

Citizens' Initiative Review of Proposition 487: Pension reform

Key Findings / Pros & Cons (Sept. 21, 2014)

Citizens' Initiative Review of Proposition 487

This Citizens' Statement was developed by an independent panel of 20 City of Phoenix voters, chosen at random from the voting population of Phoenix and balanced to fairly reflect Phoenix demographics. The panel has issued this statement after 3.5 days of hearings and deliberation. This statement has not been edited nor has the content been altered.

Key Findings

- In 2013 Phoenix voters passed pension reform backed by both the firefighters and the business community. The measure raised employee contributions to their retirement accounts and required employees to work longer before getting a pension. Additionally, contract negotiations addressed many of the pension spiking concerns.
- Adopting a defined contribution plan for new city employees offers more control to the employee over their retirement plan. Under Proposition 487, the city will deposit an amount less than or equal to 8% of an employee's salary, and the employee will have the option, but will not be required to contribute. This allows the city more predictability in budgeting.
- Transitioning employees into a 401K style defined contribution system can make city budgeting more predictable, which may help the City of Phoenix encourage business and job growth.
- Both sides expect legal challenges due to the unclear language of Proposition 487, which may delay the implementation of the Proposition and incur legal costs to the City of Phoenix.
- Police and firefighters are covered under a state retirement program. They do not receive social security and are not intended to be affected by Proposition 487. However, as written, Proposition 487's impact on police and firefighters is unclear, and may contribute to unintended financial and legal consequences for employees, the city, and taxpayers.
- The City of Phoenix Employee Retirement System (COPERS) board retained legal counsel to review Proposition 487. Based on that analysis, they determined that only one section would not likely be challenged legally. According to that review, Proposition 487 will cost the taxpayers \$350 million.
- When the City Council requested a full review of the entire proposition, actuaries found it would save taxpayers up to \$500 million.
- According to city statistics, the average pension of a civilian City of Phoenix retiree retiring under City of Phoenix Employee Retirement System (COPERS) is less than \$30,000 per year.
- In 2013, the City of Phoenix pension system was funded at 64% due to factors related to the economy. According to the deputy city manager, the City of Phoenix has been contributing 100 % of the actuary-recommended amount to the fund. If the fund remains at 64%, this could lead to cuts to city services and increased tax liability.
- Proposition 487 should end the practice of pension spiking, which is adding non-base compensation to the pension calculation. This results in significant savings to the city and taxpayers. The city's own actuarial analysis shows that by limiting pensionable pay to the employee's base salary may save taxpayers \$385 million over the first 20 years.

These findings were agreed to by a supermajority of the citizen panel.

Citizen Statement in Support of the Measure

- Proposition 487 better aligns retirement benefits that new city employees will receive with what is typical in the private sector without diminishing what current employees and retirees receive.
- A ballot measure approved by the voters in March 2013 made changes to the current pension system. Proposition 487 gives the voters a chance to make additional reform while continuing to honor previous commitments to current employees and retirees.
- In 2013, the City of Phoenix pension system was funded at 64% which has contributed to an increase to taxpayer liability. Continuing to fund at this rate could lead to cuts to city services and increased taxes and fees.
- Adopting a 401K style defined contribution plan for new city employees offers more control to the employee over their retirement planning.
- Proposition 487 should end the practice of pension spiking, which is adding non-base compensation to the pension calculation. Ending pension spiking will result in significant savings to the city and taxpayers. The city's own actuarial analysis shows that limiting pensionable pay to the employee's base salary may save taxpayers \$385 million over the first 20 years.

These statements were agreed to by a supermajority of the citizen panel.

Citizen Statement in Opposition to the Measure

- Police and firefighters are covered under a state retirement program. They do not receive Social Security and are not intended to be affected by Proposition 487. However, as written, Proposition 487's impact on police and firefighters is unclear, and may contribute to unintended financial and legal consequences for employees, the city, and taxpayers.
- Both sides expect legal challenges due to the unclear language of Proposition 487, which may delay implementation of the proposition and incur legal costs to the City of Phoenix.
- In 2013 Phoenix voters passed pension reform backed by both firefighters and the business community. The measure raised new city employee contributions to their retirement accounts and required employees to work longer before being eligible for a pension. Additionally, contract negotiations addressed many of the pension spiking concerns.
- Retirement benefits for City of Phoenix workers do not make the majority of employees any more than middle class. According to city statistics, the average pension of a civilian City of Phoenix retiree retiring under City of Phoenix Employee Retirement System (COPERS) is less than \$30,000 per year.
- Proposition 487 has been written and funded by the Arizona Free Enterprise Club, which does not share the source of its financial support.

These statements were agreed to by a supermajority of the citizen panel.