



Phoenix City Council

Pension Fairness and
Spiking Elimination Ad Hoc
Subcommittee

9/17/13

City of Phoenix



Agenda – Items 1-2

- Item 1 - Call to order
- Item 2 – Subcommittee Charge and Timeline



Agenda Items 3 – 7 Information and Discussion

- Item 3 – Review of Pension Reform Efforts To Date
- Item 4 – Review of Pension Calculation for COPERS, PSPRS and EORP
- Item 5 – Review of Pensionable Compensation and Benefit Items for Phoenix COPERS, PSPRS and EORP
- Item 6 – Examples of Impact of Sick Leave and Vacation Leave on Pension
- Item 7 – Multi-City Survey



Item 3

Review of Pension Reform Efforts To Date





Pension Reform Efforts To Date

City of Phoenix



Retirement Programs for City of Phoenix Employees

- AZ EORP
 - Elected officials
- AZ PSPRS
 - Police Officers and Firefighters (4,148 active; 3,255 retirees)
- COPERS
 - General city employees (8,325 active; 5,589 retirees)
 - Established in City Charter by a vote of Phoenix residents in 1947 and revised in 1953
 - 25 voter-approved changes since 1953



Pension Reform

- Pension Reform Task Force Appointed January 2011
 - 13 public meetings
 - Recommended changes to COPERS to the City Council February 2012
 - Studied and recommended retention of defined benefit plan
- City Council
 - Additional actuarial analysis
 - Referred propositions 201 and 202 to March 2013 Special Election ballot in October 2012



Proposition 201 - Pension Reform

March 2013

Changes for New Hires – 79% Voter Approval

- Employee contribution rate is based on 50/50 split of actuarially determined rate
- Change the pension multiplier to a graduated multiplier based on years of service, matching the Arizona State Retirement System (ASRS) schedule
- Change Rule of 80 provision to Rule of 87
- Increase time of service requirements and eliminate minimum pensions as recommended by the Pension Reform Task Force
- Allow new City hires with service on account with ASRS prior to 7/1/2011 to join COPERS under current provisions



Proposition 202 – Pension Investment Standards

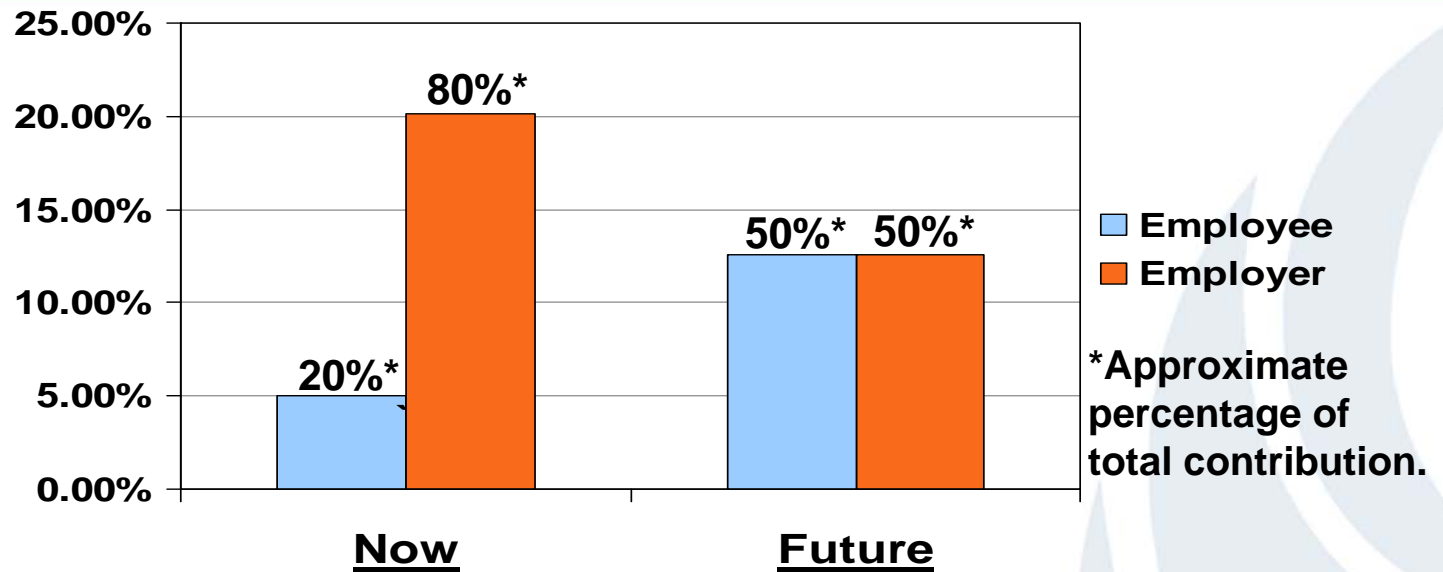
March 2013

77% Voter Approval

- 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



Pension Reform



Yes

No

Goals



50/50 Partnership



Attract and Retain Top Talent



Save Money – \$596,000,000 over 25 years



Pension Reform – Sick Leave Snapshot

- Current City employees
- A “snapshot” of sick leave balance was taken on July 1, 2012 for every employee
- “Snapshot” applies to non-sworn employees
- Sick leave payout is not pensionable for employees with less than 250 available hours as of July 1, 2012, or new City employees who were hired after that date
- Projected to save \$65 million over 25 years
- A.R. 2.441



Total Compensation Study

- February 2012; The Segal Company
- Overall (public and private sectors), the City was at market
- Generally, the City's pay practices were consistent with what is found in the market.
- The City's benefit program was consistent with employers in the local area and nationwide
- Individual job titles were identified below and above market
- City Council approved classification adjustments



Total Compensation Study

- Paid Time Off provided compared to the market:
 - Vacation – Slightly below market
 - Sick – Slightly above market
 - Holidays – Slightly above market
 - Personal leave – Slightly above market



Bargaining Unit Concessions

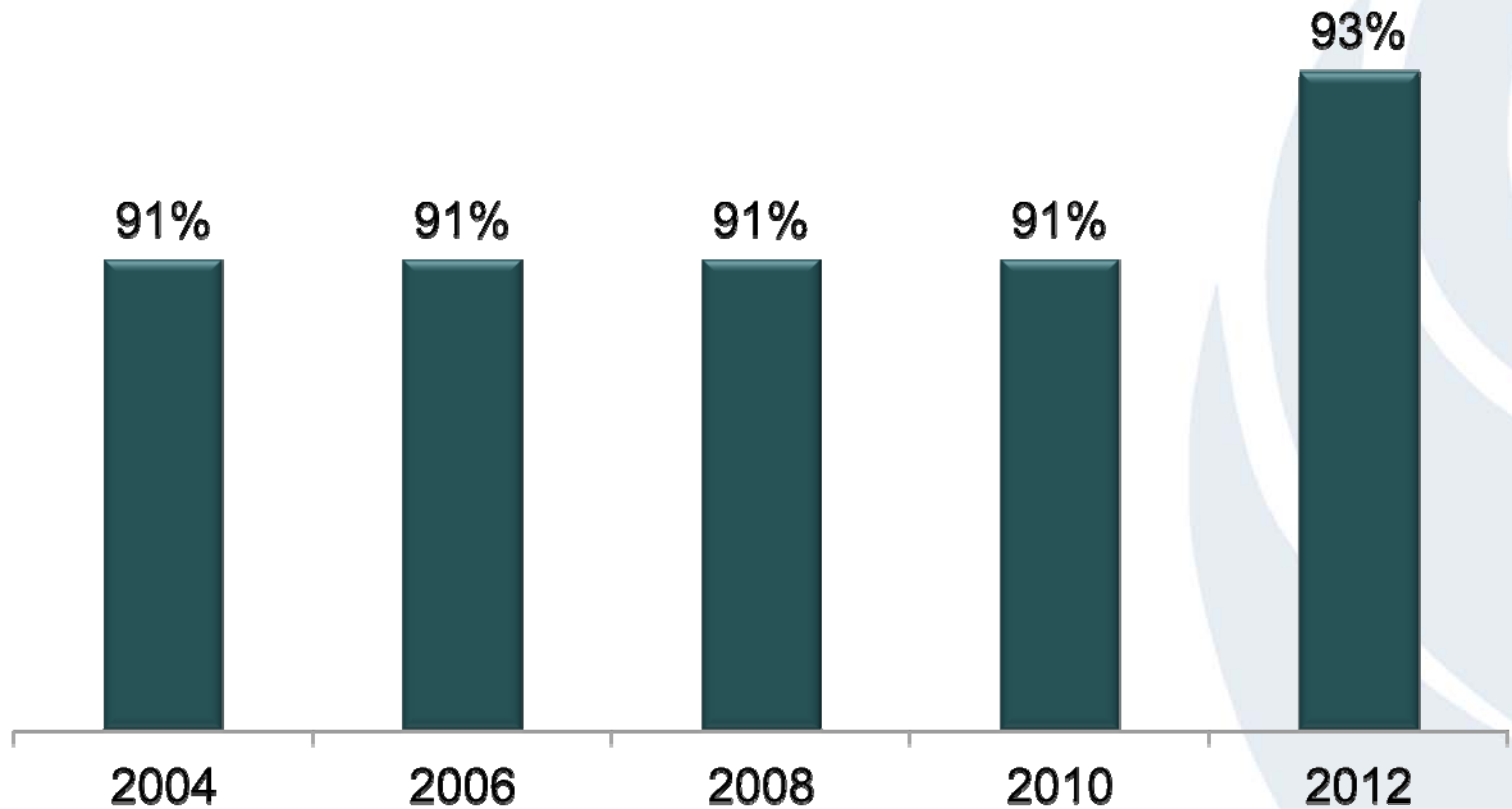
- 3.2% total compensation concession from all bargaining units in 2010
- 1.6% restored in 2012
- 1.6% remains a concession



2012 Community Opinion Survey

Source: Community Attitude Survey, conducted by Behavior Research Center

“Phoenix Is a Good Place To Live”





2012 Community Opinion Survey

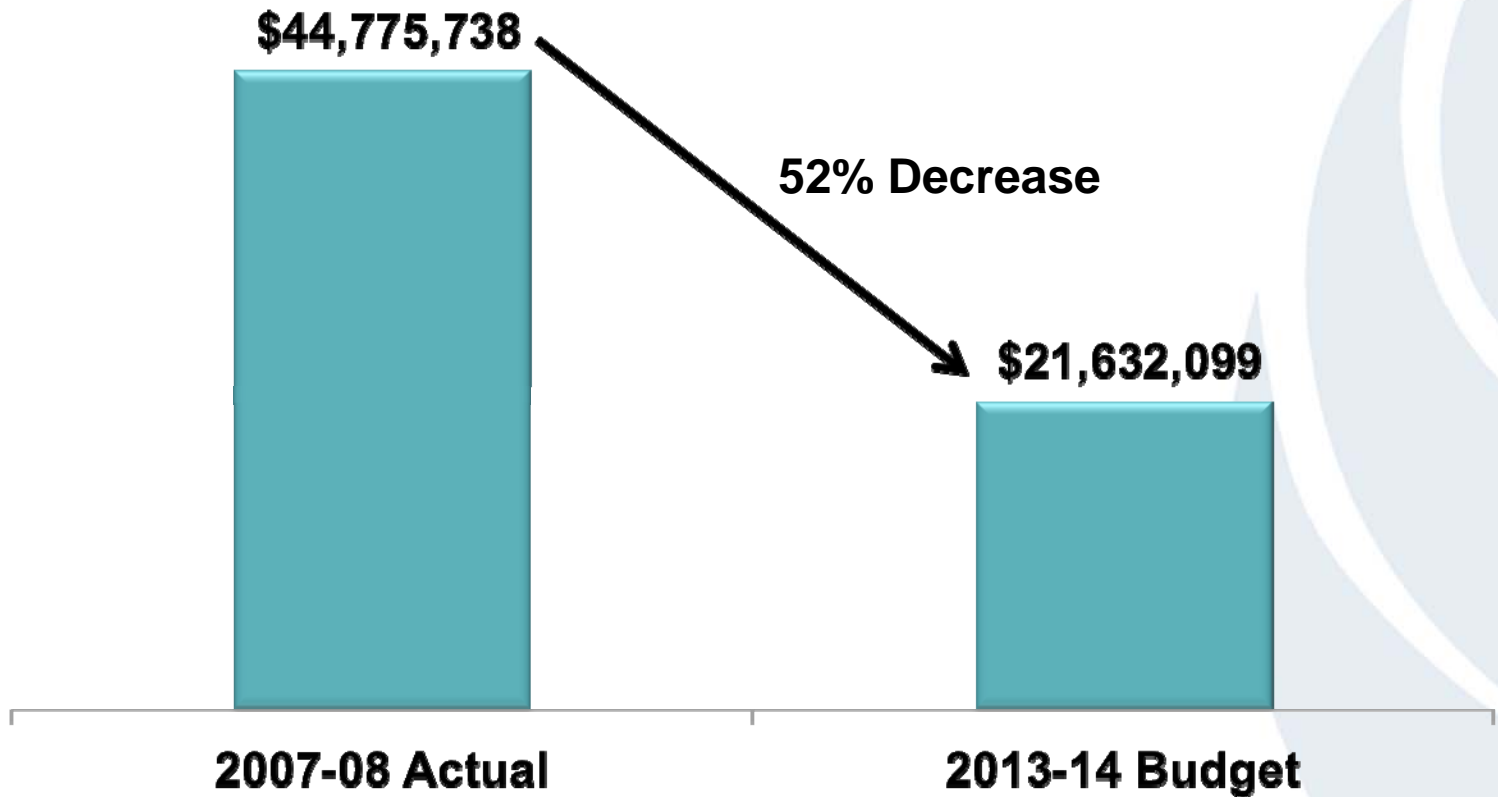
20 of 26 service areas improved from 10 years ago, including:

- Police Protection
- Enforcing Traffic Laws
- Emergency Medical Services
- Garbage/Recycling
- Property Maintenance Standards
- Fire Protection
- Countering Gang Activities
- Parks/Recreation Programs
- Preserving Neighborhoods
- Elderly Services
- Uncontainerized Trash
- Preserving Mountains/Deserts
- City Bus Service
- Operating Wastewater Plants
- Safe Drinking Water
- Controlling Cut-through Traffic
- Crime Prevention Efforts
- Providing Youth Programs
- Preventing Illegal Dumping
- Poor/Homeless Services



Citywide Overtime Savings

Overtime Costs





Pension Reform Efforts To Date

City of Phoenix



Agenda Items 3 – 7 Information and Discussion

- Item 3 – Review of Pension Reform Efforts To Date
- Item 4 – Review of Pension Calculation for COPERS, PSPRS and EORP
- Item 5 – Review of Pensionable Compensation and Benefit Items for Phoenix COPERS, PSPRS and EORP
- Item 6 – Examples of Impact of Sick Leave and Vacation Leave on Pension
- Item 7 – Multi-City Survey



Item 4

Review of Pension Calculation for
COPERS, PSPRS and EORP



Review of Pension Calculation for COPERS, PSPRS and EORP

City of Phoenix



Retirement Eligibility

COPERS Tier 1

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



Retirement Eligibility

COPERS Tier 2

Active Employee

- Age 60 with 10 or more years of service
- Age 62 with 5* or more years of service
- Rule of 87: age plus credited service equal 87

Deferred Vested

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

*Vesting period =
Five years



Retirement Eligibility PSPRS – Member on or Before 12/31/11

Active Employee

- 20 years of credited service
- Age 62 with 15 or more years of service

Deferred Vested

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

*Vesting period =
Ten years



Retirement Eligibility PSPRS – Member on or After 1/1/12

Active Employee

- Age 52.5 with 25 or more years of service

Deferred Vested

- Age 52.5 with 25 or more years of service



Retirement Eligibility EORP

- 20 years of credited service
- Age 62 with 10 or more years of service
- Age 65 with 5 or more years of service



Average Annual Retirement Benefit

- COPERS: \$28,912
- PSPRS: \$66,184

Based on June 30, 2012 valuations



Benefit Formula – COPERS Tier 1

- Straight Life Pension amount is calculated as:
 $(\text{FAS}) \times (\text{Credited Service}) \times (\text{Benefit Ratio})$
- Example:
 - Monthly FAS is \$6,739 (Annual = \$80,864)
 - Average pensionable compensation for members retired January 1, 2011 through August 1, 2013
 - Credited Service of 22.8 years
 - Average service of current retirees
 $\$6,739 \times 22.8 \times 2\% = \$3,073$ monthly pension
(\$36,879 annual)
- There are six payment options - some include survivor provisions
- Tier 2 changes retirement eligibility and benefit ratio



Benefit Formula – Public Safety Member on or Before December 31, 2011

- Straight Life Pension amount is calculated as:
Benefit Ratio 20 years 50% FAS; 20 to 25 @ 2%; over 25 @ 2.5% per year max at 80% of FAS
- Example:
 - Monthly FAS is \$9,186 (Annual = \$110,235)
 - Average pensionable compensation for members retired or in DROP January 1, 2011 through August 1, 2013
 - Credited Service of 25.2 years
 - Average service of current retirees
$$(\$9,186 \times 50\%) + (\$9,186 (5.2 \times 2.5\%)) = \$5,787 \text{ monthly pension}$$
$$(\$69,444 \text{ annual})$$
- Survivor receives 80% of monthly benefit



Benefit Formula – Public Safety Member on or After January 1, 2012

Public Safety Changes:

- Retirement eligible when 52.5 with 25 years of service
- Final Average Salary (FAS) high 60 consecutive months within the last 20 years of credited service
- Benefit ratio: 25 years service at 62.5%; over 25 years 2.5% per year max at 80% of FAS
- No DROP



Benefit Formula – Elected Officials Member on or Before December 31, 2011

- Straight Life Pension amount is calculated as:
 $(\text{FAS}) \times (\text{Credited Service}) \times (\text{Benefit Ratio})$
- Example:
 - Monthly FAS is \$2,567 (Annual = \$30,804)
 - Average pensionable compensation for active members as of September 16, 2013
 - Credited Service of 20 years
 - Member eligible with 20 years regardless of age
 $\$2,567 \times 20 \times 4\% = \$2,054$ monthly pension
(\$24,648 annual)
- Survivor receives 75% of monthly benefit



Benefit Formula – Elected Officials Member on or After January 1, 2012

Elected Official Changes:

- Early retirement is not available
- Benefit ratio reduced to 3% of the member's average yearly salary multiplied by the credited service
- Survivor receives 50% of monthly benefit



Review of Pension Calculation for COPERS, PSPRS and EORP

City of Phoenix



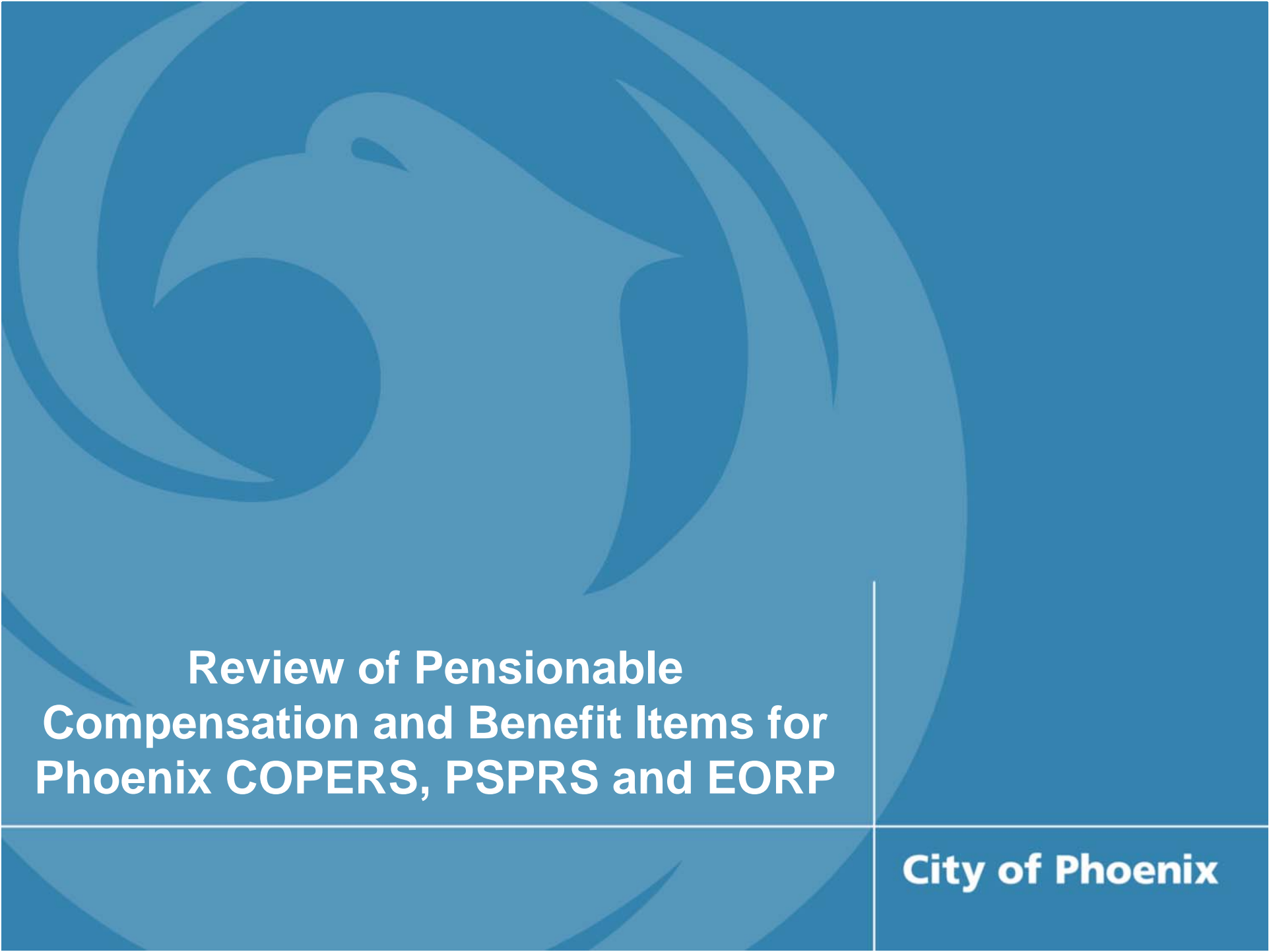
Agenda Items 3 – 7 Information and Discussion

- Item 3 – Review of Pension Reform Efforts To Date
- Item 4 – Review of Pension Calculation for COPERS, PSPRS and EORP
- Item 5 – Review of Pensionable Compensation and Benefit Items for Phoenix COPERS, PSPRS and EORP
- Item 6 – Examples of Impact of Sick Leave and Vacation Leave on Pension
- Item 7 – Multi-City Survey



Item 5

Review of Pensionable Compensation and Benefit Items for Phoenix COPERS, PSPRS and EORP

The background of the slide features a large, stylized phoenix logo in shades of blue. The phoenix is depicted in profile, facing right, with its wings spread upwards and outwards. The logo is composed of several overlapping, curved shapes that create a sense of movement and depth. The overall color palette is monochromatic, using various tones of blue.

**Review of Pensionable
Compensation and Benefit Items for
Phoenix COPERS, PSPRS and EORP**

City of Phoenix

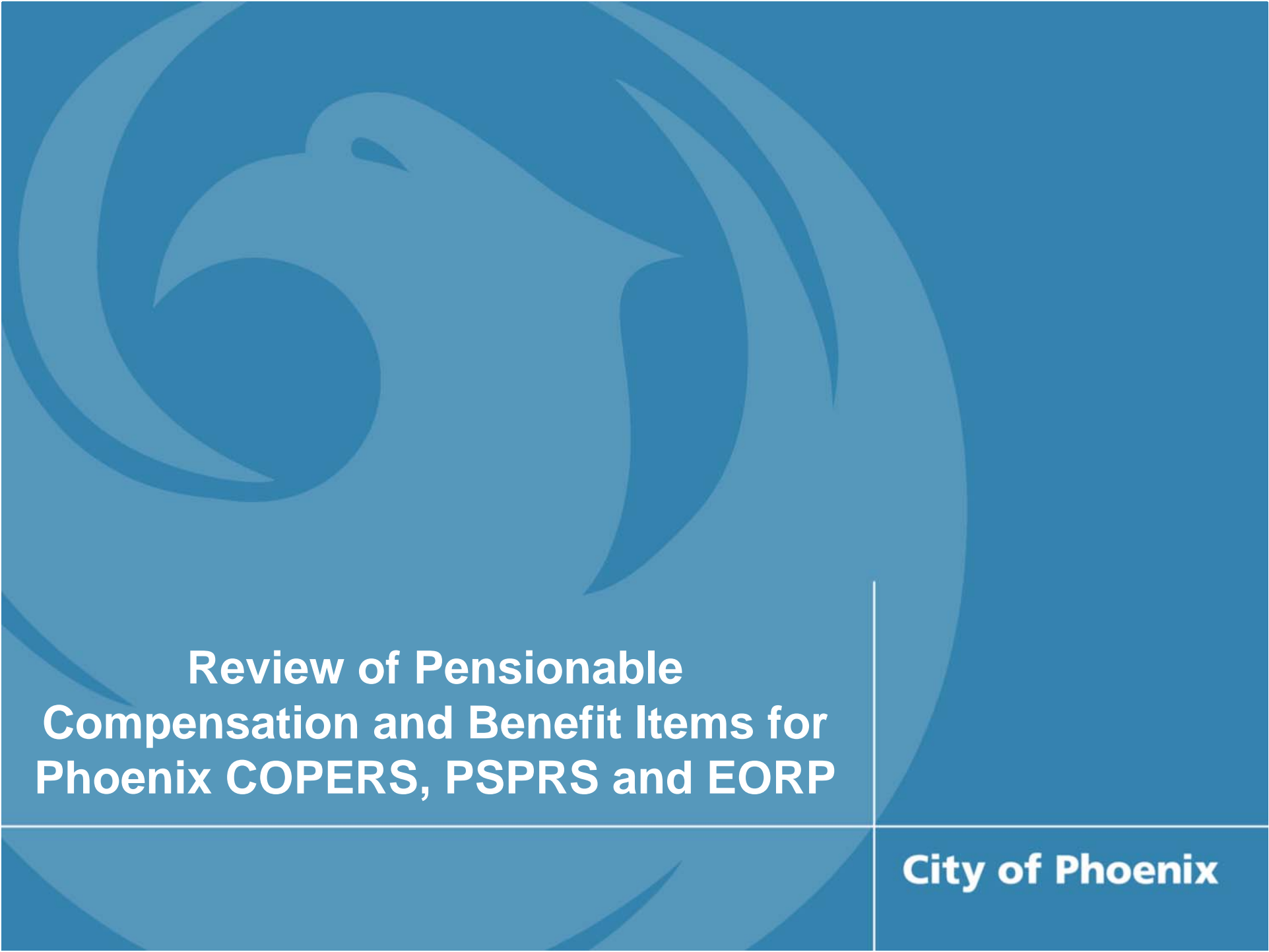


Components of Pensionable Compensation

Pensionable Compensation =

- Base salary / wages
- + Premiums (e.g. shift differential, linguistic pay)
- + Overtime / Comp time*
- + Allowances (e.g. transportation, communications)
- + Sell backs (vacation, sick)*
- + Periodic payments (longevity, performance pay)
- + Deferred compensation
- + Retirement contribution reimbursement
- + Enhanced regular compensation (public safety)

** Sell backs of comp time, sick and vacation are not pensionable in PSPRS*

The background of the slide features a large, stylized phoenix logo in shades of blue. The phoenix is depicted in profile, facing right, with its wings spread upwards and outwards. The logo is composed of various shades of blue, creating a sense of depth and movement. The overall background is a solid medium blue color.

**Review of Pensionable
Compensation and Benefit Items for
Phoenix COPERS, PSPRS and EORP**

City of Phoenix



Agenda Items 3 – 7 Information and Discussion

- Item 3 – Review of Pension Reform Efforts To Date
- Item 4 – Review of Pension Calculation for COPERS, PSPRS and EORP
- Item 5 – Review of Pensionable Compensation and Benefit Items for Phoenix COPERS, PSPRS and EORP
- Item 6 – Examples of Impact of Sick Leave and Vacation Leave on Pension
- Item 7 – Multi-City Survey



Item 6

Examples of Impact of Sick Leave and
Vacation Leave on Pension



Sick and Vacation Leave

City of Phoenix



Sick Leave – Accrual

Accrues 10 hours per month, unlimited accrual

(Personnel Rule 15c) (A.R. 2.30)



Sick Leave - Payout

General City Employees

Lump sum paid at retirement. Limits and requirements apply.

Sick leave accrued above a July 2012 snapshot not pensionable

Public Safety Employees

Enhanced regular compensation

Lump sum paid at retirement. Limits and requirements apply. Not pensionable.



Vacation Accrual

VACATION	Years Of Service	Monthly Accrual Rate	Max Carryover As of Dec 31, 2013	Max Accrual that can be Compensated at Separation
New employees must wait 6 months before using vacation. (Personnel Rule 15b) (AR 2.18)	0 – 5 th	8 hours	232 hours	240 hours
	6 th – 10 th	10 hours	280 hours	300 hours
	11 th – 15 th	11 hours	304 hours	330 hours
	16 th – 20 th	13 hours	352 hours	390 hours
	21 st +	15 hours	400 hours	450 hours



Vacation - Payout

General City Employees

Sell-back - Annual or semi-annual opportunity to “sell-back” a limited number of vacation hours, provided a minimum number of vacation hours used

Pay out of unused vacation time at separation of employment

Public Safety Employees

Sell-back - Annual or semi-annual opportunity to “sell-back” a limited number of vacation hours, provided a minimum number of vacation hours used (not pensionable)

Pay out of unused vacation time at separation of employment (not pensionable)

Selling vacation on holidays

Enhanced regular compensation



Examples of Impact of Sick Leave and Vacation

Data: Service retirements during calendar years 2011, 2012 and through 8/2013 currently receiving benefits (population = 775)

Average monthly final average compensation without vacation and sick leave payout = \$6,261

Average vacation payout = \$8,875

Average sick leave payout = \$8,309

Average monthly final average compensation with average vacation and sick leave payout = \$6,739



Examples of Impact of Sick Leave and Vacation

Average years of service without average sick leave service = 22.82 years

Average sick leave service = 0.45 years

Average years with average sick leave service = 23.27



Examples of Impact of Sick Leave and Vacation

Straight Life Pension amount is calculated as:
Final average compensation x
credited service x benefit ratio

Example of monthly pension without vacation, sick
leave payouts and sick leave service:
 $\$6,261 \times 22.82 \times 2\% = \$2,858$

Example of monthly pension with average vacation,
sick leave payouts and sick leave service:
 $\$6,739 \times 23.27 \times 2\% = \$3,136$



Sick and Vacation Leave

City of Phoenix



Agenda Items 3 – 7 Information and Discussion

- Item 3 – Review of Pension Reform Efforts To Date
- Item 4 – Review of Pension Calculation for COPERS, PSPRS and EORP
- Item 5 – Review of Pensionable Compensation and Benefit Items for Phoenix COPERS, PSPRS and EORP
- Item 6 – Examples of Impact of Sick Leave and Vacation Leave on Pension
- Item 7 – Multi-City Survey



Item 7

Multi-City Survey





Multi-City Survey

City of Phoenix



City of Phoenix

PENSION REFORM TASK FORCE

Results of Multi-City Survey

June 21, 2011

This document has been prepared by The Segal Company for the benefit of the City of Phoenix and is not complete without the explanation provided at the June 21, 2011 Task Force meeting. This document should not be shared, copied or quoted, in whole or in part, without the consent of The Segal Company, except to the extent otherwise required by law.

Copyright ©2011 by The Segal Group, Inc., parent of The Segal Company. All rights reserved.

5189477 / 02120



**Matt Strom
Carol Mercer**

Retirement Benefits

	Basis
Phoenix	3 year FAC; incl. unused vacation and sick leave
Los Angeles	1 year FAC; incl. base salary and regular bonuses only
Houston	3 year FAC
Philadelphia	3 year FAC
San Antonio	Gross wages paid by the city, including overtime, car and uniform allowances, sick leave, and vacation pay; "annually repeating updated service credit" (balances updated to reflect current 3 year FAC)
San Diego	General members hired before 7/1/09: 1 year FAC (possible 10% inc. for DOH before 7/1/02); General members hired after 7/1/09: 3 year FAC
San Jose	1 year FAC
Jacksonville	3 year FAC; excluding bonuses, overtime and payouts of accumulated leave
Tucson	3 year FAC; incl. unused vacation and sick leave
ASRS	Members hired before 7/1/11: 3 year FAC Members hired on or after 7/1/11: 5 year FAC

The information above was compiled from publicly available sources and represents a summary as we understand it. It is provided for informational purposes only and if relied upon, the original source document should be obtained for verification.



Anti-Spiking Policies

System	FAS Calculation	Anti-Spiking Policy
Delaware SEPP	Average of salaries over the final three years	Eliminate overtime from pension creditable compensation.
Idaho PERF	Average of salaries over each employee's highest-earning consecutive 42 months	Exclude from FAS any lump sum payments inconsistent with usual compensation patterns made upon termination from service.
Illinois MRF	Average of the highest total earnings during any consecutive eight years within the last 10 years of service	FAS is capped at \$106,800 in 2011, which will increase annually by the lesser of 3% or one-half of the increase of the CPI.
New York STRS	Average of the highest three consecutive years of salary	Exclude from FAS yearly increases in regular salary exceeding 10% of the average of the previous two years' salaries. Also exclude bonuses, payments of unused leave, and payments made outside contract terms and on the eve of retirement.
North Carolina	Average of salaries over a four-year period	Exclude salary not considered "compensation" under state statute from the pension calculation.
Texas TRS	Average of salaries over a five-year period	Salary cannot increase by more than \$10,000 or 10% a year for the final three or five years of service.

Source: *Lessons from Well-Funded Public Pensions: An Analysis of Six Plans that Weathered the Financial Storm*, NIRS (June 2011)



Multi-city Survey

City of Phoenix



Agenda Items 8 – 10

- Item 8 – Request for Additional Research and Future Agenda Items
- Item 9 – Call to the Public
- Item 10 – Adjournment of Meeting



Phoenix City Council

Pension Fairness and
Spiking Elimination Ad Hoc
Subcommittee

9/17/13

City of Phoenix