
CITY COUNCIL REPORT

TO: David Cavazos
City Manager

FROM: Rick Naimark
Deputy City Manager

SUBJECT: PENSION REFORM UPDATE AND RECOMMENDATIONS

This report provides actuarial analysis of proposed pension reform alternatives for the City of Phoenix Employees' Retirement System (COPERS), as requested by the City Council on June 19, 2012. Staff requests City Council direction to draft proposed revisions to the City Charter pension language for referral to the March 2013 ballot. Staff recommends reforming the pension system as represented in Model 1, which includes increasing employee age/service to qualify for retirement and increases employee contributions to the retirement system, saving a projected \$600 million for the City over the next 25 years.

THE ISSUE

Defined benefit pensions are commonly used in the public sector as a benefit to recruit and retain employees. Based on a survey of the 25 largest cities, 23 of 25 pension systems are defined benefit plans. The plans are typically financed as a partnership between the employer and employees. Phoenix established such a pension system in the City Charter by a vote of its residents in 1947, and 25 amendments, both major and minor, have been made by a vote of the people over the years.

The Charter sets a specific employee contribution rate fixed at 5 percent, and the City must pay the remaining portion of the Actuarially Required Contribution (ARC). While the City is legally required to pay, and has always paid, the full amount required, the cost of doing so has risen significantly, from just under seven percent of salary in Fiscal Year 2002-03 to more than 20 percent in Fiscal Year 2012-13. These costs compete with other costs the City incurs to provide public services.

One goal of pension reform is to reduce the impact of COPERS on the City's budget. Other goals include establishing a 50/50 partnership with employees through equal contributions, increasing the retirement age, and maintaining competitiveness in attracting and retaining high performing employees.

The Pension Reform Task Force was appointed by the Mayor and City Council in January 2011 to work with management, outside consultants, and other stakeholders to review and recommend changes to the COPERS. The Pension Reform Task Force recommended maintaining a defined benefit pension plan with reforms that include increasing the retirement age, establishing a 50/50 split of pension costs between the City and the employee and other reforms that make the system competitive with the Arizona State Retirement System (ASRS). The Task Force also recommended against

moving to a defined contribution plan. Following a thorough review of the plan and actuarial and legal analysis, Task Force recommendations were presented to the City Council on February 14, 2012.

In May 2012, the resolution of a Maricopa County Superior Court judgment against the State of Arizona for changing contribution rates for existing employees made clear that the reforms recommended by the task force could not legally be applied to current employees. Staff returned to Council with an update and potential options for pension reform on June 19, 2012. At that time, City Council adopted a pension reform timeline and directed staff to conduct an actuarial analysis of three reform models that apply only to new employees. The models are described below:

Model 1

Model 1 provides for the following changes to new hires:

- Change Rule of 80 provision to Rule of 87
- 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

Under Model 1, the City's contribution rate is projected to decrease by 51 percent and estimated to yield approximately \$596 million in cumulative savings by 2037. The highest employee contribution rate under this scenario is projected to be 13.6 percent of salary.

Model 2

Model 2 provides the same changes as Model 1 with a cap on City contribution rates at 10 percent (Model 2a), 7 percent (Model 2b) and 5 percent (Model 2c) of the actuarially required contribution. In a survey of other defined benefit plans, no other plans had an employer cap, although employee caps or fixed rates were more common. All of the cap options modeled place more than 50 percent of the cost on the new employees immediately upon implementation. This would result in greater volatility of employee net pay and decreases the City's ability to attract and retain high quality employees.

Under Model 2a, the City's contribution rate is projected to decrease by 52 percent and estimated to yield approximately \$726 million in cumulative savings by 2037. The highest employee contribution rate under this option is projected to be 17.2 percent of salary.

Under Model 2b, the City's contribution rate is projected to decrease by 64 percent and estimated to yield approximately \$1,037 million in cumulative savings by 2037. The highest employee contribution rate under this option is projected to be 20.2 percent of salary.

Under Model 2c, the City's contribution rate is projected to decrease by 73 percent and estimated to yield approximately \$1,245 million in cumulative savings by 2037. The

highest employee contribution rate under this option is projected to be 22.2 percent of salary.

Model 3

Model 3 provides for a mandatory 401(a) plan for all new hires with a 10% (Model 3a), 7% (Model 3b) and 5% (Model 3c) match by the City. In a survey of the 25 largest cities, only two cities, Washington, D.C. and San Diego, have a defined contribution only plan. All of the defined contribution options modeled substantially increase the City's cost immediately and are more expensive than Model 1 over the next 25 years. In addition, the defined contribution plans result in lower pension benefits to the employee than Model 1. In the very long run, after the current pension system is paid off, the City has no pension liability under a deferred contribution plan.

Under Model 3a, the City's contribution rate is projected to increase immediately by 20 percent, then decrease by 55 percent by 2037. Model 3a is estimated to cumulatively cost approximately \$415 million by 2037.

Under Model 3b, the City's contribution rate is projected to increase immediately by 20 percent, then decrease by 68 percent by 2037. Model 3b is estimated cumulatively cost approximately \$101 million by 2037.

Under Model 3c, the City's contribution rate is projected to increase immediately by 20 percent, then decrease by 76 percent by 2037. Model 3c is estimated to cumulatively save approximately \$109 million by 2037 with most of the savings occurring near the end of the 25 year projections.

It is important to note that the Governmental Accounting Standards Board (GASB) recently approved new accounting and reporting standards for pensions provided through state and local governments, many of which will become effective for plan fiscal years beginning after June 15, 2013. The new standards make significant changes to pension accounting and reporting. The impact of the new GASB changes are yet to be determined.

OTHER INFORMATION

Public input has been received and considered throughout the pension reform process. The Pension Reform Task Force received public comment at 13 public meetings, and was also provided public input received in writing. In addition, all reports, presentations, actuarial analysis and research considered by the Pension Reform Task Force and City Council at public meetings has been maintained on phoenix.gov/pensionreform. Summary minutes from the pension reform public input sessions held on Monday and Tuesday, September 17 and 18, 2012 are attached to this report (Attachment A). A summary of electronic input received via through Tuesday, September 18 is also included.

Should the Council decide to refer pension reform language to the ballot, the COPERS Board also recommended that two additional Charter revisions be referred to the ballot (see Attachment B). The first involves removing some investment limitations from the Charter to provide the opportunity to maximize investment returns for the Plan. The

second involves putting 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.

The City Charter currently requires the City to contribute the Actuarially Required Contribution (ARC) each year. Paying the ARC in full each year ensures the financial integrity and stability of COPERS. The Charter does not currently allow for the City to contribute more than the ARC to the plan each year. The ability to contribute more than the ARC may be fiscally advantageous to the City in some years. Should the Council decide to refer pension reform language to the ballot, staff recommends including language that would allow for payment above the ARC.

RECOMMENDATION

Staff requests direction to draft proposed revisions to City Charter language for referral to the March 2013 ballot. Specifically, staff recommends reforming the pension system as outlined in Model 1, which includes increasing employee age/service to qualify for retirement and establishing a 50/50 employer-employee partnership to pay for the system. These changes save a projected \$596 million for the City over the next 25 years and maintain the City's competitiveness in attracting and retaining high quality employees. The other options modeled either cost the City more, save the City less, and/or drive employee contribution rates high enough to harm recruitment and retention. Staff recommends that the revised Charter language include the Retirement Board recommendations attached to this report, as well as an option for the City to contribute more than the ARC.

Attachments

ATTACHMENT A
SUMMARY MINUTES
PENSION REFORM PUBLIC INPUT MEETINGS
WASHINGTON ACTIVITY CENTER
SEPTEMBER 17, 2012

City Manager David Cavazos opened the meeting and welcomed those in attendance. Mr. Cavazos introduced Mr. Rick Naimark, Deputy City Manager, and Donna Buelow, Retirement Program Administrator. Mr. Naimark presented the analysis on Pension Reform. Mr. Cavazos thanked the Mayor and City Council, Pension Reform Task Force members, and the public input session attendees for coming together to address pension reform.

Upon conclusion of the presentation, Mr. Cavazos opened the hearing for public comment.

1. Ms. Kathy Manker expressed support for capping the contribution rate for City employees. She said this would allow employees to project their pension earnings, reduce uncertainty, and not contribute more than the normal cost of their pension.
2. Mr. Roy Miller expressed support for transitioning to a 401(k) retirement program for City employees. He emphasized that he supports a defined contribution plan.
3. Mr. Michael Pablus, a current City employee, said he would like to see a retirement program in place that promotes employee retention.
4. Ms. Diane Harris expressed support for adopting a defined contribution plan.
5. Mr. Frank Sacco posed questions regarding the median age of city employees as well as the median years of service.

Mr. Cavazos thanked everyone for attending and adjourned the meeting at 6:55 p.m.

Respectfully submitted,
Melissa Hoffman
Management Intern

**SUMMARY MINUTES
PENSION REFORM PUBLIC INPUT MEETINGS
BURTON BARR PULLIAM AUDITORIUM
SEPTEMBER 18, 2012**

City Manager David Cavazos opened the meeting and welcomed those in attendance. Mr. Cavazos introduced Mr. Rick Naimark, Deputy City Manager, and Donna Buelow, Retirement Program Administrator. Mr. Naimark presented the analysis on Pension Reform. Mr. Cavazos thanked the Mayor and City Council, Pension Reform Task Force members, and the public input session attendees for coming together to address pension reform.

Upon conclusion of the presentation, Mr. Cavazos opened the hearing for public comment.

1. Mr. Chet Kite suggested removing the pension program from the City Charter to eliminate the need for a public vote to change pension parameters. Mr. Kite questioned the actuarial analysis methods used by Segal Consulting.
2. Mr. Bill Scheel spoke in favor of a balanced contribution between the City and its employees. Mr. Scheel noted a balance would not only provide the City with cost savings, but would also incentivize both the employer and employee to monitor the plan, and ensure pension investments are sound.
3. Mr. Luis Schmidt spoke in favor of a balanced contribution between the City and its employees. Mr. Schmidt posed questions regarding the proposed plan changes and how the changes will impact future hiring practices to attract more talent. He also asked why the analysis chose to use July 2011 instead of a different date.
4. Mr. Wes Harris asked what decisions would be made at the City Council meeting scheduled for September 25, 2012. Mr. Harris disagreed with having the election in March and stated not enough time was provided to review pension information.
5. Mr. Gene Nance did not speak, but provided a comment card regarding the firefighters' pension program.

Mr. Cavazos thanked everyone for attending and adjourned the meeting at 10:57 a.m.

Respectfully submitted,
Melissa Hoffman
Management Intern

**SUMMARY MINUTES
PENSION REFORM PUBLIC INPUT
ELECTRONIC COMMENTS
SEPTEMBER 17-18, 2012**

1. Joseph Zavislak sent an e-mail stating the city pension program was not in-line with private sector retirement programs.
2. Jamie Sturgess sent an e-mail suggesting police and fire retirement programs model military retirement benefits. He also suggested implementing a cap on pension earnings at "some relevant percentile of average for all city jobs, and capped at the prevailing maximum pension allowable under the PBGC of the federal government."
3. Dave Drake sent an e-mail stating the city's pension system needs reform and should model private sector pension programs (i.e. 3% match up to \$100,000).
4. Bill Read sent an e-mail stating public pension programs should be eliminated and a 401k/403b retirement plan should be established.
5. Dean Paul Yoder sent an e-mail expressing concern with police and fire retirement programs.
6. Adrienne Gill sent an e-mail asking if the city consulted with a third party to gain insight and analysis on public retirement options.
7. James Brophy sent an e-mail sharing his concerns about the notice given for announcing pension reform public input meetings.
8. Michael Juilfs sent an e-mail suggesting the city eliminate the public pension program and initiate a 401(k) retirement system for all city employees.
9. Tim Graves sent an e-mail stating his support for the city's public pension program.
10. Kevin Fechtmeyer sent an e-mail expressing concern regarding the rising costs associated with maintaining the public pension program.
11. Joy Mee sent an e-mail with several pension reform suggestions to consider, which included: setting minimum age for retirement; elimination of spiking with vacation and sick leave; 50/50 contribution rate split between city and employees; and increasing years of service to be vested from five to ten years.
12. Malcolm MacEwen sent an e-mail expressing concern about the public pension program's solvency and its generous payouts to city employees.
13. Ron sent an e-mail stating public employees should not be allowed to double dip into public pension programs.
14. Steve Yockey sent an e-mail stating his support for the city's public pension program.
15. Sarah Moorhead sent an e-mail expressing concern and inequity with the law enforcement and elected officials pension programs compared to COPERS.
16. Deidre Smith sent an e-mail expressing her support for a public pension system. She stated former city employees should not be allowed to be re-hired with a full salary.
17. Arthur Luera sent an e-mail expressing concern about the public pension program's solvency and city's financial challenges.
18. Steve Brown sent an e-mail expressing concern about the public pension program and asked City Council to approve a plan that is sustainable.
19. GottaGo300@aol.com sent an e-mail suggesting city employees should manage and operate like the private sector and offer a 401(k) retirement system.
20. Ben McKinley sent an e-mail stating his support for the city's public pension program.
21. Doris Bates sent an e-mail suggesting the city model a private sector 401(k) retirement system for all city employees.
22. Jacalyn Askin sent an e-mail suggesting the actuarial analysis include conservative/realistic actuarial calculations; fully fund the pension requirements; inform city employees of their retirement planning and responsibilities; and blend public safety retirement benefits into one retirement plan.

23. gdugan2@netzero.net sent an e-mail suggesting the city model a private sector 401(k) retirement system for all city employees.
24. Vicky Feldman sent an e-mail sharing her support for the city's public pension program.
25. Roy Miller sent an e-mail suggesting the city model a private sector 401(k) retirement system for all city employees.
26. Carola Tamarkin sent an e-mail suggesting several pension reform changes, which included: lowering long-term pension liability for the city; reduce benefits for new employees; increase minimum retirement age/years of service; and eliminate executive management pension deals.

Respectfully submitted,

Lorizelda Contreras
Management Assistant I

ATTACHMENT B

CHAPTER XXIV. PHOENIX CITY EMPLOYEES' RETIREMENT LAW OF 1953

Proposed Revision to COPERS Investment Standards

34 Fiscal management.

34.1. GENERAL DUTIES AND POWERS. The Retirement Board shall be the trustees of the assets of the Retirement Plan. The Retirement Board shall have the power to contract for (1) investment advice, (2) safekeeping of securities, (3) handling of investments, (4) clearing of transactions, and (5) such other services it deems necessary for the proper and efficient handling of the monies and investments of the Retirement Plan. It shall have the power to register or re-register the investments of the Retirement Plan in the name of the Retirement Board as trustees of the Retirement Plan or in the name of its nominee.

34.2 PRUDENT INVESTOR RULE. THE RETIREMENT BOARD HAS A DUTY TO INVEST AND MANAGE THE ASSETS OF THE RETIREMENT PLAN SOLELY IN THE INTERESTS OF THE MEMBERS AND BENEFICIARIES OF THE RETIREMENT PLAN, IN THE MANNER SET FORTH IN THIS SECTION 34.2.

(A) THE RETIREMENT BOARD SHALL INVEST AND MANAGE TRUST ASSETS AS A PRUDENT INVESTOR WOULD, BY CONSIDERING THE PURPOSES, TERMS, DISTRIBUTION REQUIREMENTS, AND OTHER CIRCUMSTANCES OF THE RETIREMENT PLAN. IN SATISFYING THIS STANDARD, THE RETIREMENT BOARD SHALL EXERCISE REASONABLE CARE, SKILL, AND CAUTION.

(B) THE RETIREMENT BOARD'S INVESTMENT AND MANAGEMENT DECISIONS RESPECTING INDIVIDUAL ASSETS SHOULD NOT BE EVALUATED IN ISOLATION, BUT RATHER MUST BE EVALUATED IN THE CONTEXT OF THE RETIREMENT PLAN ASSET PORTFOLIO AS A WHOLE AND AS A PART OF AN OVERALL INVESTMENT STRATEGY HAVING RISK AND RETURN OBJECTIVES REASONABLY SUITED TO THE RETIREMENT PLAN. THE PRUDENT INVESTOR RULE IS A MEASURE OF THE ANTICIPATED EFFECT OF THE RETIREMENT BOARD'S INVESTMENT DECISIONS ON THE INVESTMENT PORTFOLIO AS A WHOLE, GIVEN THE FACTS AND CIRCUMSTANCES PREVAILING AT THE TIME OF THE INVESTMENT DECISION OR ACTION. THE PRUDENT INVESTOR RULE SHALL BE INTERPRETED AND APPLIED AS A TEST OF INVESTMENT RELATED CONDUCT AND NOT OF RESULTING INVESTMENT PERFORMANCE.

(C) AMONG CIRCUMSTANCES THAT THE RETIREMENT BOARD SHALL CONSIDER IN INVESTING AND MANAGING TRUST ASSETS ARE SUCH OF THE FOLLOWING AS ARE RELEVANT TO THE RETIREMENT PLAN OR ITS MEMBERS AND BENEFICIARIES:

- (1) GENERAL ECONOMIC CONDITIONS;**
- (2) THE POSSIBLE EFFECT OF INFLATION OR DEFLATION;**
- (3) THE EXPECTED TAX CONSEQUENCES OF INVESTMENT DECISIONS OR STRATEGIES;**

(4) THE ROLE THAT EACH INVESTMENT OR COURSE OF ACTION PLAYS WITHIN THE OVERALL RETIREMENT PLAN PORTFOLIO;

(5) THE EXPECTED TOTAL RETURN FROM INCOME AND THE APPRECIATION OF CAPITAL; AND

(6) THE RETIREMENT PLAN'S NEED FOR LIQUIDITY, REGULARITY OF INCOME, AND PRESERVATION OR APPRECIATION OF CAPITAL; AND

(7) THE FIDUCIARY DUTY TO INCUR ONLY REASONABLY AND APPROPRIATE COSTS IN RELATION TO THE ASSETS AND THE PURPOSE OF THE RETIREMENT PLAN.

(D) THE RETIREMENT BOARD SHALL MAKE A REASONABLE EFFORT TO VERIFY FACTS RELEVANT TO THE INVESTMENT AND MANAGEMENT OF RETIREMENT PLAN ASSETS.

(E) THE RETIREMENT BOARD MAY INVEST IN ANY KIND OF PROPERTY OR TYPE OF INVESTMENT CONSISTENT WITH THE STANDARDS OF THIS SECTION 34.2. IF THE RETIREMENT BOARD WISHES TO INVEST IN AN INVESTMENT CATEGORY NOT PREVIOUSLY UTILIZED BY THE RETIREMENT BOARD FOR THE INVESTMENT OF RETIREMENT PLAN ASSETS, IT MAY DO SO PROVIDED THAT SUCH INVESTMENT IS CONSISTENT WITH THE STANDARDS OF THIS SECTION 34.2 AND TWO-THIRDS OF THE RETIREMENT BOARD AUTHORIZES THE UTILIZATION OF THE NEW INVESTMENT CATEGORY.

34.3 DIVERSIFICATION. THE RETIREMENT BOARD SHALL DIVERSIFY THE INVESTMENTS OF THE RETIREMENT PLAN UNLESS, AFTER TAKING INTO ACCOUNT ALL RELEVANT CIRCUMSTANCES, THE RETIREMENT BOARD REASONABLY DETERMINES THAT THE INTERESTS OF THE MEMBERS AND BENEFICIARIES, AS WELL AS THE GOALS AND PURPOSES OF THE RETIREMENT PLAN, ARE BETTER SERVED WITHOUT DIVERSIFYING.

34.4 APPLICATION TO RETIREMENT PLAN. SECTIONS 34.2 THROUGH 34.4 GOVERN ONLY RETIREMENT PLAN INVESTMENT DECISIONS OR ACTIONS OCCURRING AFTER THE EFFECTIVE DATE OF THOSE PROVISIONS. THE RETIREMENT BOARD HAS A DUTY, WITHIN A REASONABLE AND APPROPRIATE TIME AFTER THE EFFECTIVE DATE OF SECTIONS 34.2 THROUGH 34.4, TO REVIEW THE RETIREMENT PLAN INVESTMENTS AND TO CONFORM THE EXISTING RETIREMENT PLAN INVESTMENTS TO THE PRUDENT INVESTOR RULE. THE RETIREMENT BOARD'S DECISION TO RETAIN OR DISPOSE OF AN INVESTMENT MAY BE INFLUENCED PROPERLY BY THE INVESTMENT'S SPECIAL RELATIONSHIP OR VALUE TO THE RETIREMENT PLAN.

34.5 DELEGATIONS. The RETIREMENT Board may delegate its power to purchase or sell any of the securities and investments of the Retirement Plan to a member or committee of members of the Board.

CHAPTER XXIV. PHOENIX CITY EMPLOYEES' RETIREMENT LAW OF 1953

Proposed Language Documenting COPERS Tax-Exempt Governmental Status and Compliance with Federal Tax Law Requirements

43 TAX-QUALIFIED GOVERNMENTAL PENSION PLAN.

43.1 THE RETIREMENT PLAN IS A PUBLIC PENSION PLAN, INTENDED TO CONSTITUTE A TAX-QUALIFIED GOVERNMENTAL RETIREMENT PLAN UNDER SECTIONS 401(A) AND 414(D) OF THE INTERNAL REVENUE CODE OF 1954, AS AMENDED (THE "CODE"). THE ASSETS OF THE RETIREMENT PLAN ARE HELD IN A SEPARATE TRUST, EXEMPT FROM TAXATION UNDER SECTION 501(A) OF THE CODE, FOR THE EXCLUSIVE BENEFIT OF THE MEMBERS AND BENEFICIARIES OF THE RETIREMENT PLAN. THE RETIREMENT PLAN TRUST ALSO IS INTENDED TO CONSTITUTE AN INDEPENDENT PUBLIC TRUST PURSUANT TO ARTICLE XXIX OF THE CONSTITUTION OF THE STATE OF ARIZONA. THE CITY OF PHOENIX EMPLOYEES' RETIREMENT LAW OF 1953 SHALL BE CONSTRUED IN A MANNER CONSISTENT WITH THE TAX-QUALIFIED GOVERNMENTAL STATUS OF THE RETIREMENT PLAN WHENEVER POSSIBLE.

43.2 IN ACCORDANCE WITH THE OBLIGATIONS AND REQUIREMENTS IMPOSED ON TAX-QUALIFIED GOVERNMENTAL PENSION PLANS UNDER THE CODE, THE RETIREMENT PLAN IS, AND SHALL CONTINUE TO BE, ADMINISTERED AND OPERATED IN ACCORDANCE WITH THE COMPENSATION LIMITATIONS SET FORTH IN SECTION 401(A)(17) OF THE CODE, THE CONTRIBUTION AND BENEFIT LIMITATIONS SET FORTH IN SECTION 401(A)(16) AND SECTION 415 OF THE CODE, AND THE ELIGIBLE ROLLOVER DISTRIBUTION REQUIREMENTS OF SECTION 401(A)(31) OF THE CODE. THE RETIREMENT PLAN IS, AND SHALL CONTINUE TO BE, OPERATED AND MAINTAINED IN REASONABLE AND GOOD FAITH COMPLIANCE WITH THE REQUIRED MINIMUM DISTRIBUTION REQUIREMENTS SET FORTH IN SECTION 401(A)(9) OF THE INTERNAL REVENUE CODE. TO THE EXTENT REQUIRED, THE PROVISIONS OF CODE SECTIONS 401(A)(9), 401(A)(16), 401(A)(17) AND 401(A)(31) (AND THE APPLICABLE TREASURY REGULATIONS PROMULGATED THERE UNDER) ARE INCORPORATED HEREIN BY THIS REFERENCE AND THE RETIREMENT BOARD IS AUTHORIZED TO ADOPT ANY AND ALL POLICIES NECESSARY FOR PROPER IMPLEMENTATION OF THE AFOREMENTIONED CODE REQUIREMENTS.

43.3 SECTION 10.1 AUTHORIZES THE RETIREMENT BOARD TO ADOPT ACTUARIAL ASSUMPTIONS APPROPRIATE AND NECESSARY FOR THE ADMINISTRATION OF THE RETIREMENT PLAN. FOR PURPOSES OF COMPLIANCE WITH SECTION 401(A)(25) OF THE CODE, THE ACTUARIAL ASSUMPTIONS ADOPTED BY THE RETIREMENT BOARD SHALL BE SET FORTH IN AN "ADDENDUM TO SECTION 10.1 OF THE CITY OF PHOENIX EMPLOYEES' RETIREMENT LAW OF 1953" WHICH SHALL BE UPDATED BY THE BOARD FROM TIME TO TIME AS NECESSARY AND MAINTAINED IN THE OFFICES OF THE EXECUTIVE SECRETARY.

43.4 SECTION 27 REQUIRES MANDATORY CONTRIBUTIONS TO THE RETIREMENT PLAN FROM EACH MEMBER. THE MANDATORY MEMBER CONTRIBUTIONS ARE DEDUCTED FROM THE ELIGIBLE COMPENSATION OF EACH MEMBER ON PRE-TAX BASIS AND DEPOSITED INTO THE RETIREMENT PLAN TRUST THROUGH AN EMPLOYER PICK-UP ARRANGEMENT STRUCTURED AND OPERATED IN ACCORDANCE WITH SECTION 414(H) OF THE CODE AND THE TERMS OF THE PRIVATE LETTER RULING ISSUED TO THE RETIREMENT PLAN BY THE INTERNAL REVENUE SERVICE ON APRIL 18, 1986.