Reason Foundation Summary of Phoenix Pension Reform Act Actuarial Analysis

Phoenix Pension Initiative Saves $32 Million in the First Year of Reform; $395 Million Total

By Anthony Randazzo, Director of Economic Research

COPERS is financially unsustainable. The City of Phoenix Employee Retirement System (COPERS) has just 56.6% of the money needed to pay the pension benefits it has promised to public employees.

The city's current approach to managing the pension system has racked up $1.5 billion in debt. If the pension plan misses its investment target by just 10% over the next 20 years that will mean another $284 million in pension debt.

The last reform didn't fix COPERS. The city's pension system is still using unrealistic assumptions about the future to make the debt appear lower than it really is. If COPERS were regulated like a private sector pension fund, then the numbers would show taxpayers actually have $2.5 billion in pension debt—$1 billion more than currently acknowledged. Without substantive changes this debt will continue to grow.

Future employees are harmed by the current system. Pension plans *are not* supposed to require current employees to pay for the pension benefits of retirees. Pension plans *are not* a pay-as-you-go system like Social Security. Pension plans *are* designed to have all the necessary resources available to cover promised benefits when a public employee retires. However, reforms passed in 2013 will require future city employees to pay 50% of the pension debt accrued for current and past employee benefits.

By 2015, new city employees will be contributing three times as much of their paychecks to the pension fund as their colleagues who were hired before 2013. And over the next two decades, new hires could be required to pay 25% of their paychecks into the pension fund to help pay off pension promises made to previous employees. This is unsustainable.

Sharing the cost of paying off pension debt means future workers will pay a much higher share of their paychecks towards pensions, and that will make it hard to recruit workers in the future without paying them more—effectively eliminating the net benefits to the city. So while Phoenix actuaries make it look like pension debt is being paid down as current employees subsidize retiree costs, it is very unlikely this will work out as they assume in the years ahead.

The Phoenix Pension Reform Act (PPRA) would save taxpayers $31.6 million in the first year of reform and $394.7 million over the next 20 years. PPRA savings come by combining the creation of a new 401(k)-style retirement benefit for new hires with a permanent end to pension spiking, a new calculation method for future pension benefits, and an end to dual enrollment in city retirement plans.

The Phoenix Pension Reform Act would immediately cut pension debt by $209.5 million by permanently ending pension spiking and adopting a pension benefit calculation method that is standard across the country.

The Phoenix Pension Reform Act would provide future city workers with retirement options designed for the 21st century. Current and future generations will be more mobile than any generation before them, with fewer and fewer people staying in the same job their whole lives. Portable 401(k)-style plans are flexible and adapt to retirement strategies that match employees' personal goals and their life plans.

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For complete details on the fiscal effects of PPRA, see Reason Foundation's June 2014 report, "Phoenix Pension Initiative Eliminates Taxpayer Risk, Saves Hundreds of Millions", available at http://reason.org/news/show/phoenix-pension-reform-initiative.