

May 15, 2013

Vera Todorov  
President  
Association of Legal Professionals (ALP)  
c/o City Attorney's Office  
200 E. Santa Clara Street  
San Jose, CA 95113

**RE: Retiree Healthcare Modified Proposal**

Dear Vera:

Due to the concerns raised regarding the modified retiree healthcare proposal we gave on April 22, 2013, and the fast-approaching deadline to set the contribution rates for Fiscal Year 2013-2014, we are further amending our existing proposal to exclude the Kaiser Permanente 3000 Deductible healthcare plan.

The remainder of the enclosed proposal offers the same provisions as the April 22, 2013, modified proposal, which includes making new employees ineligible for the retiree healthcare benefit and the four-tier rates for medical and dental benefits. We are continuing to propose a one-year extension of the transition to the full Annual Required Contribution through an incremental increase of 0.75% for the City and employees. The City will also pay the new employee's portion of the unfunded liability that they would have otherwise paid had they been eligible for the benefit in Fiscal Year 2013-2014.

Our goal remains to quickly reach an agreement before the beginning of the Fiscal Year. Additionally, we would like to continue discussing the cost-saving potential of a new lower cost healthcare plan in our on-going retiree healthcare sessions.

We look forward to discussing this proposal with you.

Sincerely,



Alex Gurza  
Deputy City Manager

Enclosure

**CITY PROPOSAL – RETIREE HEALTHCARE**

Proposed Language:

**RETIREE HEALTHCARE FUNDING AND BENEFITS**

The City and employees represented by the Association began to transition from the current partial pre-funding of retiree medical and dental healthcare benefits (referred to as the “policy method”) to pre-funding of the full Annual Required Contribution (ARC) for the retiree healthcare plan (“Plan”). The transition began on June 28, 2009. The Plan’s initial unfunded retiree healthcare liability shall be fully amortized over a thirty year period so that it shall be paid by June 30, 2039 (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) shall contribute to funding the ARC in the ratio currently provided under Section 3.28.385 of the San Jose Municipal Code. Specifically, contributions for retiree medical benefits shall be made by the City and members in the ratio of one-to-one. Contributions for retiree dental benefits shall be made by the City and members in the ratio of eight-to-three. When determining the contribution rates for the Plan, the Plan actuary shall continue to use the Entry Age Normal (EAN) actuarial cost method and a discount rate consistent with the pre-funding policy for the Plan as outlined in this section.

The City and the Association agree that the Municipal Code and/or applicable plan documents shall be amended to the extent necessary in accordance with this agreement and that the Association will support such amendments.

The phase-in to the ARC shall be effective on the first pay period of the City’s fiscal year in each succeeding year, the first increment which was effective on June 28, 2009. It is understood that because of changes resulting from future actuarial valuations, the amount of the ARC may vary upward or downward. The City and the Association agree that the Plan member cash contribution rate shall not have an incremental increase of more than .75% of pensionable pay in each fiscal year and the City cash contribution rate shall not have an incremental increase of more than .75% of pensionable pay in each fiscal year. For example, if the members’ contribution rate is 4% of pensionable pay, the subsequent fiscal year’s contribution rate for retiree healthcare cannot exceed 4.75% of pensionable pay. Notwithstanding the limitations on the incremental increases, by the first payperiod of Fiscal Year 2014-2015, the City and plan members shall be contributing the full Annual Required Contribution in the ratio currently provided under Section 3.28.385 of the San Jose Municipal Code.

The City has established a qualified 115 trust (“Trust”). Employee contributions will begin going into the Trust in time to avoid any potential of reaching IRS limits on the existing medical benefits account or whenever the City receives advice of Tax Counsel or ruling from the IRS that the contributions can be treated as pre-tax, whichever occurs first.

It is the objective of the parties that the Trust created pursuant to this agreement shall become the sole funding vehicle for Federated retiree healthcare benefits, subject to any legal restrictions under the current plan, or other applicable law.

Employees hired into full-time benefited positions on or after the first payperiod following the effective date of the ordinance implementing this provision ("Effective Date") will not participate in or be eligible for the defined benefit retiree healthcare program. For Fiscal Year 2013-2014, the City will pay the unfunded liability contribution that these employees would have otherwise paid had they gone into the retiree healthcare defined benefit program.

*(This language shall be added as a section to any Memorandum of Agreement between the City and ALP under the article entitled "Retiree Healthcare.")*

#### HEALTHCARE COST MITIGATION

Notwithstanding any other provision of this Agreement, the parties agree to meet and confer over retiree healthcare benefits and funding upon request of either party. This may include but is not limited to alternatives to reduce the cost of retiree healthcare benefits and options for current employees that comply with IRS regulations.

Negotiations between the City and the Association shall commence within 14 days upon notice of either party. The City and the Association shall negotiate in good faith in an effort to reach a mutual agreement. Applicable impasse dispute resolution procedures shall apply.

*(This language shall be added as a section to any agreement on a Memorandum of Agreement between the City and ALP under the article entitled "Agreement Conditions.")*

**HEALTH INSURANCE**

Effective January 1, 2014, all available plans will have a 4-tier rate structure (Employee, Employee plus spouse/domestic partner, Employee plus Child(ren) and Family). The premiums will be adjusted effective the first payperiod in payroll calendar year 2014, which starts December 22, 2013.

Effective January 1, 2013, Kaiser Permanente 1500 Deductible HMO Benefit Plan will be available to employees represented by the Association in addition to the existing plan options.

(This language shall be added to any agreement on a Memorandum of Agreement between the City and ALP under the article entitled "Health Insurance.")

**DENTAL INSURANCE**

Effective January 1, 2014, all available plans will have a 4-tier rate structure (Employee, Employee plus spouse/domestic partner, Employee plus Child(ren) and Family). The premiums will be adjusted effective the first payperiod in payroll calendar year 2014, which starts December 22, 2013.

(This language shall be added to any agreement on a Memorandum of Agreement between the City and ALP under the article entitled "Dental Insurance.")