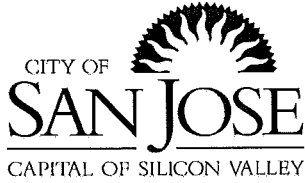


SENT TO COUNCIL:



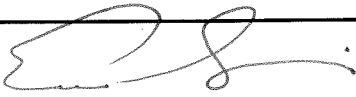
Memorandum

TO: HONORABLE MAYOR AND
 CITY COUNCIL

FROM: Alex Gurza

**SUBJECT: RETIREMENT REFORM
 NEGOTIATIONS**

DATE: September 12, 2011

Approved  Date 9/12/11

INFORMATION

The City has been providing information regarding labor negotiations to the public. This memo provides a summary of the proposals the City has received to date related to negotiations over retirement reform. The complete proposals are attached and the chart below may be utilized as a quick reference to the general subject matter and date of receipt of the most recent proposals.

Bargaining Unit	Changes to Current Employee Pension Benefits (1 st Tier)	Changes to Retiree Healthcare Benefits for Current Employees (1 st Tier)	Pension Benefits for Future Employees (2 nd Tier)	Retiree Healthcare Benefits for Future Employees (2 nd Tier)	"Opt In" Program for Current Employees	Changes to SRBR "13 th Check"	Draft Ballot Measure
ABMEI, MEF, CEO IBEW & OE#3	N/A	N/A	07/29/11	N/A	N/A	08/23/11 ¹	N/A
AEA, CAMP & AMSP	N/A	N/A	03/04/11	08/29/11	03/04/11	08/26/11	N/A
ALP	N/A	N/A	N/A	N/A	N/A	N/A	N/A
IAFF	N/A	N/A	02/11/11 & 02/28/11	02/11/11 & 02/28/11	02/28/11 & 08/30/11	02/11/11	N/A
POA	N/A	N/A	N/A	N/A	06/03/11 ²	N/A	N/A

¹ Tentative Agreement reached on City's proposal
² Tentative Agreement reached on Union's proposal


 ALEX GURZA
 DEPUTY CITY MANAGER

Attachments

2011 ABMEI, AFSCME (CEO-MEF), IBEW, OE-3 COALITION – CITY OF SAN JOSE
NEGOTIATIONS

UNION PROPOSAL – NEW HIRE TIER 2

Rationale:

This proposal addresses the issue of retirement. It is made in good faith and is in response to the City's incorporation of desired changes to its retirement benefits in the proposed ballot measure. The non-management, rank-and-file unions are at the bargaining table to work with the City. This proposal maintains our effort to ensure that the City of San Jose continues to be a great place to work. It is critical that the City not incur unnecessary costs and that it continues to work efficiently and effectively. It is also important that we maintain the defined benefit plan in the interest of pursuing retirement security and in the interest of having the most efficient retirement program possible.

This proposal aims to address our three primary goals: provide retirement security for city workers, reduce the cost of retirement benefits for new hires, and address the volatility in city costs to provide such benefits.

Second Tier Retirement Proposal from Non-Management, Rank-and-File Unions

Purpose: This proposal aims to achieve three goals regarding the retirement benefits and city costs for future employees in the Federated Plan:

1. Maintaining benefit levels that provide retirement security for the city's workers in the Federated Retirement Plan,
2. Reducing the volatility in the city's costs, and
3. Lowering the cost of retirement benefits.

Proposals to Reduce the Volatility in the City's Retirement Costs

<u>Proposal #</u>	<u>Details</u>	<u>Rationale</u>
1.	<p>COLA's forfeited based on funding ratio test*:</p> <ol style="list-style-type: none"> a. Plan COLA would not be paid if funding ratio falls below 75% b. No retiree/beneficiary could miss more than 5 COLA's in total c. Funding ratio test would be based upon the market value of assets 	<p>If this were in place today:</p> <ul style="list-style-type: none"> - Plan liability would be reduced by 1.8% each time funding test was triggered. - Unfunded liability would be reduced by 6% each time funding test was triggered. - Retirees would contribute to restoring health of plan
2.	<p>Employee contributions would vary based upon funding status of plan*:</p> <ol style="list-style-type: none"> a. Employees would contribute base amount: 3/11ths of normal cost b. If funding ratio falls below 75%, employee contribution rises to 1/2 normal cost c. Funding ratio test would be based upon the actuarial value of assets 	<p>If this were in place today:</p> <ul style="list-style-type: none"> - Increased employee contributions would result in lower city contributions by roughly 4% of pay. - City contributions to the Federated plan increased by 13% since 2001, this would prevent about 1/3rd of increase - Workers would contribute to reducing city cost volatility
3.	<p>City would never contribute less than 8/11ths of normal cost</p>	<p>Prevents contribution holidays</p>

* Assumes city makes 100% of its required contributions. Funding ratio test would be adjusted, if the city failed to meet its obligations.

Proposals to Reduce the Retirement Costs

<u>Proposal #</u>	<u>Details</u>	<u>Rationale</u>
4.	<p>Raise Retirement Eligibility</p> <ol style="list-style-type: none"> a. Pensions: Age 60 and 5 Years of Service b. Retiree Health Care: Age 60 and 15 Years of Service 	<ul style="list-style-type: none"> - This will reduce costs of pensions and retiree health care for new hires. - Would eliminate 5 of the 10 highest health cost years
5.	<p>Use 3-year highest pay for pension benefit, returning to prior policy</p>	<ul style="list-style-type: none"> - This reduces costs for new hires, by roughly 3-4%
6.	<p>Limit pensionable earnings by adding a compensation cap to the Federated Plan</p> <ol style="list-style-type: none"> a. Compensation cap would be equal to the maximum Social Security taxable wage base in effect during the year when an employee retired. b. Social Security taxable wage base for 2011 is \$106,800. 	<ul style="list-style-type: none"> - This reduces costs and alters the focus of the plan

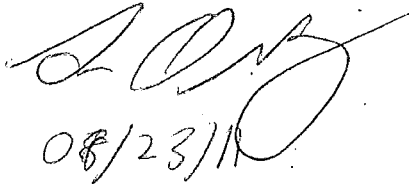
CITY PROPOSAL - SUPPLEMENTAL RETIREE BENEFIT RESERVE (SRBR)

Proposed Language:

As soon as practicable, the Supplemental Retiree Benefit Reserve (SRBR) will be eliminated and the funds set aside for the SRBR will be put back into the Federated City Employees' Retirement System Fund.

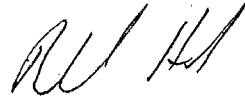
FOR CITY:

Gina Donnelly



08/23/11

FOR UNION:



RICHARD HICKS

8-23-11

CITY PROPOSAL – SUPPLEMENTAL RETIREE BENEFIT RESERVE (SRBR)

Proposed Language:

As soon as practicable, the Supplemental Retiree Benefit Reserve (SRBR) will be eliminated and the funds set aside for the SRBR will be put back into the Federated City Employees' Retirement System Fund.

FOR CITY:

Gina Donnelly
[Signature]
08/23/11

FOR UNION

[Signature] 8/23/11
LAVERNE S. WASHINGTON
AFSCME
CONFIDENTIAL EMPLOYEES ORGANIZATION

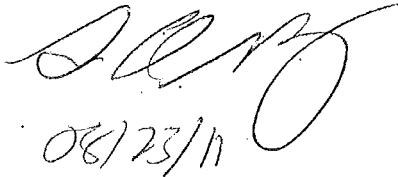
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Proposed Language:

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FOR CITY:

Gina Donnelly



08/23/11

FOR UNION:


Frank Casano : I.B.E.W. 8-23-2011

CITY PROPOSAL - SUPPLEMENTAL RETIREE BENEFIT RESERVE (SRBR)

Proposed Language:

As soon as practicable, the Supplemental Retiree Benefit Reserve (SRBR) will be eliminated and the funds set aside for the SRBR will be put back into the Federated City Employees' Retirement System Fund.

FOR CITY:

Erin Donnelly

08/23/11

FOR UNION:

Yolanda A. Cruz
8/23/11
Yolanda A. Cruz
MEF, AFSCME Local 101
President

2011 CITY OF SAN JOSE - OE#3 - Tentative Agreement

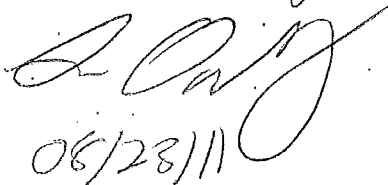
CITY PROPOSAL - SUPPLEMENTAL RETIREE BENEFIT RESERVE (SRBR)

Proposed Language:

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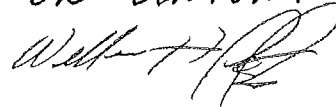
FOR CITY:

Craig Donnelly



08/28/11

FOR UNION:



8/26/11 U → C
2:10pm

August 26, 2011

2011 CITY OF SAN JOSE – AEA (units 41/42 and 43), AMSP and CAMP

**COALITION COUNTER PROPOSAL
HEALTH CARE COST SHARING**

As you are aware, just a few months ago our membership and the city approved a successor contract that included the following health care cost increases for our membership:

- Health care premium increase,
- Office visit Co-pay increase \$25,
- Prescription Co-pay increased to \$10 for generic and \$25 for brand name,
- Emergency Room Co-pay increased to \$100, and
- Inpatient/Outpatient procedure Co-pay increased to \$100

In addition, our members agreed to:

- A lower payment amount in-lieu of health and/or dental insurance,
- Eliminate healthcare dual coverage, and
- Eliminate dental dual coverage

The City proposal to offer this unreasonably high out-of-pocket deductible plan to it's current employees will do nothing more than allow the City to saddle this draconian plan onto current retirees. Our members are not interested in this plan and we reject this city proposal.

At the very same time the City is proposing to eliminate SRBR and cut retiree's COLA it is not reasonable, nor is it fair, to back-door the retirees and add another financial burden onto current retirees.

Our coalition is fine with the current health care offerings.

8/26/11 0 → c
2:16 pm
August 26, 2011

2011 CITY OF SAN JOSE – AEA (units 41/42 and 43), AMSP and CAMP

**COALITION COUNTER PROPOSAL
RETIREMENT SERVICE CREDIT**

The current methodology to determine Retirement Service Credit would continue.

This does not constitute the Coalition's full and complete proposal. The Coalition may make additions, deletions and modifications to this proposal.

C-7U
3/4/11
10:43a.m.

SAN JOSE COALITION

ABMEI

AEA/IFPTE LOCAL 21

AMSP

CAMP/IFPTE LOCAL 21

IBEW

**Settlement Proposal
March 4, 2011**

This is a PACKAGE PROPOSAL. This PACKAGE PROPOSAL is submitted in an attempt to reach a settlement in these extraordinary economic circumstances facing the City of San Jose.

In the event this PACKAGE PROPOSAL is not accepted by the City of San Jose, the foregoing labor organizations and coalition reserves the right to modify, edit or amend any future proposals, including but not limited to, the effective dates of the specific changes.

PENSION REFORM PROPOSAL FOR NEW HIRES
SECOND TIER RETIREMENT (Plan 2)
INCLUDING RETIREE MEDICAL BENEFIT

This proposal is for all applicable members initially hired after the effective date of each perspective MOA.

Our coalition proposes the following retirement benefits changes for prospective employees only:

1. Retirement benefit formula 2% at age 60
2. Final average salary based on highest 36 months
3. COLA based on CPI with a 3% cap
4. Vesting at ten years of service
5. Cost split 40% employees, 60% City
6. Eliminate SRBR – 13th Check – for new hires
7. The retiree medical benefit will be defined as the minimum plan amount paid to active members at the time the employee retires without future increases.

The total contribution of City and Employee cost will not exceed 12.4% Normal Cost.

Once the plan actuary confirms the normal cost of this proposal, any difference between the actual cost (we estimate it being at or near 11.2%) and the City Council directed goal of 12.4% would be set aside in a segregated fund within the Federated Retirement System and be solely utilized to pay any future unfunded liability of either the first tier or second tier of the Federated Retirement System.

PENSION – VESTED MEMBER OPT-IN OPTION
VOLUNTARY
(PLAN 2)

The following pension plan changes shall apply prospectively to any current employee in each of the foregoing labor organizations and coalition who at their option select to join the second tier retirement plan (Plan 2). The actuarial savings from a member opting into the second tier retirement plan shall be shared equally between the employee and the City of San Jose at a 1:1 ratio. For the employee, the savings can be applied in either of two methodologies:

- 1) Applied to a new 401(a) account to be dispersed within the Plan and IRS guidelines upon separation of employment or retirement, OR
- 2) Paid directly to the employee as compensation on a bi-weekly basis.

If a current employee selects to join the second tier retirement plan the member shall remain in the second tier retirement plan or, on a one time basis, an employee could re-join the Tier 1 plan but must pay all resultant UAAL attributed to that individual prior to re-joining the first tier plan (Plan 1).

8/26/11 11 → C
7:13 PM
August 26, 2011

2011 CITY OF SAN JOSE - AEA (units 41/42 and 43), AMSP and CAMP

**COALITION COUNTER PROPOSAL
SUPPLEMENTAL RETIREE BENEFIT RESERVE (SRBR)**

Consistent with Mayor Reed, Vice Mayor Nguyen, Councilmember Herrera and Liccardo's May 13, 2011 Memorandum titled Fiscal Reform, that recommends placing limits on benefits for existing and future retirees we propose to limit any SRBR disbursement in the following manner utilizing the current disbursement methodology/formula:

1. Only survivors, or retirees retired for at least 15 years *and* receiving a pension that is equal to or less than 2/3 of the average pension would receive the benefit.
2. Last year's SRBR distribution made in accordance with the policies in place as of June 2010.

This structure maintains the SRBR program for retirees/survivors who need the most assistance.

Close SRBR eligibility for all new hires immediately.

This does not constitute the Coalition's full and complete proposal. The Coalition may make additions, deletions and modifications to this proposal.

U → C 8/29/11
10:14 AM

August 29, 2011

2011 CITY OF SAN JOSE – AEA (units 41/42 and 43), AMSP and CAMP

**COALITION COUNTER PROPOSAL
RETIREE HEALTHCARE BENEFITS FOR NEW EMPLOYEES**

We reject, in its entirety, the latest City proposal on retiree healthcare benefits for new employees that was lifted from the Vallejo Bankruptcy proceedings and forced upon their retirees. This initial City proposal is not a serious effort to reach an amicable compromise that reduces future retiree healthcare costs in a fair and equitable manner.

The Vallejo new employee retiree healthcare scheme as proposed by the City will relegate future retirees to a paltry set dollar amount that will be eroded by 20 to 30 years of inflation **and** will never match the increases in healthcare costs that have been skyrocketing year over year for some time now.

The Vallejo scheme, coupled with other City proposals to slash pensions, eliminate retiree dental coverage, eliminate SRBR, introduce a new high deductible healthcare plan and cut COLA's, will ensure employees that dedicate a full career to serving the residents of San Jose will be unable to afford reasonable healthcare coverage, unable to afford dental coverage, and be made to make horrendous financial choices in their old age.

It is difficult to take this proposal seriously and this proposal will make it extremely difficult to listen to and read the heaps of praise given to employees by the City Manager and our elected officials when a proposal such as this would certainly relegate many full career employees to a life of poverty, poor health and rotten teeth upon retirement.

As such, we reject the Vallejo Retiree Healthcare Benefits Scheme.

Our coalition counter proposal is as follows:

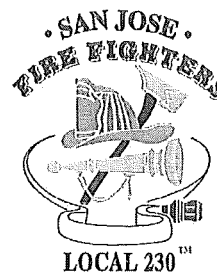
- The retiree medical benefit will be defined as the employee medical benefit in effect at the time of retirement with no post-retirement plan or cost share changes.

This does not constitute the Coalition's full and complete proposal. The Coalition may make additions, deletions and modifications to this proposal.



San Jose Fire Fighters • Local 230

425 E. Santa Clara Street, Suite 300, San Jose, CA 95113 • (408) 286-8718 • FAX (408) 286-2577



San Jose Firefighters, IAFF Local 230 Settlement Proposal February 11th 2011

SUMMARY

1. Term July 2009 to June 2013
2. Employees will contribute an additional 6.00% of pensionable compensation to offset City's pension contribution during FY 2011-2012 and FY 2012-2013.
3. Implement health care plan benefit changes, similar to the POA's health plan changes.
4. Implement Retiree Healthcare Prefunding (GASB)
5. Vacation Slot Reduction / Accrual Cap Payoff / Vacation Sell Back
6. Add Firefighter Bill of Rights provisions
7. Renegotiate Supplemental Retiree Benefit Reserve (SRBR) payment methodology
8. Full reform of pension & retirement health benefits for all new-hires to levels similar to those in effect before year 2000
9. No other changes or special conditions versus the current MOA

1. TERM

- The term of the agreement will be July 1, 2009 thru June 30, 2013

2. WAGES

2009/2010

- 0 % wage increase. \$1,413,678 City Savings

2010/2011

- 0 % wage increase. \$1,413,678 City Savings

2011/2012

- 0 % wage increase **\$1,413,678 City Savings**
- All unit employees will contribute an amount equal to 6.0 % of their pensionable compensation as additional contributions to the retirement plan.

\$4,877,435 City Savings

2012/2013

- 0 % wage increase. **\$1,413,678 City Savings**
- All unit employees will contribute an amount equal to 6.0% of their pensionable compensation as additional contributions to the retirement plan.

\$5,170,081 City Savings

- All 6.0% contributions shall terminate effective the last full pay period of June 2013.

Each active member of SJFF will pay a portion of their compensation toward their own retirement. Any amount paid will be credited toward that individual's personal retirement contribution account, and be calculated as such in the event of any action (e.g. resignation, termination, etc.) that results in any payout of that individual's personal retirement contributions. Any amount paid will be calculated as an offset against the City's pension contribution for that person, permitting the City to reduce its pension contribution expense by an identical amount. The portion will be 6.0% of pensionable compensation. Pensionable compensation is understood to include any amounts that are credited toward an individual's retirement, including base pay, EMT pay, base FLSA pay, holiday in-lieu pay, and anti-terrorism training pay. This will be effective 7/1/2011 and continue through 6/30/2013 at which time it will expire.

For purposes of future negotiations/arbitrations the parties agree that the compensation level established by this agreement does not necessarily place Local 230 members in the appropriate labor market position.

3. HEALTH CARE PREMIUM COST SHARING

\$ 904,000 Year 1 / \$949,200 Year 2 City Savings

No later than July 1, 2011, the city shall pay 85% of the full premium cost of the lowest priced plan for employee or employee and dependent coverage, and the employee will pay 15% of the premium for the lowest priced plan for employee or employee and dependent coverage.

If an employee selects a plan other than the lowest priced plan, the employee shall pay the difference between the total cost of the selected plan and city's contribution towards the lowest priced plan for employee or employee and dependent coverage

- **Health Care Increased Co-Pays**

Effective no later than July 1, 2011, co-pays for all available HMO plans shall be as follows:

- a. Office Visit Co-pay shall be increased to \$25
- b. Prescription Co-pay shall be increased to \$10 for generic and \$25 for brand name
- c. Emergency Room Co-pay shall be increased to \$100
- d. Inpatient/Outpatient procedure Co-pay shall be increased to \$100

- **Payment In-Lieu of Health and Dental Insurance**

Effective no later than July 1, 2011, employees who qualify for and participate in the payment-in-lieu of health and/or dental insurance program will receive the following per pay period:

	Health In-Lieu	Dental In-Lieu
If eligible for family coverage:	\$221.84	\$19.95
If NOT eligible for family coverage:	\$89.09	\$19.95

- **Dual Coverage Reduction**

Effective no later than July 1, 2011, an employee may not be simultaneously covered by City provided medical benefits as a City employee, and as a dependent of another City employee.

Effective no later than July 1, 2011 an employee may not be simultaneously covered by City provided dental benefits as a City employee, and as a dependent of another City employee.

4. INCREASE RETIREE HEALTH CARE PRE-FUNDING (GASB-45 PAYMENTS)

Effective July 1, 2011, transition from the current partial pre-funding of fire retiree medical and dental healthcare benefits (current "policy method") to pre-funding of the full Annual Required Contribution (ARC) for the fire retiree healthcare benefits plan ("Plan").

The transition will be accomplished by phasing into fully funding the ARC over a period of 5 (five) years beginning July 1, 2011. The Plan's initial unfunded retiree healthcare liability will be amortized over a thirty-year period so that it will be paid by June 30, 2041 (closed amortization).

Amortization of changes in the unfunded retiree healthcare liability other than the initial retiree healthcare liability (e.g. gains, losses, changes in actuarial assumptions, etc.) shall be determined by the Plan's actuary. The City and Plan members (active employees) will contribute to funding the ARC medical benefits in a one-to-one ratio, and the City and Plan members will contribute to funding the ARC dental benefits in a three-to-one ratio.

The Plan actuary will use the Entry Age Normal (EAN) actuarial cost method and a discount rate consistent with the pre-funding policy for the Plan. The Municipal Code and/or applicable plan documents will be amended in accordance with the above agreement.

The phase-in will be divided into five straight-line steps, each to be effective on the first pay period of the City's fiscal year in each succeeding year. The first incremental of the phase-in will be effective July 1, 2011. It is understood that future valuations may increase or decrease the amount of change each year.

A qualified VEBA trust ("VEBA Trust") will be established by the City before July 1, 2011. The VEBA Trust will be the sole vehicle funding vehicle for Fire retiree healthcare benefits, subject to any legal restrictions under the current plan or other applicable law.

5. VACATION AVAILABILITY SLOT REDUCTION / VACATION ACCRUAL CAP / VACATION SELL BACK

\$871,000 minimum per year City Savings

- Effective July 1, 2011 through June 30, 2013 Vacation slot availability shall be reduced by 3 positions for the following ranks assigned to the 56 hour schedule. Captain, Fire Engineer, Firefighter.
- Effective July 1, 2011 through June 30, 2013 Vacation slot availability shall be reduced by 1 position for the Battalion Chief rank assigned to the 56 hour schedule.
- Effective July 1, 2011 through June 30, 2013 Vacation accrual caps shall be lifted and all hours over the double accrual rate limits shall be paid at the straight time rate upon written request.
- Effective July 1, 2011 through June 30, 2013, employees may elect to sellback up to 120 vacation hours at the straight time rate upon written request.

6. FIREFIGHTER BILL OF RIGHTS (AB220)

No Cost to City

Effective immediately the City and Local 230 shall incorporate into Article 20 of the MOA the "Firefighter Bill of Rights" as mandated by California State Law (AB 220).

7. SUPPLEMENTAL RETIREE RESERVE BENEFITS (SRBR) PAYMENT METHODOLOGY

Effective immediately, Local 230 agrees to meet and negotiate a revision to the SRBR payment methodology. Components of the Local 230 agreement would include: 1) Excluding all current active members from possible inclusion in the plan's payment methodology when they retire; 2) Revising the formula to direct all SRBR benefit payments to those retirees with the greatest need; 3) Clarifying plan language regarding payment calculations and timing.

8. PENSION REFORM – TWO TIER RETIREMENT

Real Reform – Normal Cost Reduction for Prospective Employees

For all applicable members hired after the effective date of this contract, Local 230 agrees to full pension reform by turning back the clock on pension benefits.

Local 230 understands this to include the following specific changes:

- Maximum retirement benefit 75% of final average salary
- 2.5% per year for years 1 -30
- Final average salary to be calculated as the highest annual average of the final 36 months.
- Retiree Cost of Living Adjustment (COLA) calculated to match the CPI index rate up to a maximum of 3.0%
- Supplemental Retirement Benefit Reserve benefit closed to new members.
- The retiree medical benefit will be defined as the minimum plan amount paid to active members at the time the employee retires without future increases.

9. STATUS QUO MOA

No other changes to the current MOA or stipulations, such as job guarantees, rehire guarantees, or station / apparatus closure guarantees.

Total Package Savings to City \$ 19,297,428

This is a package proposal. This package proposal is submitted in an attempt to reach a settlement in these extraordinary economic circumstances facing the City. This does not concede Local 230's position on "Market Placement." In the event the package proposal is not accepted, Local 230 reserves the right to modify or amend any future proposals, including, but not limited to, the effective dates of the specific changes. In the event of interest arbitration, final proposals are not limited to and need not reflect the issues or proposals made during bargaining.

Jeff Welch
President

| San Jose Firefighters, IAFF Local 230

Local 230 Estimated Value Proposal as of February 11, 2011

2009-10 2010-11 2011-12 2012-13 Total

Comments

Point 1 Term July 1, 2009 thru June 30, 2013

Point 2 Term - 0% \$ 1,413,678 \$ 1,413,678 \$ 1,413,678 \$ 1,413,678 \$ 5,654,712 Credit available to City per Segal Valuation memo dated 6/30/2010

6% more for retirement

\$ 4,877,435 \$ 5,170,081 \$ 10,047,516 Based on Sal/Fringe report provided by BAS as of 1/5/11
Sal/Fringe retirement amount increased to reflect new 5.6%
contribution rate in 11-12

Point 3 Health Care Changes \$ 904,000 \$ 949,200 \$ 1,853,200 City's \$837,000 estimate increased by 8% to reflect new health care rates

Point 4 Health Care Pre-funding

Point 5 Vacation spot/reduction/Vacation Sell Back \$ 871,000 \$ 871,000 \$ 1,742,000 Fire Department estimate

Point 6 FBOR \$ - \$ - \$ - \$ -

Point 7 Renegotiate SRBR \$ - \$ - \$ - \$ -

Point 8 Salary Re-Opener Clause \$ - \$ - \$ - \$ -

Point 9 2-Tier Retirement \$ - \$ - \$ - \$ -

Point 10 MGA Status Quo \$ - \$ - \$ - \$ -

Total \$ 1,413,678 \$ 1,413,678 \$ 8,066,113 \$ 8,403,959 \$ 19,297,428

11-12 Total Personal Services Budget \$ 130,647,699 \$ 141,099,514

Proposal % of Total Compensation 6.17% 5.96%

City of San Jose Police and Fire Department
Retirement Plan (Pension Plan Only)

*Actuarial Valuation and Review
as of June 30, 2010*

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1-6-11 PS

SECTION 2: Valuation Results for the San Jose Police and Fire Department Retirement Plan

The contribution rates as of June 30, 2010 are based on all of the data described in the previous sections, the actuarial assumptions described in Section 4, and the Plan provisions adopted at the time of preparation of the Actuarial Valuation. They include all changes affecting future costs, adopted benefit changes, actuarial gains and losses and changes in the actuarial assumptions.

CHART 14

Reconciliation of Recommended Employer Contribution from June 30, 2009 to June 30, 2010
(Dollar Amounts in Thousands)

	Contribution Rate	Estimated Annual Dollar Cost ⁽¹⁾
Recommended Average Employer Contribution Rate as of June 30, 2009 ⁽²⁾	39.48%	\$99,130
1. Effect of investment losses ⁽³⁾	5.00%	\$12,541
2. Effect of contributions less than expected due to one year delay between rate calculation and rate implementation	1.78%	4,481
3. Effect of lower than expected salary increases	(1.20)%	(3,021)
4. Effect of increase in UAAL rate from aggregate payroll increase less than 4.25%	0.78%	1,958
5. Effect of gain due to more deaths than expected among retirees/beneficiaries	(0.15)%	(386)
6. Effect of loss from more service retirements offset by fewer disability retirements ⁽⁴⁾	0.19%	478
7. Effect of other experience gains ⁽⁵⁾	(0.22)%	(542)
8. Effect of reduction in investment return assumption	4.78%	11,983
Subtotal	10.96%	\$27,492
Recommended Average Employer Contribution Rate as of June 30, 2010 ⁽⁶⁾	50.44%	\$126,622

- (1) Based on June 30, 2010 projected annual payroll of \$251,058,473.
 (2) Before applying the change to the SRBR to reduce the contribution rate by 0.45% of pay for 2010/2011 only.
 (3) Return on valuation assets for the year ended June 30, 2010 was 2.18% and less than the 8.00% assumed in the valuation.
 (4) These amounts may not fully reflect actual experience because the data required to analyze the number of service retirements that may subsequently be reclassified as disability retirements is not available.
 (5) Other differences in actual versus expected actuarial experience.
 (6) Before applying the change to the SRBR to reduce the contribution rate by 0.49% of pay for 2011/2012 only.

The chart reconciles the contribution from the prior valuation to the amount determined in this valuation.

**BOLTON
PARTNERS, INC.**

DRAFT

January 12, 2011

Via Email & U.S. Mail

Jeff Welch
President
San Jose Fire Fighters, Local 230
425 E. Santa Clara Street, Suite 300
San Jose, CA 95113

*Re: Pension Cost Savings Related to No
Wage Increases*

Dear Jeff,

I have been asked to look at the pension savings associated with the fact that there have been no across the Board pay increases for fire fighters in the last two years. To make my estimate I depended on Segal's most recent Actuarial Valuation Report (as of June 30, 2010) as it pertains to the pension cost for the City of San Jose Fire Fighters. My understanding is that this report shows the most recently available plan costs and assumptions used to calculate these costs.

While the fire fighters have not had any wage increases for the past two years, the report assumes that there is an assumed 4.25% salary increase each year (3.5% of inflation and 0.75% real wage growth; see page 32 of Segal report). We were able to estimate the annual pension cost savings resulting from no salary increases in a single year would be approximately \$1.4 million. The fact that some fire fighters might have experienced step increases during this time is irrelevant since there is a separate assumption in the Segal report for such increases (ranging from 1% to 5% per year).

To calculate this \$1.4 million increase, we used information from the aforementioned report combined with our assumption that 10% of fire fighters retired during this time and were not impacted. The report does not show the fire fighters' share of the actuarial liability, but from the total liability (of both police and fire fighters) we were able to estimate it by using the payroll breakdown shown in the report. From there, we simply adjusted actuarial liability using the report's 4.25% salary increase assumption (for two years of no salary increases), assumed 10% would retire and just amortized this

Jeff Welch
January 12, 2011
Page Two

pension cost savings to get the annual pension cost savings resulting from not receiving a salary increase.

My calculation of this \$1.4 million savings relies on the breakdown of current police and fire fighter actuarial liability being similar to the breakdown of police and fire fighter payroll as shown in the report. While the Plan's actuary could come up with a more exact estimate, the above should suffice for bargaining purposes. This seems consistent with the \$3 million savings shown on page 15 of the Segal actuarial report after adjusting for (1) the percentage of the plan covering fire fighters and (2) the higher past pay increases for police officers.

I am a member of the American Academy of Actuaries and qualified to make these calculations.

Please feel free to call me with any questions.

Sincerely,
BOLTON PARTNERS, INC.

Thomas Lowman, FSA, MAAA, EA

cc: Chris Platten, IAFF, Local 230 Legal Counsel



San Jose Fire Fighters • Local 230

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SECOND TIER RETIREMENT (Plan 2)

For all applicable members initially hired after the effective date of this contract, Local 230 agrees to full pension reform by turning back the clock on pension benefits to the following:

- Maximum retirement benefit 75% of final average salary
- 2.5% per year for years 1 -30
- Final average salary to be calculated as the annual average of the highest 36 months.
- Retiree Annual Cost of Living Adjustment (COLA) calculated to match the CPI index rate up to a maximum of 2.0%
- Supplemental Retirement Benefit Reserve benefit closed to new members who are hired after effective date of agreement.
- The retiree medical benefit will be defined as the minimum plan amount paid to active members at the time the employee retires without future increases.

VESTED MEMBER OPT - IN OPTION (Plan 2)

The following pension plan changes shall apply prospectively to any current San Jose Fire Department Employee who at their option select to join the second tier retirement plan (Plan 2). The actuarial savings from a member opting into the second tier retirement plan shall be shared equally between the employee and City at a 1:1 ratio. For the employee the savings can be applied in either of two methodologies:

1. Applied to a new 401(a) account to be dispersed within plan and IRS guidelines upon separation of employment or retirement, OR
2. Paid directly to the employee as compensation on a biweekly basis.

If a current employee selects to join the second tier retirement plan the member shall remain in the second tier retirement plan or, on a one time basis, an employee could re-join the Tier 1 plan but must pay all resultant UAAL attributed to that individual prior to re-joining the first tier plan (Plan 1).

Tentatively Agreed _____
AG _____ JW *[Signature]*



San Jose Fire Fighters • Local 230

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August 30, 2011

Alex Gurza, Deputy City Manager
Director of Employee Relations
City of San Jose
200 E. Santa Clara Street
San Jose, CA 95113

RE: Retirement Reform Negotiations

Dear Alex,

Local 230 has reviewed the Side Letter Agreement between the City of San Jose and San Jose Police Officers' Association titled Retirement Reform. Local 230 proposes entering into an agreement with the City to provide an 80% maximum "opt in" benefit to employees (2.5% for the first 20 years and 3% after 20 years) to be effective on January 1, 2012 under the following condition:

- Any implementation of an opt-in program is contingent upon receiving an IRS qualification letter.

I look forward to your response to this proposal. If you have any questions, please do not hesitate to contact me.

Respectfully,



Robert Sapien, Jr., President

C: George Beattie, President – San Jose Police Officers Association
Christopher E. Platten, Esq – Local 230 Legal Counsel

Side Letter Agreement

BETWEEN

THE CITY OF SAN JOSE

and

SAN JOSE POLICE OFFICERS' ASSOCIATION

RETIREMENT REFORM

The City and the San Jose Police Officers' Association agree to continue meeting and conferring on pension and retiree healthcare benefits for current and future employees, including but not limited to healthcare benefits. The negotiations may include modification of healthcare (medical and dental) plans available to current employees, including but not limited to plan design.

Either the City or Union may provide notice to the other of its request to meet and confer. Upon such notice, the parties shall continue these negotiations within ten (10) calendar days after the City or Union receives notice from the other. The City and Union shall meet and confer in good faith in an effort to reach a mutual agreement. If the parties are at impasse and no agreement is reached, the parties shall submit the issues for determination in accordance with the applicable provisions under the Employer-Employee Relations Resolution No. 39367 and/or City Charter Section 1111.

Opt In Program

As part of the negotiations related to retirement reform, the parties will meet and confer regarding an opt in program in which current employees could voluntarily choose to opt out of the current level of pension benefits into a lower level of benefits.

In the event that the City and the POA do not reach an agreement on the specific design of an opt in program by November 1, 2011, at the POA's option the City will implement the opt in program that was proposed by the POA during contract negotiations (2.5% for the first 20 years and 3% after 20 years with an 80% maximum, 2% fixed COLA and 3 year final average salary) effective December 25, 2011, under the following conditions:

1. 40% of the employees represented by the POA sign an irrevocable waiver to elect to go into the opt in program described above. Employees would be required to sign a document indicating that they understand that if the

