



Phoenix City Council

Pension Fairness and
Spiking Elimination Ad Hoc
Subcommittee

10/08/13

City of Phoenix



Agenda

- Item 1 Call To Order
- Item 2 Follow up to Requests Made at the October 1, 2013 Ad Hoc Subcommittee Meeting
- Item 3 Call to the Public
- Item 4 Charge of the Ad Hoc Subcommittee
- Item 5 Request for Additional Research and Future Agenda Items
- Item 6 Adjournment



Item 2

Follow up to Requests Made at
the October 1, 2013 Ad Hoc
Subcommittee Meetings



Item 2 – Follow Up To Requests Paid Time Off (PTO) Systems

City of Phoenix



PTO Surveys- SHRM

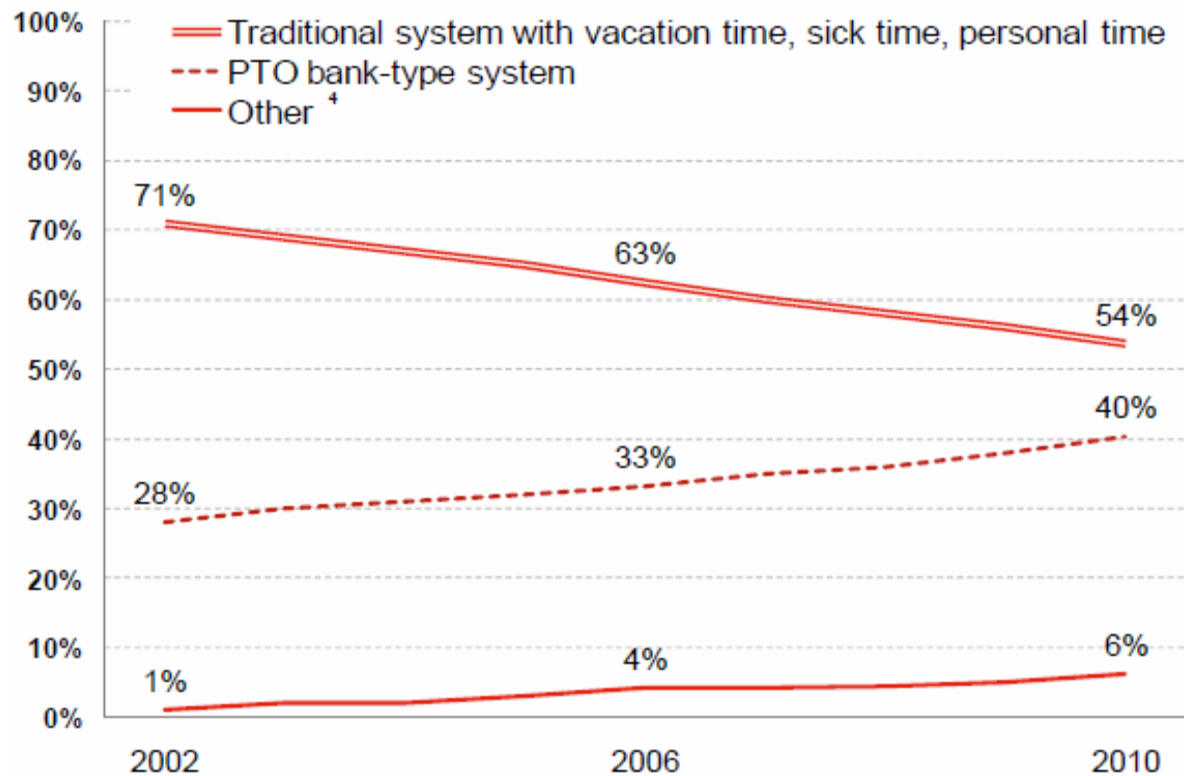
- Society of Human Resource Management October 2008 Paid Leave survey – 501 respondents
- 42% PTO program
 - 50% non-profit organizations
 - 43% for-profit organizations
 - 22% government agencies



PTO Surveys - WorldatWork

- Member survey May 2010 Paid Time Off Programs and Practices - 1,222 respondents

Trends in Paid Time Off Systems: Surveys Conducted in 2002, 2006 and 2010





PTO Surveys – IPMA-HR

- International Public Management Association for Human Resources August 2011 survey – 458 respondents
- 57% municipalities will move to PTO program in the future
- 26% respondents currently have PTO program, of which city and county organizations offer it the most



PTO Surveys – IPMA-HR cont.

- Reasons respondents installed PTO systems:
 - more flexibility for employees (55%)
 - reduce unscheduled absenteeism (39%)
 - competitive with the market (37%),
 - reduce administrative burden (35%)



Private Sector PTO Example

- 240 hour accrual cap
- Leave accrued each pay period
- All employees initially receive 40 hours
- For employees with prior accruals, accruals will be placed in emergency bank



Paid Time Off (PTO)

Years of Service	San Diego	Prescott
PTO Accrual (days per year) for General Employees		
1-5 yrs	17	14
6-10 yrs	22	17
11-15 yrs	22	20
16-20 yrs	27	21
21+ yrs	27	21
Carry Over	43.75	<10/25 or >10/30



Public Sector PTO Example

Years	Days	Hours/PP	Carryover
1 - 5	18	5.5385	30
6 - 10	22	6.7692	30
11 - 15	26	8	30
16 - 20	27	8.3077	30
21+	29	8.9231	30

Using WorldatWorld 50th percentile/median



PTO Summary

- PTO systems more prevalent in profit & non-profit organizations than public sector.
- Public sector is increasing use of combined PTO systems.
- Vacation accrual, carryover and separation payout and sick leave cash out, payout at retirement, and payout at death are in the current MOUs/MOAs and must be negotiated.
- Possible charter implications regarding service credit.



Item 2 – Follow Up To Requests Paid Time Off (PTO) Systems

City of Phoenix



**Item 2 – Follow Up To Requests
Short Term Disability**

City of Phoenix



Short Term Disability Costs

- Requires an analysis of leave history
- Time and attendance system needed
 - \$18-20 million cost
 - Staff and resources needed for implementation and ongoing administration
- Contract with a Short Term Disability vendor
 - Staff and resources needed for the program and contract administration
- Funding to be determined



Short Term Disability Vendor Costs

Stand-alone Disability Management

- \$300 – \$350 per claim for nurse case management
- 1,300 claims per year
 - May be reduced by sending only escalated cases to management
- \$390,000 – \$455,000 per year for case management

Administrative Service Only

- About \$3 per employee per month
- 13,000 employees
- \$468,000 per year

For both vendor types this does not include actual claim costs



Short Term Disability Considerations

- Benefit level to be determined
 - 50%, 66 2/3%, or 70%
- Hire consultant to design, model and assist with implementation of the program



Other Considerations

- Reduce sick leave accrual from 15 to 10 days per year
 - Changes for all employees or only new hires?
- Cap sick leave hours
 - Establish extended illness component in excess of the cap
 - Analysis of utilization – do employees use more or less time if a cap is implemented.
- If no Short Term Disability program, cap hours at approx. 500 to cover the Long Term Disability elimination period
- If PTO program implemented, need to determine how to address existing employee sick and vacation balances
- Impact of changes on pension – to what extent to changes have a positive impact

The background of the slide features a large, stylized Phoenix logo in shades of blue. The logo is composed of several overlapping, curved shapes that form the bird's head and tail. The text is overlaid on the lower portion of this graphic.

**Follow up to Requests Made at the
October 1, 2013 Ad Hoc
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Item 3

Call to the Public





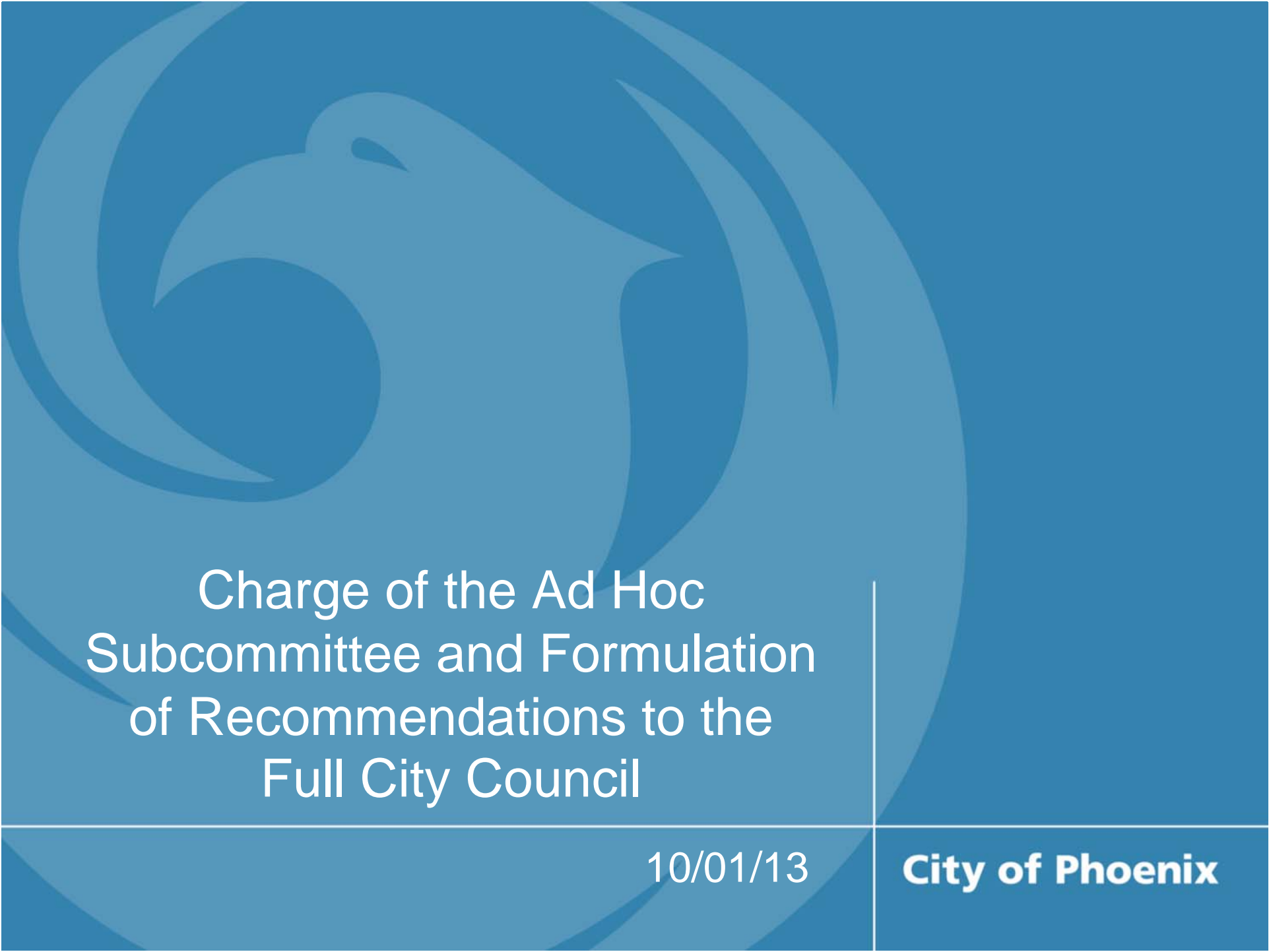
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Item 4

Charge of the Pension Fairness and Spiking Elimination Ad Hoc Subcommittee and Formulation of Recommendations to the Full City Council



Charge of the Ad Hoc
Subcommittee and Formulation
of Recommendations to the
Full City Council

10/01/13

City of Phoenix



Charge of the Pension Fairness and Spiking Elimination Ad Hoc Subcommittee

- (1) identify each current practice that qualifies as pension “spiking” within COPERS, the Public Safety Personnel Retirement System (PSPRS) and the Elected Officials Retirement Plan (EORP);
- (2) identify which changes can be made administratively and which ones must occur during contract negotiations, and further identify which reforms may require amending the city code or charter; and
- (3) create a timeline for implementing recommended reforms.



Phoenix City Charter Chapter XXIV, Part II, Section 2.13

"Compensation" means a member's salary or wages paid him by the City for personal services rendered by him to the City. In case a member's compensation is not all paid in money the City Council shall, upon recommendation of the City Manager, fix the value of the portion of his compensation which is not paid in money.



Tucson City Code, Chapter 22 Article III, Division I, Section 22-30(m)

"Compensation" means base salary, vacation and sick leave pay and worker's compensation pay equal to base salary for which an employee in a covered position receives credited service. In certain cases and pursuant to the provisions of this article, compensation may be imputed to hours included in credited service for which no services are performed. Compensation cannot be earned after retirement.



Texas Statutes, Government Code, Title 8, Subtitle G., Chapter 851, Subchapter A. Sec. 851.001

"Compensation" means the sum of payments made to an employee for performance of personal services, as certified on a written payroll of an employing department, that does not exceed any rate of compensation fixed by a governing body as the maximum salary on which member contributions to the retirement system may be based and does not exceed the amount established by board rule, which may not exceed the limit provided by Section 401(a)(17) of the Internal Revenue Code of 1986 (26 U.S.C. Section 401), as indexed in the manner provided by that section, and includes amounts by which payment for earnings is reduced by reason of:

- (A) employer pick-up of employee contributions to the retirement system
- (B) deferral of compensation [457 or 401(a)]
- (C) cost of benefits furnished under qualified cafeteria plans
- (D) cost of tax-sheltered annuities acquired for the employee [403(b)]
- (E) deductions for Federal Insurance Contribution Act taxes, federal income taxes, or other obligations of the employee.



Dallas City Code, Volume II, Chapter 40A, Sec. 40-A1 (4)

AVERAGE MONTHLY EARNINGS means wages paid by the city, divided by the number of months of credited service of a member or inactive member, computed for whichever of the following periods is most beneficial to the member or inactive member:

(A) the three calendar years of service in which the member or inactive member was paid the highest wage;

(B) the last three years of service; or

(C) the length of time actually served if less than three years.



Arizona Revised Statutes

Title 38, Chapter 5, Article 4, 38-842

For the purpose of computing retirement benefits:

“Compensation” means:

- base salary
- overtime pay
- shift differential pay
- military differential wage pay
- compensatory (comp) time
- holiday pay paid on a regular monthly, semimonthly or biweekly payroll basis
- longevity pay

“Compensation” does not include:

- payment for unused sick leave
- payment in lieu of vacation
- payment for unused comp time
- payment for any fringe benefits
- payments for work performed for a third party for which the third party pays the employer, except for third party contracts between public agencies for general public safety services where the employer supervises the employee's performance.



Definitions of “Pension Spiking”

OPERS / NIRS – “Pension Spiking’ refers to the increase in pension benefits by substantially increasing the Final Average Salary (FAS) beyond what is normally expected from normal salary increases.”

LACERS – “the ability to artificially increase an employee’s retirement allowance.”

AZ Republic – “Pension spiking is the practice of elevating a person's annual retirement payment by inflating his or her end-of-career compensation, a key factor in the formula used to calculate the annual pension benefit.”

Wikipedia – “Process whereby public sector employees [...] artificially inflate their compensation in the years immediately preceding retirement...”



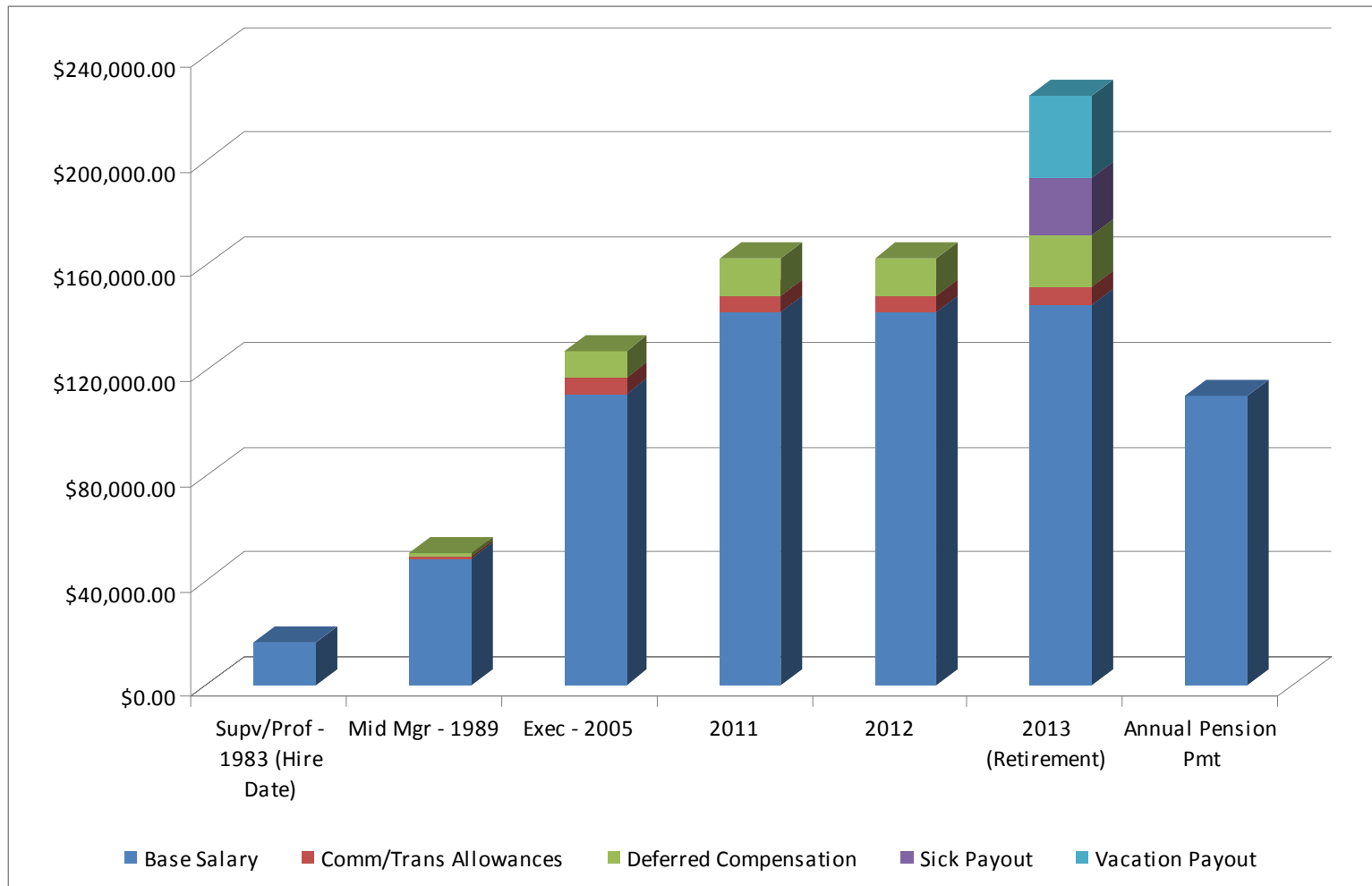
Definitions of “Pension Spiking”

Bloomberg – "loopholes [that] allow some public employees to manipulate overtime, unused vacation and special compensation to boost their retirement pay..."

Senate Bill 1609 Defined Contribution & Retirement Study Committee Final Report, December 21, 2012 – “One method [used to determine if spiking exists in the retirement system] was the percentage of retirees that had their compensation increase by more than 25 percent during the last three years of employment... The second method was looking at pay increases over three year intervals over a nine-year period to see if compensation increases were higher in the last three years of employment, or the three and six years prior to employment”



Example – 30 Year Employee





Current Compensation Components Used To Calculate Pension Requested For Further Analysis

- + Allowances (e.g. transportation, communications)
- + Sell backs (vacation, sick)*
- + Deferred compensation
- + Retirement contribution reimbursement
- + Enhanced regular compensation (public safety)

** Sell backs of comp time, sick and vacation are not used to calculate pension in PSPRS*



Current Compensation Components Used To Calculate Pension Requested For Further Analysis

Component	General City Employees	General City Managers/ Executives	Public Safety General Employees	Public Safety Middle Managers/ Executives
Allowances		PO, AR		PO, AR
Sell backs	MOU/MOA, PO, AR, CC	PO, AR, CC	MOU/MOA	PO
Deferred Compensation	MOU/MOA	PO	MOU/MOA	PO
Retirement Contribution Reimbursement		PO		PO
Enhanced Regular Compensation			MOU/MOA	AR, PO

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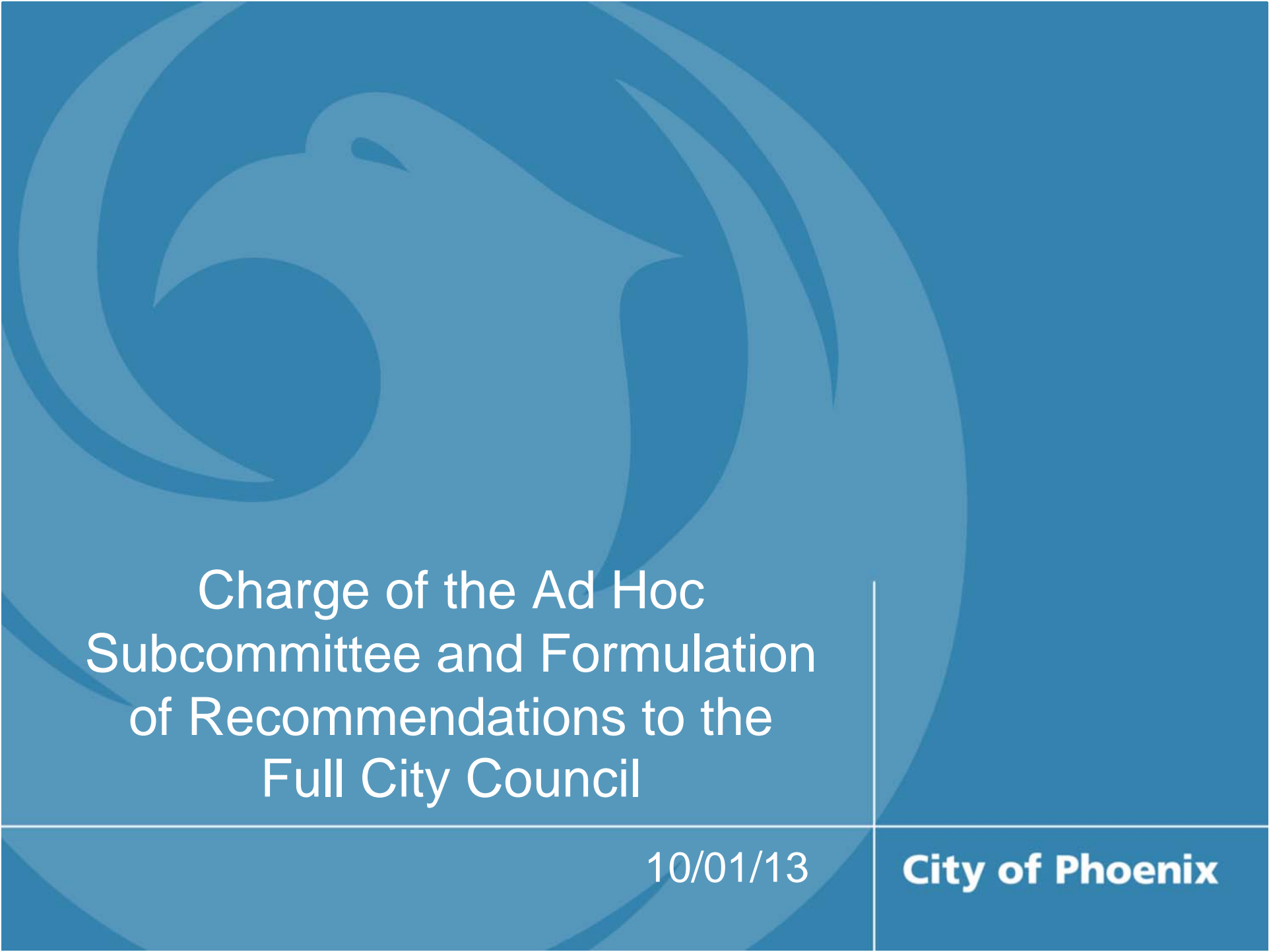
AR: Administrative Regulation

CC: City Charter

MOA: Memorandum of Agreement

MOU: Memorandum of Understanding

PO: Pay Ordinance



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Item 5

Request for Additional Research and Future Agenda Items



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Item 6

Adjournment





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