

CITY COUNCIL OF THE CITY OF SAN JOSÉ

May 1, 2012

Items 3.3, 3.4, 3.5, 3.6, 3.7, 3.8, 3.9,
3.10, 3.11 & 3.12

- Current Employees
- Retirees
- Future Employees
- Taxpayers

Last, Best and Final Offers- April 16th

- Pursuant to City Council direction, provided Last, Best, and Final Offers to bargaining units on April 16th
 - Healthcare- Lowest Priced Plan
 - Medicare Part A and B
 - Pension Benefits for New Employees (Federated)

Healthcare – Lowest Priced Plan

Healthcare Premiums

- City of San Jose's premiums are blended—
active employees and retirees
- Eligible retirees choose among plans offered to
active employees
- Premium cost sharing and plan design affect
costs

Monthly Lowest Cost Healthcare Plan Premium History 2003-2012



Healthcare Premiums Cost Sharing

Active Employees

- 85% City/15% Employee of lowest priced plan (single or family)

Retirees

- 100% of premiums paid for lowest priced plan (single or family) available to active employees (at 15 years of service)

Active Employee & Retiree Healthcare Cost Comparison

| Active Employee Monthly Premium (85/15 LPP) | |
|--|----------|
| Single Coverage | \$79.72 |
| Family Coverage | \$198.54 |

| Retiree Monthly Premium (100% LPP) | |
|---------------------------------------|-----|
| Single Coverage | \$0 |
| Family Coverage | \$0 |

Retiree Healthcare Liability and Funding Ratio

| Retiree Healthcare Unfunded Liability and Funding Ratio | | |
|---|-------------------------------------|----------------------|
| | <i>Unfunded Actuarial Liability</i> | <i>Funding Ratio</i> |
| Federated | \$800.505 Million | 14.00% |
| Police and Fire | \$596.764 Million | 9.20% |
| Total | \$1.397 Billion | |

City/Active Employee Cost Sharing for Retiree Healthcare Funding

- Retiree Medical
 - Costs split 50%-50%

- Retiree Dental
 - Costs split approximately 75%-25%

Historical & Projected Retiree Healthcare Contribution Rates (Federated)

| Fiscal Year | Employee | City | Total |
|-------------|----------|--------|--------|
| 2008-2009 | 4.65% | 5.25% | 9.90% |
| 2009-2010 | 5.07% | 5.70% | 10.77% |
| 2010-2011 | 5.76% | 6.41% | 12.17% |
| 2011-2012 | 6.51% | 7.16% | 13.67% |
| 2012-2013 | 7.26% | 7.91% | 15.17% |
| 2013-2014 | 15.50% | 16.84% | 32.34% |

Source: Projections developed by Federated Retirement System's Actuary, Cheiron



Projected Retiree Healthcare Contribution Rates at Full Funding (Police and Fire Plan)

| Fiscal Year | City and Police Total Contribution | City and Fire Total Contribution |
|-------------|------------------------------------|----------------------------------|
| 2012-2013 | 17.22% | 12.72% |
| 2013-2014 | 19.82% | 15.32% |
| 2014-2015 | 29.74% | 17.92% |
| 2015-2016 | 29.20% | 20.52% |
| 2016-2017 | 29.17% | 31.07% |

Source: Projections developed by Police and Fire Department Retirement System's Actuary, Cheiron



City's Proposed Changes to Healthcare

Effective January 1, 2013:

- Introduce a fourth healthcare plan option
 - “High Deductible Plan”
- Maintain 85/15 cost sharing for the lowest priced Non-Deductible HMO plan for active employees
 - Currently the Kaiser \$25 co-pay HMO plan

Active Employees -Lowest Priced Plan

| | Active Employees Cost: \$25 Co-Pay Plan Premiums | Active Employees Cost: High Deductible Plan Premiums |
|------------------------|---|---|
| Single Coverage | \$79.72/mo* | \$0* |
| Family Coverage | \$198.54/mo* | \$0* |

*Based on rates for Calendar Year 2012. Calendar Year 2013 rates subject to increase.

Retiree Healthcare-Lowest Priced Plan

| | Current Retiree Costs | Retiree Costs – With High Deductible Implementation |
|------------------------------------|------------------------------|--|
| Non-Medicare LPP (High Deductible) | N/A | \$0 |
| Non-Medicare \$25 Co-pay | \$0 | \$129.96/mo (single) \$323.62/mo (family) |
| Medicare Supplement LPP | \$0* | \$0* |

*Retirees enrolled in Medicare Part B (\$99.90-\$319.70/mo.) and Medicare Part D (\$0-\$66.40/mo.)



Average Retiree Pension Non-Medicare Eligible (Under Age 65)

| | Base | COLA | Total Pension | Average 2013 COLA | Average Years of Service |
|--|-----------------|-----------------|----------------------|--------------------------|---------------------------------|
| Federated City Employees' Retirement System | \$41,777 | \$5,311 | \$47,087 | \$1,413 | 21.11 |
| Police and Fire Department Retirement Plan | \$83,499 | \$14,379 | \$97,878 | \$2,940 | 25.25 |

Note: Data includes all retirees under age 65 as of January 21, 2012

Projected Retiree Healthcare Savings

| Projected Savings | | |
|--------------------------------|---------------------------------|---------------------------------|
| | 7.50% Earnings Assumption | 6.75% Earnings Assumption |
| Federated | \$5.1M | \$5.4M |
| Police and Fire | \$5.7M | \$6.2M |
| Total Projected Savings | \$10.8M | \$11.6M |

Source: Projected savings developed by City's Actuary, Bartel Associates LLC

Medicare Part A and B

Medicare Part A and B

- All eligible retirees are currently required to enroll in Medicare Part A and B
 - Retirees are provided a six (6) month window to enroll once becoming eligible
- Failing to enroll within the prescribed time frame will result in loss of Non-Medicare coverage
- Medical coverage will be restored upon enrollment in Medicare Part A and B
 - Coverage provided through Medicare and selected Medicare supplemental coverage offered by Retirement Services

2nd Tier Federated Pension Retirement Benefits

2nd Tier Pension Retirement Benefit

| Federated-Tier 2 New Employees | |
|----------------------------------|--|
| Max Benefit | 65% |
| Accrual Rate | 2.0% per year |
| Age/Years of Service | Age 65 with 5 years of service |
| Final Average Salary Calculation | Highest 3 Years |
| COLA | Maximum of 1.5% based on CPI |
| Cost Sharing | 50:50 (Normal and UAAL) |
| Disability | <p><i>Service:</i> 50% of pensionable pay</p> <p><i>Non-Service:</i> 2% per year, but not less than 20% and not greater than 50% of pensionable pay</p> |
| Survivorship | <p><i>Death before ret.</i> – If not vested, return of contributions; if vested, pension equivalent to what employee would have received</p> <p><i>Killed in line of duty</i> – 50% pension benefit</p> <p><i>Death after ret.</i> – Employee may elect to receive a lower pension to provide survivorship benefit</p> |

Estimated Pension Normal Cost for Tier 2

| Federated-Estimated Total Pension Normal Cost | | | |
|--|------------------|----------------------|--------------|
| | City Rate | Employee Rate | TOTAL |
| 7.5% Earnings Assumption | 6.9% | 6.9% | 13.8% |
| 6.75% Earnings Assumption | 7.95% | 7.95% | 15.9% |

Source: Cost estimates developed by City's Actuary, Bartel Associates LLC

Recommendation

- Approval of Items 3.3 – 3.12

Conclusion