
CITY COUNCIL REPORT

GENERAL INFORMATION

TO: David Cavazos
City Manager

PACKET DATE: March 8, 2012

FROM: Rick Naimark
Deputy City Manager

SUBJECT: FOLLOW UP TO CITY COUNCIL REQUESTS FOR INFORMATION ON
POTENTIAL PENSION REFORM MADE AT THE FEBRUARY 14, 2012
POLICY MEETING

This report provides additional information on potential pension reform requested by the Mayor and City Council at the February 14, 2012 Policy session.

THE ISSUE

On February 14, 2012, City management and the Pension Reform Task Force Chair presented the final recommendations of the Pension Reform Task Force to the Mayor and City Council. This report transmits additional information requested by the Mayor and City Council at that meeting.

OTHER INFORMATION

Councilmember Gates:

1. Can the City do anything about the increasing pension costs for Police and Fire?

Phoenix Police and Fire public safety personnel are covered by the Public Safety Personnel Retirement System (PSPRS) administered by the State of Arizona. Changes to PSPRS can only be made through the state legislative process. Though the City of Phoenix cannot make changes to the PSPRS program directly, the City could advocate for legislation that might result in a reduction in public safety pension costs.

2. Are City employees responsible for contributing 5 percent of their salaries to the pension system?

City of Phoenix Employees' Retirement System (COPERS) members are all full-time city employees, except public safety employees and elected officials. Public safety employees and elected officials participate in state-wide retirement plans. All general, full-time, regular employees of the City are members of COPERS. The Phoenix City Charter requires COPERS members to contribute 5 percent of their compensation to COPERS with each paycheck.

3. Are State of Arizona employees responsible for contributing 11.1 percent of their salaries to their pension system?

Pursuant to Arizona Laws 2011, Chapter 26 (Senate Bill 1614), on July 1, 2011, the Arizona State Retirement System (ASRS) employee / employer contribution rate split was changed from the historical 50/50 split of the actuarially determined annual pension contribution to a 53 percent employee and 47 percent employer split. For Fiscal Year 2011-12 the employee contribution rate for the Retirement Pension and Health Insurance Benefit portion of ASRS (not including the Long Term Disability portion, equal to 0.26 percent) was 11.13 percent. The employer contribution rate was 9.87 percent (not including the Long Term Disability portion, equal to 0.23 percent). For Fiscal Year 2010-11, the employee and employer contribution rate was 9.6 percent (not including the Long Term Disability portion, equal to 0.25 percent). Long Term Disability is not administered as a part of the retirement plan for the City of Phoenix. The change in contribution rates in July 2011 is the subject of litigation and proposed state legislation.

4. Do we compete with the State of Arizona for employees?

Most Arizona cities, except for Phoenix and Tucson, participate in the Arizona State Retirement System. Current and former State of Arizona employees and employees of Arizona municipalities make up a great deal of the City of Phoenix recruitment pool.

5. Would the recent Superior Court case ruling apply to the City of Phoenix if a lawsuit were to be brought?

Questions regarding this matter are best addressed by legal counsel in executive session.

6. Would the courts look favorably upon the City of Phoenix entering into an agreement with employees to make pension changes?

Questions regarding this matter are best addressed by legal counsel in executive session.

Councilmember Waring:

7. Requested a side-by-side chart comparing the potential impact of the Arizona Superior Court case ruling.

Questions regarding this matter are best addressed by legal counsel in executive session.

8. Is there a way to make up the difference between the savings generated by the Task Force recommendations and implementing only recommendations pertinent to future employees?

The attached chart and graph compare the projection of savings in City contribution amounts if all of the final recommendations made by the Pension Reform Task Force were enacted with the projected savings in City contributions amounts if the Task Force recommendations pertinent only to future employees were enacted. The chart shows that the final recommendations of the Task Force, if implemented on July 1, 2012, could potentially generate \$140,300,000 in cumulative savings by 2016 and over \$1 billion in cumulative savings by 2031. In comparison, Task Force recommendations pertinent only to future employees implemented by July 1, 2012 could potentially generate \$33,500,000 in cumulative savings by 2016 and \$592,900,000 in cumulative savings by 2031.

Various changes to COPERS for future employees could increase savings to the City, but may also impact the City's competitiveness in terms of recruitment.

9. Has City employee pay growth outstripped inflation since the voters approved the 5 percent pay contribution requirement in 1973?

Average annual increase since 1973:

Employee Pay	5.02%
Consumer Price Index	4.38%

Employee pay as used above includes base salaries and other wage-related items such as overtime, holiday pay, longevity, vacation buyback, compensatory time conversion, etc. It does not include benefits such as pension, FICA/Medicare, DCP, medical insurance, etc. The calculation is based on the average pay per employee.

The Consumer Price Index data, provided by the U.S. Bureau of Labor Statistics, is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. The U.S. Bureau of Labor Statistics also produces other indexes and data on employment costs, however, that information was not readily available back to 1973.

Councilmember Simplot via Councilmember DiCiccio:

10. Can we legally impose a minimum legal age for hiring new employees?

Questions regarding this matter are best addressed by legal counsel in executive session.

11. What is the timeframe for ballot language?

Please see the attached chart containing election related dates.

12. Why did the Pension Reform Task Force choose a retirement age of 63 years?

The Task Force recommended a normal retirement age of 63 for future employees. Pension Reform Task Force Chair DeGraw reported at the February 14, 2012 Policy Session that the Task Force came to a consensus on 63 because it falls between the ages of 60 and 65. He noted that the Final Task Force recommendations also include eliminating the Rule of 80 and allowing for early retirement after age 55 with an actuarially reduced pension amount. Chair DeGraw explained that this provides employees with options to determine at what age they would like to retire.

Councilmember DiCiccio:

13. What compensation items are included in the average annual compensation for active members?

Pensionable compensation for active members, as currently administered by the City, includes salary or wages paid by the City, overtime, deferred compensation, transportation and communication allowances, longevity / performance and wage adjustments for specialty skills premium pay, some reimbursements for various units and vacation sell back amounts.

14. What are the average employer and employee contribution rates for private 401(k) plans? How does a 25 percent total employee/employer contribution rate compare to the private sector?

Employee and employer contribution rates across public and private sector retirement plans are difficult to compare due to a number of complexities. No comprehensive study across the universe of 401(k)/defined contribution plans exists for contribution rates in the private sector. In addition, some private sector employers offer defined benefit plans in addition to defined contribution plans. In these instances, the employer may make little to no contribution to the defined contribution plan, resulting in misleading information when focusing on the employer commitment to defined contribution plans only. In addition, public sector and private sector defined benefit plans have different financial statement accounting methods and cash funding requirements, resulting in contribution rates that are not easily compared.

15. Is there a cap on contributions to 401(k) retirement plans?

The IRS cap on contributions to a 401(k) retirement plan in 2011 was \$16,500. In 2012 the cap is \$17,000. In 2012, individuals over age 50 can contribute an additional \$5,500 as a "catch-up contribution," for a total of \$22,500.

16. Why did the Task Force use an 8 percent rate of return assumption?

Task Force work was based on the July 1, 2010 actuarial valuation of COPERS, which uses an 8 percent rate of return assumption. The Task Force reviewed the rate of return assumptions in the multi-city survey and found the assumption for surveyed retirement plans ranged from 7 percent to 8.5 percent. Three of the 10 plans surveyed use an 8 percent assumption, three use an assumption higher than 8 percent, and four use an assumption lower than 8 percent.

The average COPERS rate of return was 8.09 percent over the time period of December 1, 1987 through June 30, 2011.

17. What would the impact be of a 5 percent and a 6 percent rate of return assumption?

The Task Force reviewed an impact model with a 7 percent rate of return assumption. The model demonstrated that by FY 2017, reducing the rate of return assumption by 100 basis points would increase the City's contribution rate by over 5 percent, or \$37 million. The Task Force did not model any additional alternative rate of return assumptions.

18. Does the total pension budget of \$219 million include the deferred compensation program?

The amount budgeted for pension contributions, \$219 million, does not include the deferred compensation program.

19. What is the budgeted amount for employer contributions to the 401(a) plan?

The amount currently budgeted for employer contributions to the 401(a) is \$26.5 million. The City's contribution to the 401(a) plan is a benefit negotiated with each union/bargaining unit and is in lieu of salary.

20. What was the total amount paid last year for sick and vacation leave to retiring employees?

The following information is for the 304 active employee members of COPERS who transitioned from employed to retired status during calendar year 2011.

The total amount paid at retirement to the 304 COPERS members who retired in calendar year 2011 for unused sick leave was \$3,076,167.

The total amount paid at retirement to the 304 COPERS members who retired in calendar year 2011 for unused vacation leave was \$3,012,715.

21. What was the average payout for sick and vacation leave last year to retiring employees?

The average amount paid at retirement to the 304 COPERS members who retired in calendar year 2011 for unused sick leave was \$10,119.

The average amount paid at retirement to the 304 COPERS members who retired in calendar year 2011 for unused vacation leave was \$9,910.

22. What was the lowest, median and highest payout of sick and vacation leave last year to retiring employees?

The lowest amount paid at retirement to the 304 COPERS members who retired in calendar year 2011 for unused sick leave was \$0.

The median amount paid at retirement to the 304 COPERS members who retired in calendar year 2011 for unused sick leave was \$7,790.

The highest amount paid at retirement to the 304 COPERS members who retired in calendar year 2011 for unused sick leave was \$41,439.

The lowest amount paid at retirement to the 304 COPERS members who retired in calendar year 2011 for unused vacation leave was \$0.

The median amount paid at retirement to the 304 COPERS members who retired in calendar year 2011 for unused vacation leave was \$8,836.

The highest amount paid at retirement to the 304 COPERS members who retired in calendar year 2011 for unused vacation leave was \$31,554.

Mayor Stanton:

23. Do we know when we would have to have the ballot language prepared by for a November 2012 election?

In order to refer an item on pension reform to the November 6, 2012 ballot, the City Council would need to refer the item to the ballot with proposed revisions to City Charter language, if necessary to enact the change, no later than the June 20, 2012 Formal Council meeting. The Council would then need to approve call of election, form of the ballot and other election-related ordinances no later than July 3, 2012.

RECOMMENDATION

This report is for information only.

Attachments

Projection of Savings in City Contribution Dollars Under Final Recommendation and Alternative to Final Recommendation

- Projection of savings in City contribution amounts under Final Recommendation and Alternative to Final Recommendation (no changes for current employees)

Fiscal Year:	Final Recommendation		Alternative Final Recommendation With No Changes for Current Actives	
	Savings	Cumulative	Savings	Cumulative
2012	\$0	\$0	\$0	\$0
2013	-\$15,900	-\$15,900	-\$3,900	-\$3,900
2014	-\$30,400	-\$46,300	-\$7,000	-\$10,900
2015	-\$44,000	-\$90,300	-\$9,800	-\$20,700
2016	-\$50,000	-\$140,300	-\$12,800	-\$33,500
2021	-\$54,500	-\$403,200	-\$27,900	-\$143,100
2026	-\$60,900	-\$693,700	-\$43,300	-\$328,300
2031	-\$69,600	-\$1,023,500	-\$59,500	-\$592,900

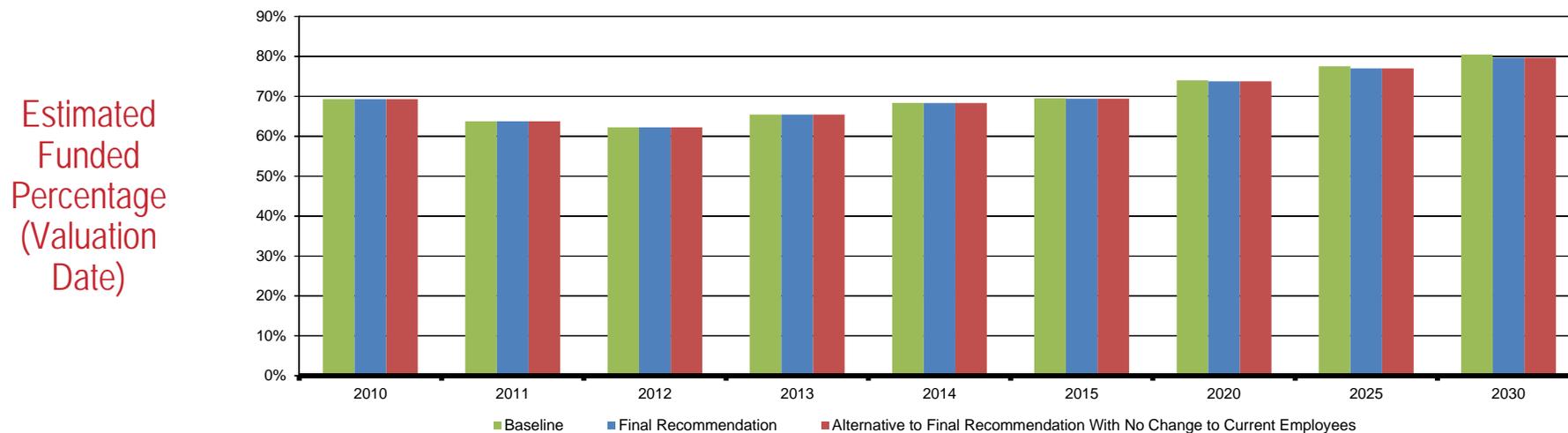
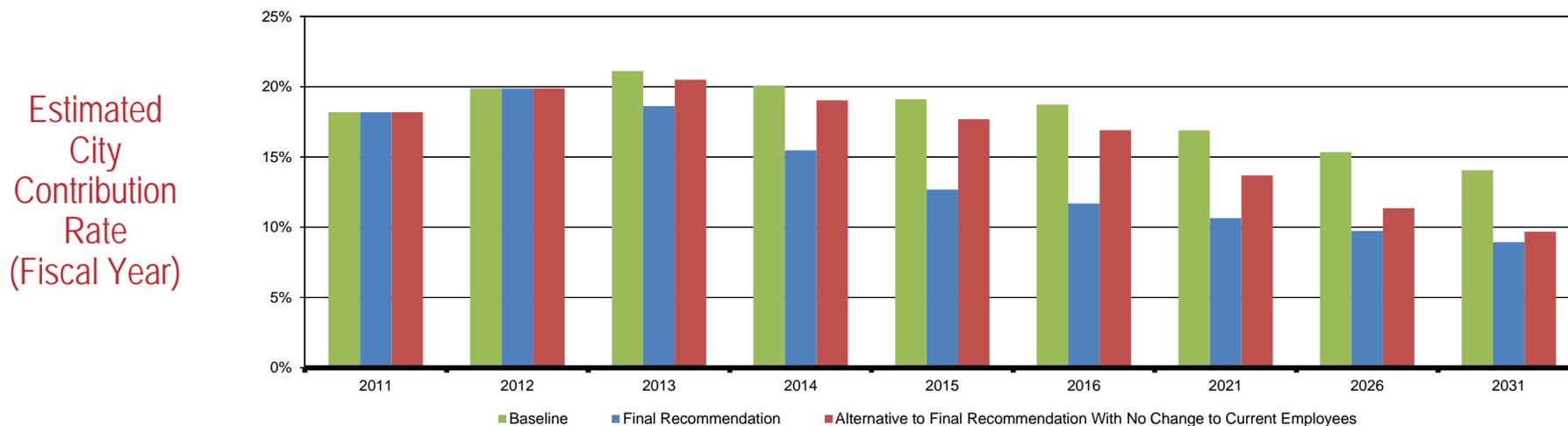
in \$1,000's

Estimated City Contribution Savings Amount (Fiscal Year)

Note: Dollar amounts are based on 2010 actuarial valuation

Projection of City Contribution Rate and Funded Percentage — Final Recommendation and Alternative to Final Recommendation

➤ Impact of benefit and contribution changes referred to as Final Recommendation and Alternative to Final Recommendation (no changes for current employees)



KEY DATES FOR CONSOLIDATED ELECTION DATES

Activity	November 6, 2012	March 12, 2013	May 21, 2013	August 27, 2013	November 5, 2013
Submit RCA for proposition referral to City Manager's Office -- E-144	June 8, 2012	October 19, 2012	December 28, 2012	April 5, 2013	June 14, 2013
Council to refer propositions to the ballot -- E-132	June 20, 2012	October 31, 2012	January 9, 2013	April 17, 2013	June 26, 2013
Submit election-related RCAs to City Manager's Office (includes call of election and form of the ballot) -- E-137	June 20, 2012	October 26, 2012	January 4, 2013	April 12, 2013	June 21, 2013
Council approves call of election, form of the ballot and other election-related ordinances -- E-125	July 3, 2012	November 7, 2012	January 16, 2013	April 24, 2013	July 3, 2013
Permanent Early Voting List notices mailed to voters -- E-120	July 9, 2012	November 12, 2012	January 21, 2013	April 29, 2013	July 8, 2013
Law Department submits Polling Place Ordinance and changes to Justice Department for pre-clearance -- E-116	July 13, 2012	November 16, 2012	January 25, 2013	May 3, 2013	July 12, 2013
Deadline to file pro/con arguments on ballot measures with City Clerk --E-90	August 8, 2012	December 12, 2012	February 20, 2013	May 29, 2013	August 7, 2013
Latest date to register to vote -- E-29	October 8, 2012	February 11, 2013	April 22, 2013	July 29, 2013	October 7, 2013
Election Day	November 6, 2012	February 14, 2013	April 25, 2013	August 1, 2013	October 10, 2013
Canvass of Vote -- E+8	November 14, 2012	March 20, 2013	May 29, 2013	September 4, 2013	November 13, 2013

Dates in this chart are based upon the proposed City Council meeting schedule as of March 8, 2012. Should the meeting schedule change, deadlines would be shifted earlier in order to meet legal requirements.