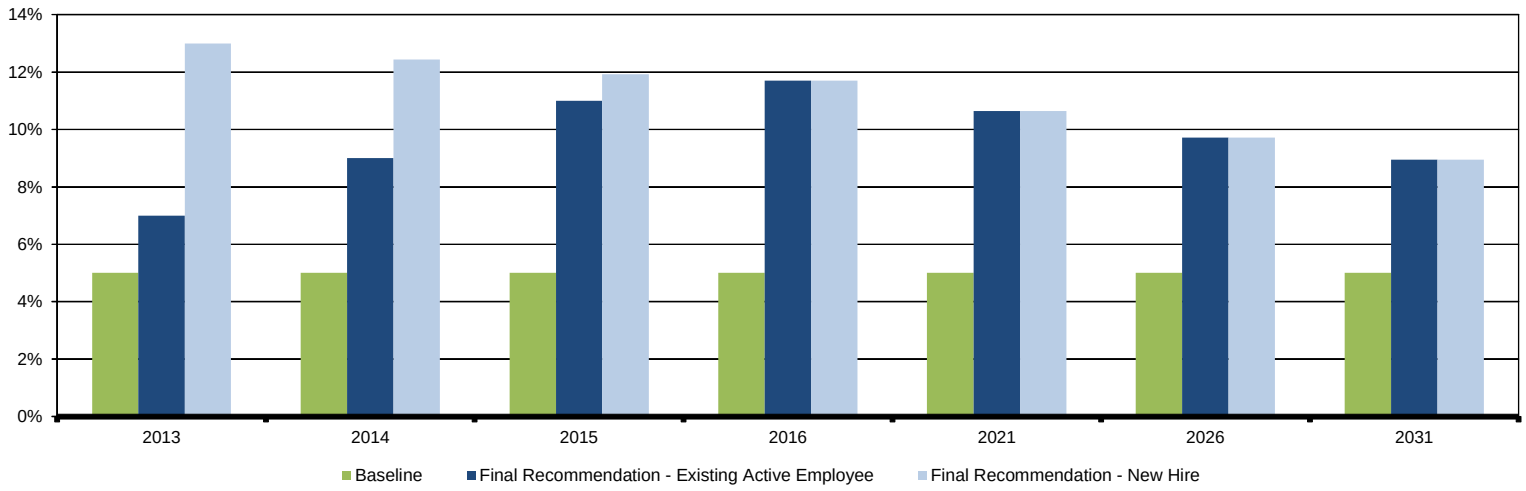
Notes: Monthly benefit amounts are shown in today's dollars

Replacement ratios do not include Social Security component

Projection of Member Contribution Rate Under Final Recommendation

- Comparison of member contribution rate under Final Recommendation

Estimated Member Contribution Rate (Fiscal Year)



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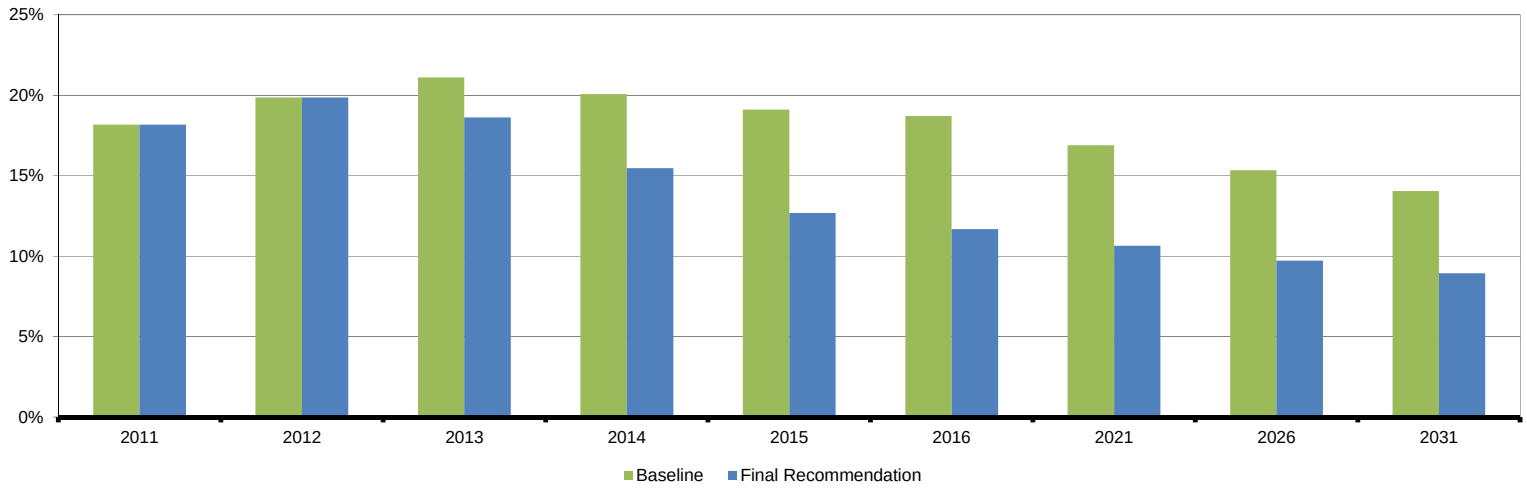
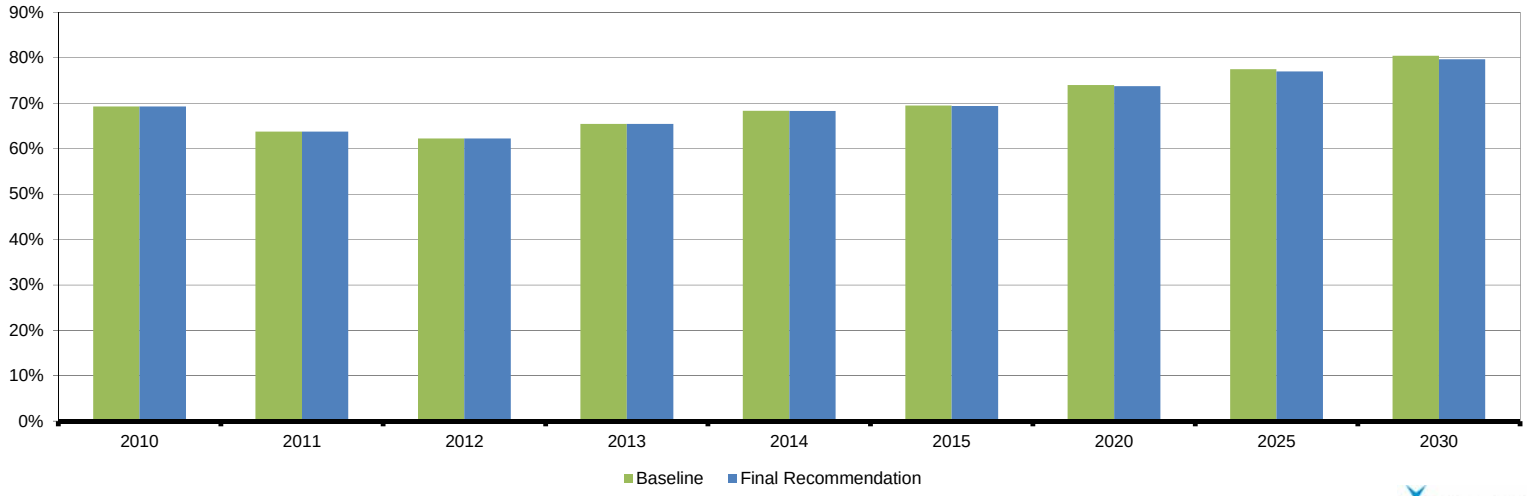
Projection of City Contribution Rate and Funded Percentage Reflecting Final Recommendation

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

Estimated City Contribution Rate (Fiscal Year)



Estimated Funded Percentage (Valuation Date)



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Projection of Savings in City Contribution Dollars Under Final Recommendation

- Projection of savings in City contribution amounts under Final Recommendation

Estimated City Contribution Savings Amount (Fiscal Year)

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

Note: Dollar amounts are based on 2010 actuarial valuation

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