

August 15, 2012

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Re: Retiree Healthcare

Dear Bargaining Unit Representatives:

As you know, in 2009, the City and the bargaining units began to phase into making the full retiree healthcare Annual Required Contribution (ARC) over a five (5) year period. The cost of

retiree medical is borne equally between the City and employees at 50/50. The five (5) year phase-in, with an annual 0.75% incremental increase in retiree healthcare contributions for both the City and employees, began on or about June 28, 2009. After this ramp up period, both the City and employees were required to begin making the full Annual Required Contribution.

Based on the June 30, 2011, Federated City Employees' Retirement System (Federated) actuarial valuation, we are currently facing an approximate \$800.5 million unfunded liability for retiree healthcare, which is only approximately 14% funded, an amount that will affect the City and Federated employees. As the contributions are made on a 1:1 ratio for retiree medical, both the City and employees are facing a significant increase in contribution costs in Fiscal Year 2013-2014 with the expiration of the five (5) year phase-in.

In February 2012, the Federated Board's actuary, Cheiron, provided their projections for the contribution rates for the City and employees. In Fiscal Year 2013-2014, the total retiree contribution is projected to be a total of 32.34%, with employees' contributions projected to be 15.50%¹. The chart below shows the historical and projected increases in retiree healthcare contributions for the City and employees:

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

The City recognizes the concern employees have expressed regarding the substantial increase in retiree healthcare contributions that are expected to take effect in July 2013. As such, we would like to meet with you in a coalition setting to discuss potential options and solutions as employees you represent are members of the Federated system and are similarly affected by the retiree healthcare situation. We are hopeful that we can come to a resolution in a coalition setting, just as the City and the bargaining units were successful in 2009. Our goal is to mitigate the financial impact on both the City and its employees, including cost saving solutions.

If you are agreeable to meet and confer over this issue in a coalition setting, please let us know if you are available to meet on the following dates and times. Once we have received confirmation from interested parties, we will update you on the meeting location.

DATE	DAY	TIME
August 27, 2012	Monday	2:30 pm
August 29, 2012	Wednesday	3:00 pm

Due to the number of bargaining units that may choose to engage in the meet and confer process, we ask that you please bring no more than two (2) people per bargaining unit.

¹ The above contribution rates are based on the June 30, 2011 actuarial valuation. The contribution rates for Fiscal Year 2013-2014 have not been determined and are set to be based on the June 30, 2012 actuarial valuation, once completed, which will take into account the high deductible medical plan.

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We look forward to working with you in the coalition bargaining process to address the issue of retiree healthcare.

Sincerely,

A handwritten signature in blue ink, appearing to read "Alex Gurza", with a long horizontal flourish extending to the right.

Alex Gurza
Deputy City Manager

c Jennifer Schembri, Assistant to the City Manager