

City of Phoenix Pension Reform
Public Input Meeting

phoenix.gov/pensionreform

City of Phoenix



Introductions

- David Cavazos, City Manager
- Rick Naimark, Deputy City Manager
- Donna Buelow, Retirement Program Administrator



Purpose

- Transparency and public engagement
- Your decision – will be a public vote
- Ensure we consider all ideas and have the input of the public
- Minutes will be shared with the Mayor and City Council
- Contact us to provide comments:
 - E-mail: contactus@phoenix.gov
 - Twitter: @CityofPhoenixAZ



City of Phoenix

- Strong City leadership
- Excellent City employees
 - Outstanding Customer Service Ratings
 - From 86% (Dec. 2008) to 95% (Dec. 2010) based on an independent survey from the Behavior Research Center
- Budget Structurally Balanced
 - From a \$277 million general fund shortfall two years ago
- AAA Bond Rating & Strong Financial Health
 - Highest contingency fund balance ever
- Continued Innovation & Efficiency
 - Nearly \$50 million in savings
- Focus On Community Involvement & Transparency



Background

- Pensions are a benefit; part of the total compensation package used to recruit and retain employees
- Most cities have a defined benefit pension plan, and Phoenix is no different
- Employer contributions for the City of Phoenix Employees' Retirement System (COPERS) have increased dramatically
- Employee contributions to pension have remained at 5% as set by City Charter in 1973
- Need to rebalance partnership between employer and employees
- The City of Phoenix has always met our pension obligations. This is a Charter requirement.



City of Phoenix Employees' Retirement System (COPERS)

- General City Employees (non-sworn as of 6/30/11)
 - Current Employees: 8,569 out of 14,893
- Excludes Police Officers & Firefighters (PSPRS)
- Excludes elected officials (EORP)

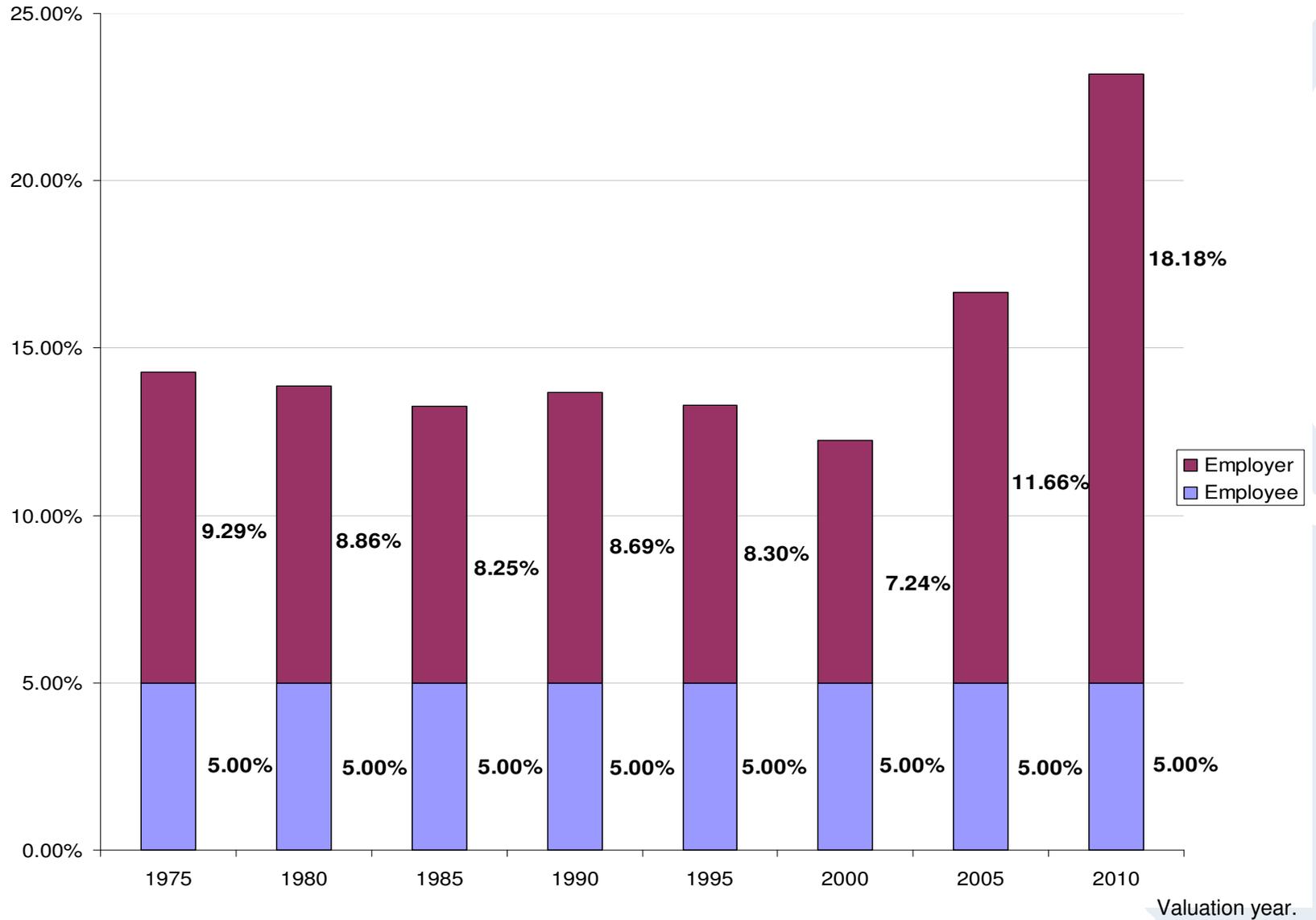


COPERS History

- COPERS is a defined benefit plan
 - Established in City Charter by a vote of Phoenix residents in 1947 and revised in 1953
 - Changes to COPERS are voter-approved
 - 30 Voted-upon changes since 1953
 - 25 approved, 5 rejected by voters

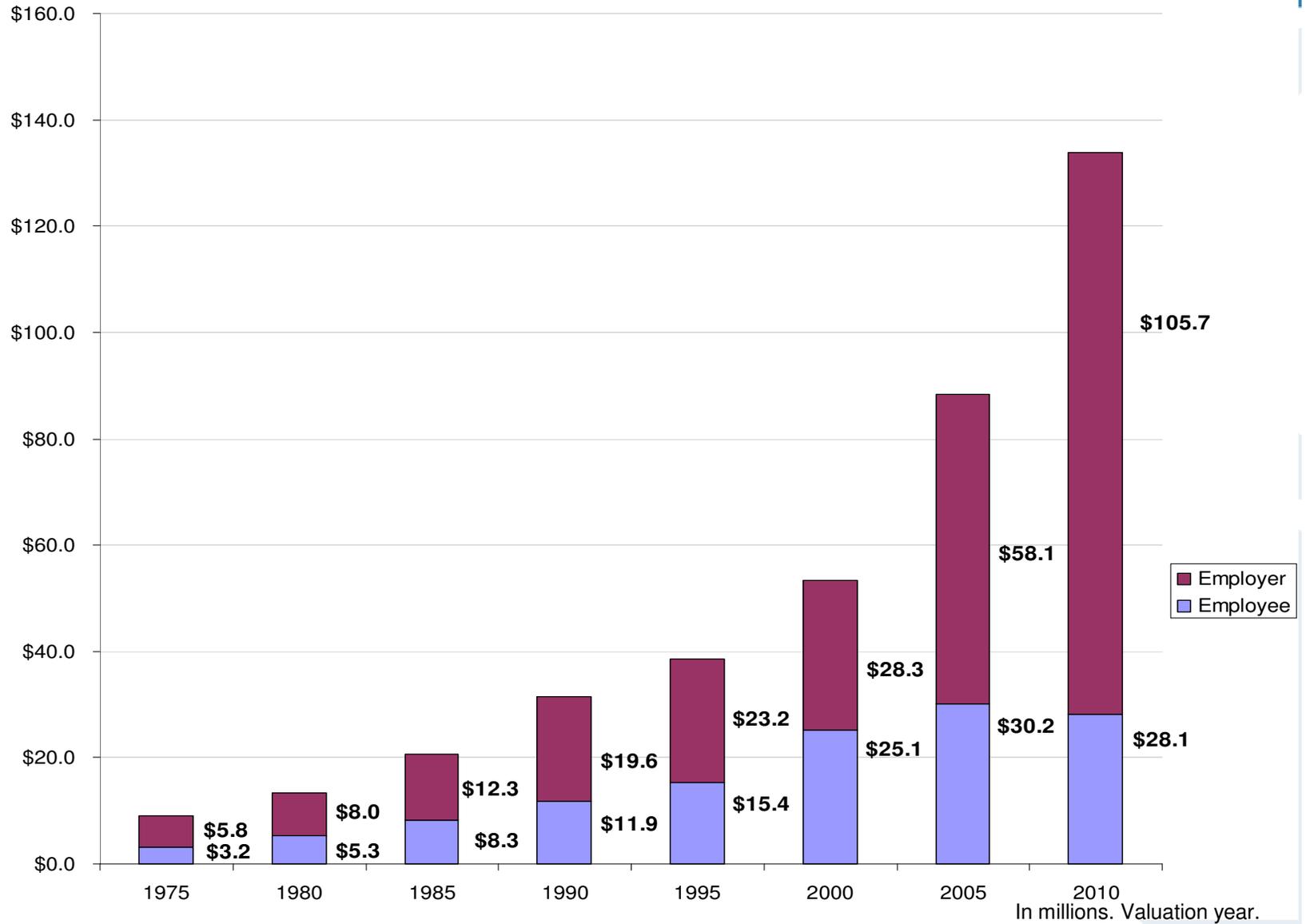


Contributions





Contributions





Pension Reform Task Force

- Appointed January 2011
- Worked with management, consultants and other stakeholders to propose recommended changes to COPERS
- 13 public meetings
- Sunset December 31, 2011
- Recommendations presented to City Council February 2012



Pension Reform

- May 18, 2012 – Maricopa County Superior Court ruling on changes made to contribution rates for existing employees in the Arizona State Retirement System impacts the City's ability to change contribution rates for current employees
- June 19, 2012 – City Council adopts timeline for pension reform and requests additional actuarial analysis and modeling of three scenarios



Thank You

- Mayor and City Council
- 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
- Public input session attendees



City of Phoenix Employees' Retirement System (COPERS)

- General City Employees (non-sworn as of 6/30/11)
 - Employees: 8,569
 - Inactive: 680
 - Retirees: 5,191
 - Total: 14,440
- Assets \$1.82 billion as of 6/30/11



COPERS Membership Statistics

- 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



Contributions

- **Employee**
 - 5% of gross salary
 - Pre-tax deduction
 - Since 1/1/1985
- **Employer**
 - Actuarially determined each year
 - 14.35% fiscal year 2009 - 2010
 - 16.04% fiscal year 2010 - 2011
 - 18.18% fiscal year 2011 - 2012
 - 20.15% fiscal year 2012 - 2013



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 Ratio
 - Up to 32.5 years @ 2%
 - 32.5 to 35.5 years @ 1%
 - Over 35.5 years @ 0.5%

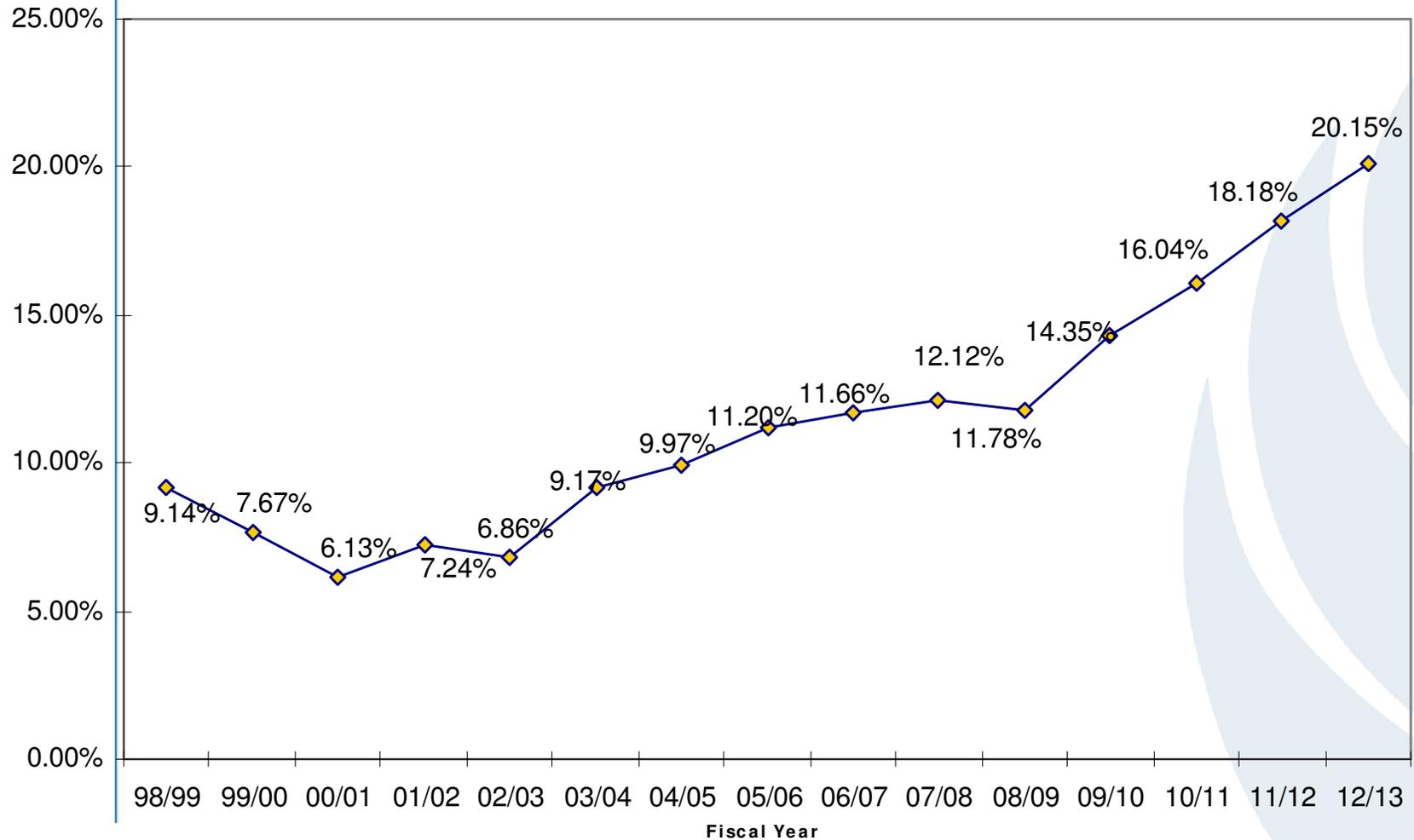


Benefit Formula

- Straight Life Pension amount is calculated as:
 $(\text{FAS}) \times (\text{Credited Service}) \times (\text{Benefit Ratio})$
- Example:
 - Monthly FAS is \$3,500
 - Credited Service of 25 years
 - $\$3,500 \times 25 \times 2\% = \$1,750$ monthly pension
- There are six payment options, some include survivor provisions



History of Employer Contributions





Pension Reform Goals

- Reduce impact of COPERS on City budget by reducing the City's contribution rate
 - Currently 20.15% of payroll
- Move to more equitable sharing of contribution between City and employees
 - Employee contribution rate currently set by City Charter at 5% of salary
- Share plan risk between the City and employees
 - Risk is currently predominantly borne by employer
- Increase length of service for retirement eligibility
- Maintain competitiveness in attracting new employees and retaining current high-performing employees



Constitution of the State of Arizona

- 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.



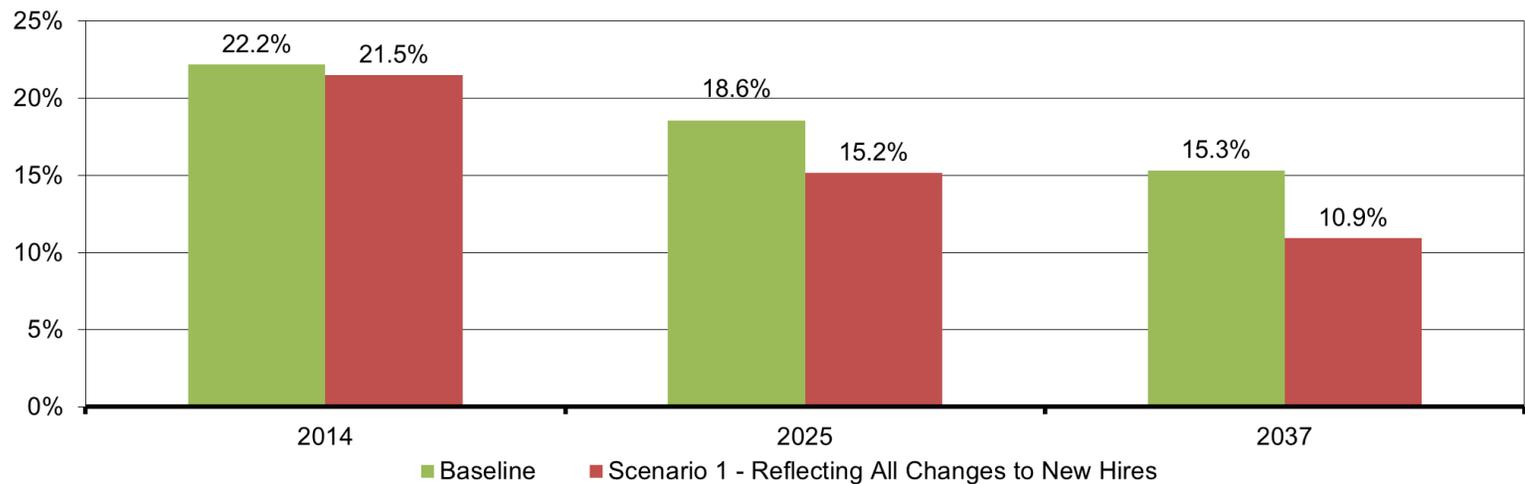
June 19, 2012 Request From Mayor and City Council – Scenario 1

- Scenario 1 projections – model the following changes to **new hires**
 - Change Rule of 80 provision to Rule of 87
 - State of Arizona and most Arizona cities utilize a “Rule of 85” for employees hired after July 1, 2011
 - 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
 - Employee contribution rate is based on 50/50 split of actuarially determined rate
 - Allow new City hires with service on account with ASRS prior to 7/1/2011 to join COPERS under current provisions



Projection of City Contribution Rate Reflecting Scenario 1

Estimated City Contribution Rate (Fiscal Year)

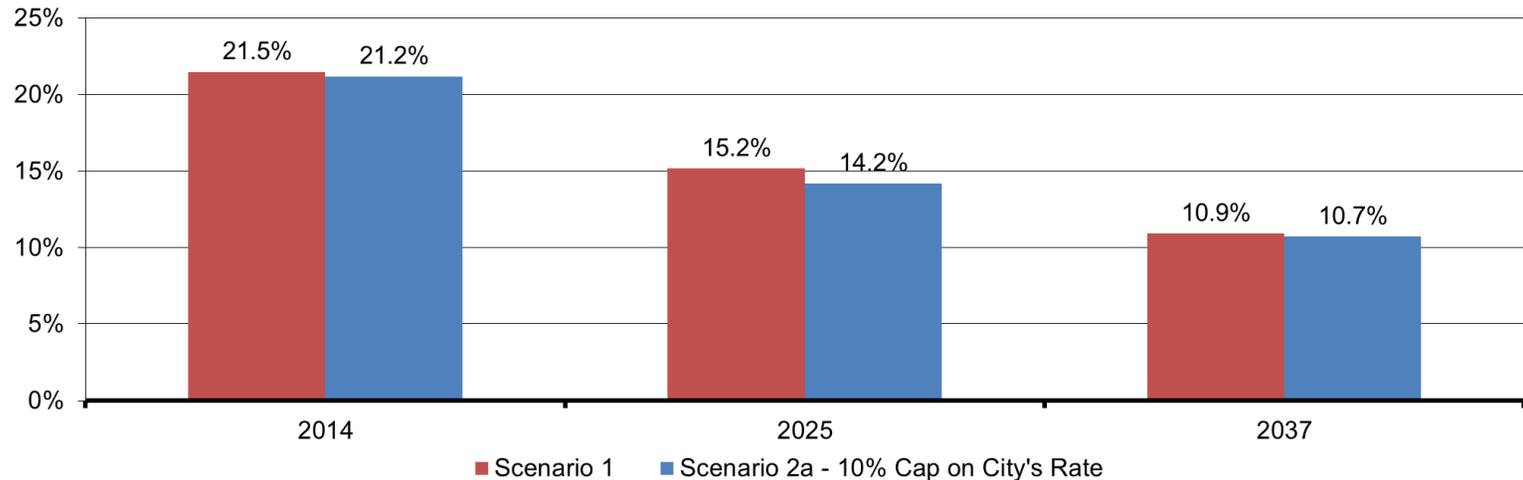


- The City rate is projected to decrease by 51% by 2037
- Cumulative savings by 2037 is estimated at \$596,000,000



Projection of City Contribution Rate Reflecting Scenario 2a - 10% Cap on City Contribution Rate

Estimated
City
Contribution
Rate
(Fiscal Year)

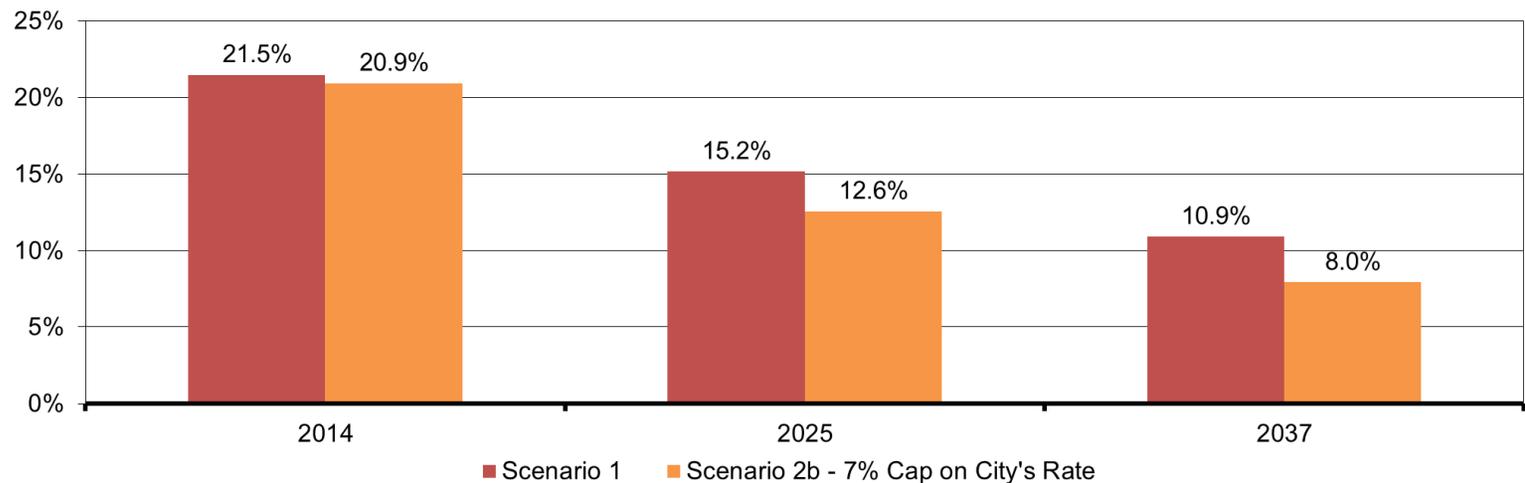


- Scenario 2a is Scenario 1 plus a 10% cap on the City's contribution rate
- Under Scenario 2a, the City rate is projected to decrease by 52% by 2037
- Cumulative savings by 2037 is estimated at \$725,900,000



Projection of City Contribution Rate Reflecting Scenario 2b - 7% Cap on City Contribution Rate

Estimated
City
Contribution
Rate
(Fiscal Year)

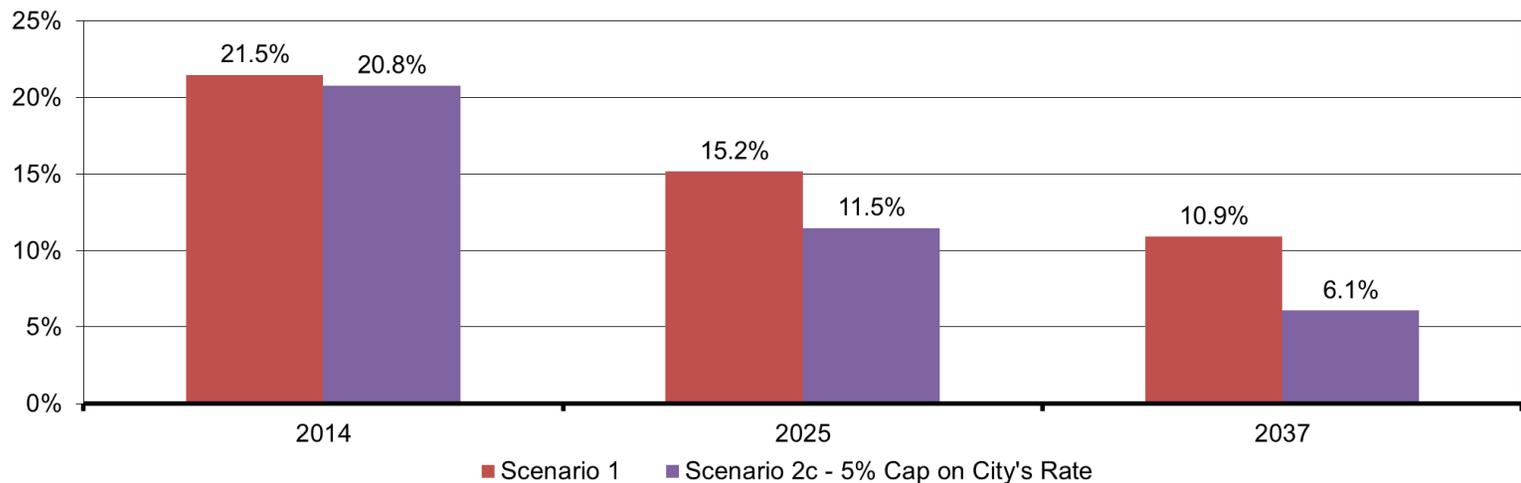


- Scenario 2b is Scenario 1 plus a 7% cap on the City's contribution rate
- Under Scenario 2b, the City rate is projected to decrease by 64% by 2037
- Cumulative savings by 2037 is estimated at \$1,037,300,000



Projection of City Contribution Rate Reflecting Scenario 2c - 5% Cap on City Contribution Rate

Estimated
City
Contribution
Rate
(Fiscal Year)

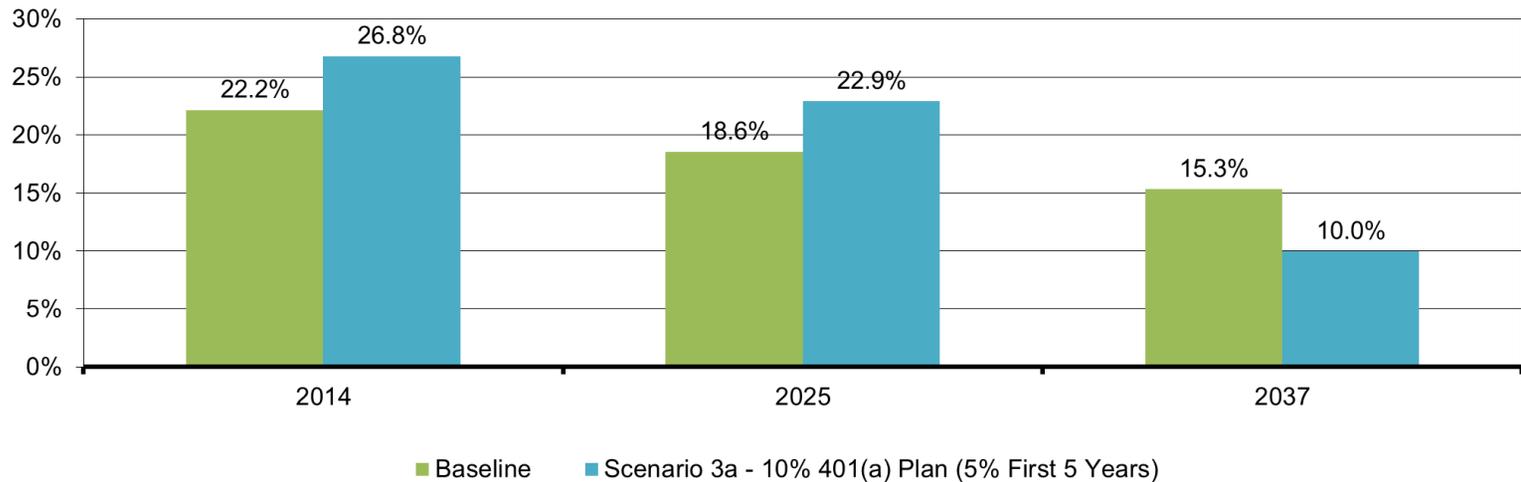


- Scenario 2c is Scenario 1 plus a 5% cap on the City's contribution rate
- Under Scenario 2c, the City rate is projected to decrease by 73% by 2037
- Cumulative savings by 2037 is estimated at \$1,244,700,000



Projection of City Contribution Rate Reflecting Scenario 3a - 10% 401(a) Defined Contribution Plan

Estimated City Contribution Rate (Fiscal Year)

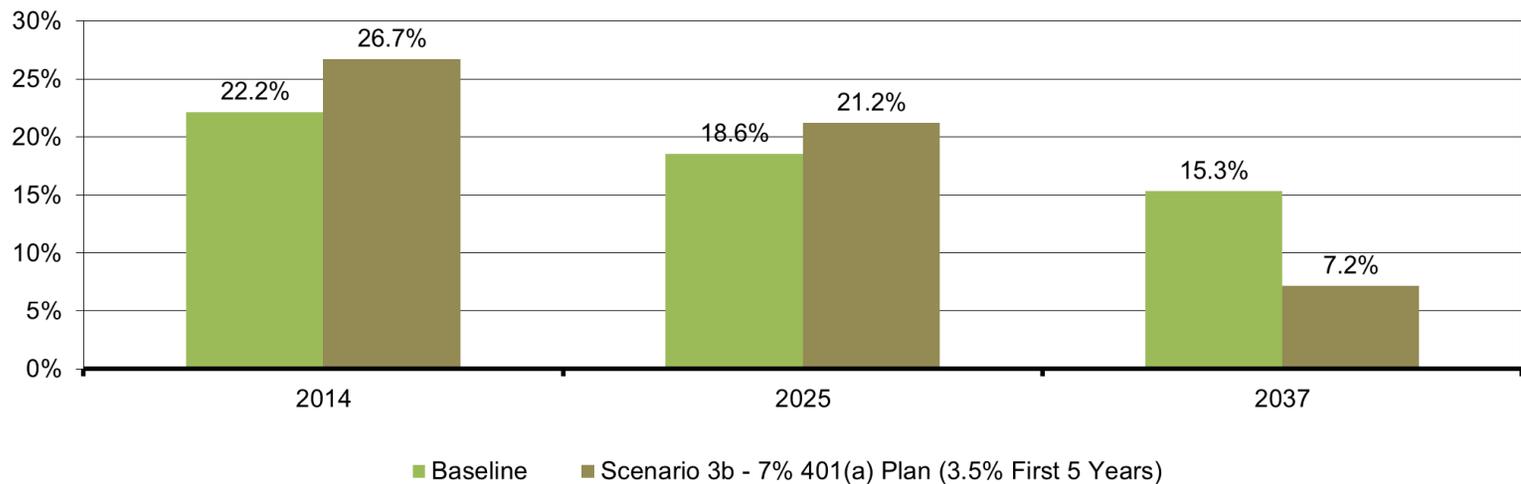


- Under Scenario 3a, the City rate is projected to increase by 21% immediately, then decrease by 55% by 2037
- Cumulative cost by 2037 is estimated at \$414,700,000



Projection of City Contribution Rate Reflecting Scenario 3b - 7% 401(a) Defined Contribution Plan

Estimated City Contribution Rate (Fiscal Year)

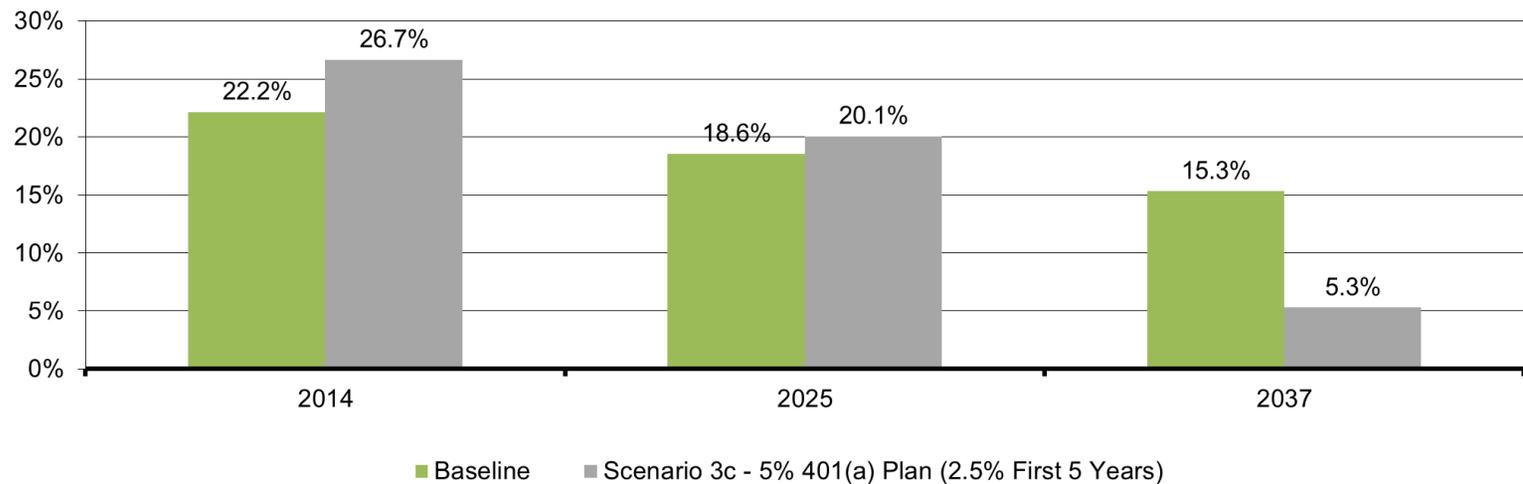


- Under Scenario 3b, the City rate is projected to increase by 20% immediately, then decrease by 68% by 2037
- Cumulative cost by 2037 is estimated at \$100,900,000



Projection of City Contribution Rate Reflecting Scenario 3c - 5% 401(a) Defined Contribution Plan

Estimated City Contribution Rate (Fiscal Year)

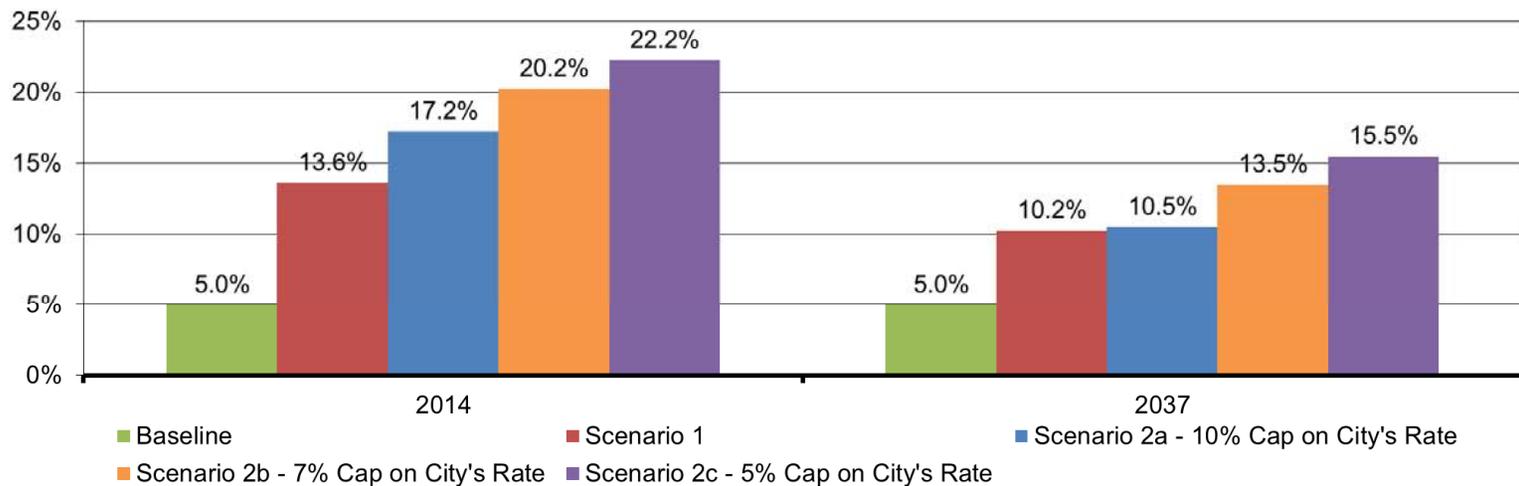


- Under Scenario 3c, the City rate is projected to increase by 20% immediately, then decrease by 76% by 2037
- Cumulative savings by 2037 is estimated at \$108,600,000



Projection of New Hire Contribution Rate Under Scenarios 1 and 2*

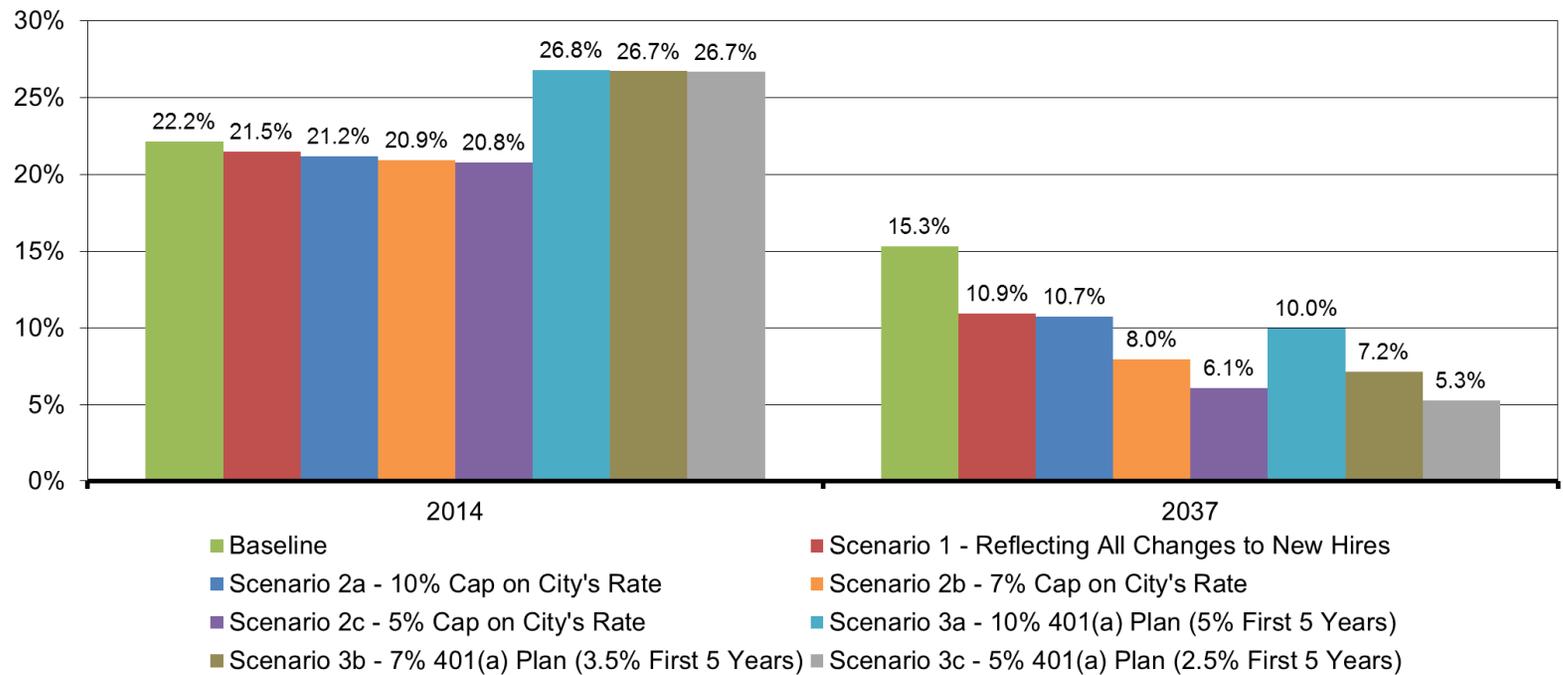
Estimated Member Contribution Rate (Fiscal Year)



* New hires that do ***not*** have service on account with ASRS prior to 7/1/2011

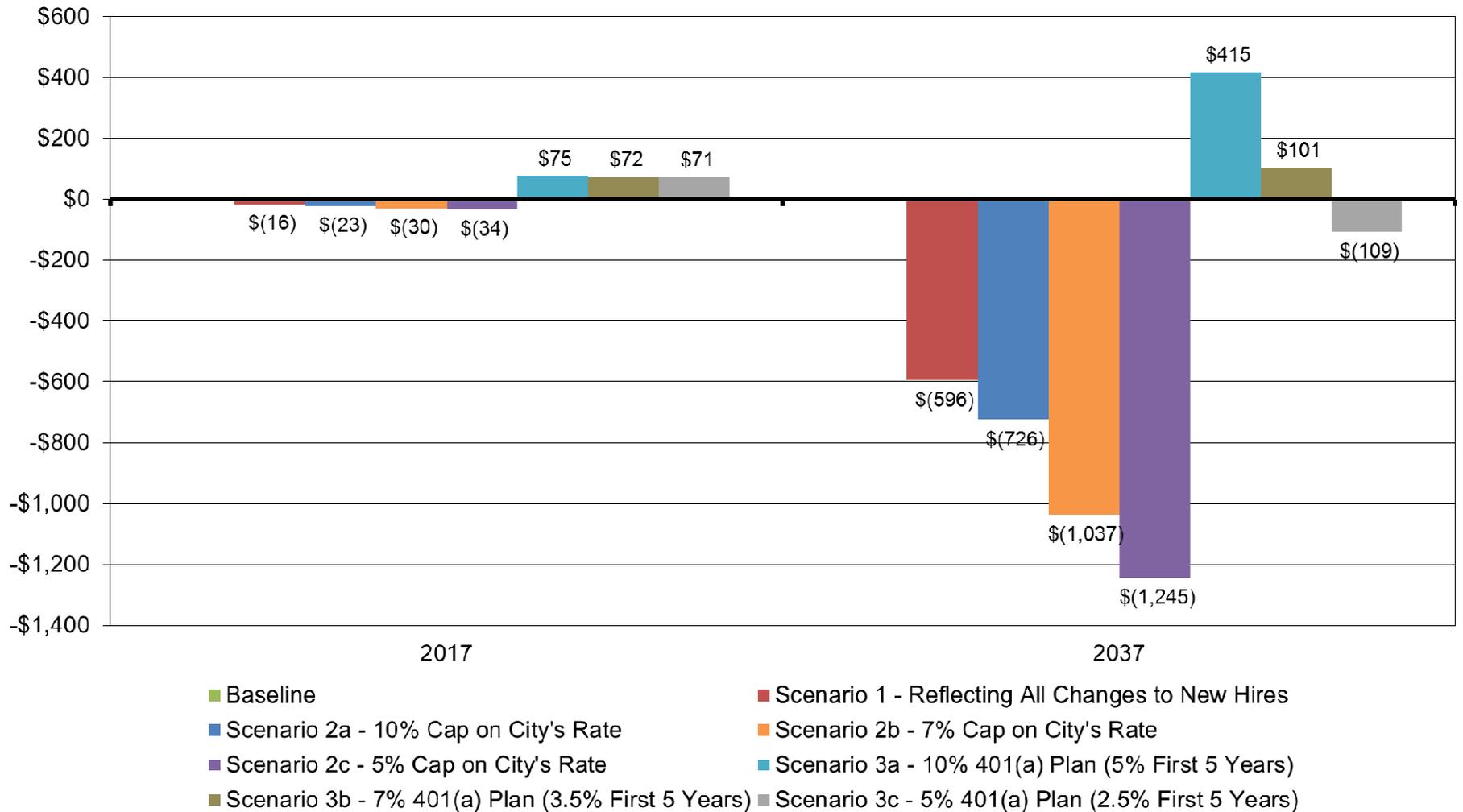


City Contribution Rate





Cumulative Savings (in \$millions)





Additional Information

- COPERS Board recommendations
 - Remove some non-standard investment limitations from the Charter to provide the opportunity to maximize investment returns for the Plan.
 - Put into the Charter certain IRS-required operational and documentation provisions that are current practice, but should be placed into Charter, since the COPERS operates as a tax-qualified retirement plan.
- Include in Charter language an option for the City to pay more than the Actuarially Required Contribution.



Timeline*

- September 17, 6 – 7 p.m. – Public Input Meeting – Washington Activity Center Auditorium, 2240 W. Citrus Way
- September 18, 10 – 11 a.m. – Public Input Meeting – Burton Barr Central Library, Pulliam Auditorium, 1221 N Central Ave
- September 25, 2:30 p.m., City Council Policy Session on pension reform
- October 31 – Council to refer proposition to the March 2013 ballot
- November 7 – City Council approves election-related ordinances
- March 12, 2013** – Election day
- July 1, 2013** – COPERS Reform effective

* Dates predicated on the most current City Council meeting schedule as of September 12, 2012

**Pending October/November City Council results



Questions/Comments?

You are encouraged to submit your thoughts:

Email: contactus@phoenix.gov

Twitter: [@CityofPhoenixAZ](https://twitter.com/CityofPhoenixAZ)

Phone: 602-262-6941

More information on pension reform is available at phoenix.gov/pensionreform



Actuarial Assumptions and Methods

- Actuarial assumptions are the same as those used in the **July 1, 2011 valuation** performed by Rodwan Consulting, except as noted below:
 - The estimated market return for fiscal year ending June 30, 2012 is -0.18%
 - Salary increase assumption based on actual contract MOUs through 2014
 - The amortization of unfunded actuarial liability is determined using a 4% payroll growth assumption beginning in the fiscal 2013 projection year
 - Sick leave snapshot effective on 7/1/2012 established the maximum amount of sick leave that can be included in an employee's Final Average Salary for the purposes of pension calculation
- Employee contribution rates are assumed to be effective at the beginning of the next fiscal year.
- The calculations are based upon the results of the July 1, 2011 valuation prepared by Rodwan Consulting. Segal has reproduced the July 1, 2011 valuation to within a range of reasonableness and determined the financial impact of alternative models by applying the changes in liability under the Segal valuations and applying those changes to the Rodwan Consulting valuation results.

Projections, by their nature, are not a guarantee of future results. The modeled projections are intended to serve as estimates of future financial outcomes that are based on the information available to us at the time the modeling is undertaken and completed, and the agreed-upon assumptions and methodologies described herein. Emerging results may differ significantly if the actual experience proves to be different from these assumptions or if alternative methodologies are used. Actual experience may differ due to such variables as demographic experience, the economy, stock market performance and the regulatory environment.

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