

CITY PROPOSAL – RETIREE HEALTHCARE

Proposed Language:

ARTICLE 27 RETIREE HEALTHCARE FUNDING AND BENEFITS

- 27.1 Effective June 28, 2009, the City and the Union ~~began transitioning~~ have agreed 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 ~~shall be accomplished by phasing into fully funding the ARC over a period of five (5) years beginning~~ 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 3.28.3850 (C) (1) and (3) 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 Article.
- 27.2 The Municipal Code and/or applicable plan documents shall be amended to the extent necessary in accordance with this agreement ~~above~~.
- 27.3 The phase-in to the ARC shall be ~~divided in five steps (using a straight line method), each to be effective on the first pay period of the City’s fiscal year in each succeeding year.~~ The ~~the~~ first increment of the phase in shall be which was effective on June 28, 2009. It is understood that because of changes resulting from future actuarial valuations, the amount of each ~~increase~~ the ARC may vary upward or downward. 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 end of the five year phase in, the City and plan members shall be contributing the contribution rate based upon the full Annual Required Contribution, beginning on December 21, 2014. In subsequent fiscal years, the City and the plan members shall be contributing the full Annual Required

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Contribution in the ratio currently provided under Section 3.28.3850 (C) (1) and (3) of the San Jose Municipal Code.

27.4 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 the IRS limits on the existing medical benefits account or upon receipt of a ruling from the IRS that the contributions can be treated as pre-tax, whichever occurs first.

~~27.4 Until such time as a Trust is established, the City and employee contributions shall be made into the existing Medical Benefits Account for as long as the contributions can be made into the Medical Benefits Account in accordance with IRS limitations. If the Trust is not established prior to reaching the IRS limitation, the parties will meet to discuss alternative funding vehicles.~~

27.5 If employee contributions are deposited into the Trust prior to receiving a ruling from the IRS that the contributions can be treated as pre-tax and the City subsequently receives an IRS determination that the contributions should be treated as post-tax, the City agrees to indemnify any employee as to any IRS liability arising solely from the contributions that were taken as pre-tax prior to the IRS determination. The City and the Employee Organization will immediately meet and confer over an alternative trust vehicle for the prospective contributions should the IRS determine that the contributions are post-tax.

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

27.7 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. The City will pay the unfunded liability contribution that these employees and the City would have otherwise paid had they gone into the retiree healthcare defined benefit program.

27.8 Neither the City nor the Employee Organization waives any rights or assertions, each may have, related to the retiree healthcare benefit through any of the provisions of this Article.

ARTICLE 9 FULL UNDERSTANDING, MODIFICATION AND WAIVER

9.1 This Agreement sets forth the full and entire understanding of the parties regarding the matters set forth herein, and any and all prior or existing Memorandums of Agreement, understandings and agreements, whether formal or informal, are hereby superseded and terminated in their entirety.

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- 9.2 Existing benefits provided by ordinance or resolution of the City Council or as provided in the San Jose Municipal Code and which are referenced in the Agreement shall be provided in accordance with the terms of the Agreement.
- 9.3 It is the intent of the parties that ordinances, resolutions, rules and regulations enacted pursuant to this Memorandum of Agreement be administered and observed in good faith.
- 9.4 Although nothing in this Agreement shall preclude the parties from mutually agreeing to meet and confer on any subject within the scope of representation during the term of this Agreement, it is understood and agreed that neither party may require the other party to meet and confer on any subject matter covered herein or with respect to any other matter within the scope of representation during the term of this agreement.

9.5 Healthcare Cost Mitigation.

9.5.1 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, but no earlier than January 1, 2014. This may include but is not limited to alternatives to the unfunded liability and options for current employees that comply with IRS regulations.

9.5.2 Negotiations between the City and Employee Organization shall commence within 14 days upon notice of either party, but no earlier than January 1, 2014. The City and Employee Organization shall negotiate in good faith in an effort to reach a mutual agreement. Applicable impasse dispute resolution procedures shall apply.

5.5 Health Insurance

5.5.1 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.

~~5.5.2 Effective pay date July 1, 2011, the City pays eighty five percent (85%) of the cost of the lowest priced plan for the employee or the employee and dependent coverage and the employee pays fifteen percent (15%) of the premium for the lowest priced plan. If the employee selects a plan other than the lowest priced plan, the employee pays the difference between the~~

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~~total cost of the selected plan and the City's contribution towards the lowest priced plan.~~

5.5.2 Effective December 23, 2012, the City pays eight-five percent (85%) of the cost of the lowest priced Non-Deductible HMO plan for the employee or the employee and dependent coverage and the employee pays fifteen percent (15%) of the premium for the lowest priced Non-Deductible HMO plan. If the employee selects a plan other than the lowest priced Non-Deductible HMO plan, the employee pays the difference between the total cost of the selected plan and the City's contribution toward the lowest priced Non-Deductible HMO plan.

Effective January 1, 2013, Kaiser Permanente Deductible 1500 HMO Benefit Plan ~~3800~~ will be available to employees represented by OE#3 in addition to the existing plan options.

5.6 Dental Insurance. The City will provide dental coverage for eligible full time employees and their dependents in accordance with one of the two available plans. 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.

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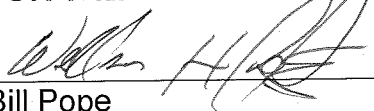
This agreement is considered tentative and shall not be considered final or binding until ratified by the membership and approved by the City Council. This document sets forth the full agreements of the parties reached during these negotiations. Anything not included in this document is not part of the Tentative Agreement. The provisions set forth above shall be incorporated in any successor Memorandum of Agreement.

FOR THE CITY:

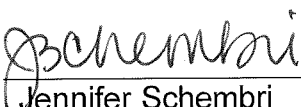
 6-11-13

Alex Gurza Date
Deputy City Manager


FOR THE UNION:

 6/10/13

Bill Pope Date
Business Representative
Operating Engineers, Local 3

 6/11/13

Jennifer Schembri Date
Deputy Director of Employee Relations

 6/11/13

Cheryl Parkman Date
Executive Analyst
Office of Employee Relations

Side Letter Agreement

RETIREE HEALTHCARE STAKEHOLDER SOLUTIONS WORKING GROUP AND NEGOTIATIONS

PURPOSE

The parties recognize the importance of funding the current retiree healthcare benefit, and since 2009, have been increasing contributions into the plan in order to begin paying the full Annual Required Contribution to ensure funding of the retiree healthcare benefit.

Neither the City nor the bargaining units have committed to close the plan. However, new employees will not enter the existing retiree healthcare plan. Since current employees share in paying the unfunded liabilities of the current retiree healthcare benefit, new employees who are not in the current plan would not be making those payments. The City has agreed to make the contributions towards the unfunded liabilities that those new employees would have paid had they been in the current plan. The City has agreed to do so in order to allow time for long-term solutions to be developed by a Retiree Healthcare Solutions Working Group ("Working Group") and negotiations.

The goal of the Working Group shall be to develop options that lead to long-term solutions to the retiree healthcare issue.

The City and the Coalition¹ have agreed to immediately continue working on solutions to retiree healthcare both through the Working Group and subsequent negotiations. The parties are committed to working collaboratively towards long-term solutions and have agreed to remain open to considering various options. The options considered will include, but are not limited to, the following:

- Using high-deductible healthcare plans in combination with individual health savings accounts;
- Limitations on the current retiree healthcare benefit in combination with individual health savings accounts;
- Tiered healthcare benefit structures based on length of employment;
- Modification of eligibility requirements;
- Health plan design and rate structure changes;
- Incentives for employees to work beyond normal retirement eligibility; and
- The inclusion or exclusion of new employees in any modifications, or the formation of a completely different plan for new employees.

¹ The San Jose Federated Labor Coalition consists of the following nine (9) bargaining units: Association of Building, Mechanical, and Electrical Inspectors (ABMEI), Association of Engineers and Architects (AEA), Association of Legal Professionals (ALP), Association of Maintenance Supervisory Personnel (AMSP), City Association of Management Personnel (CAMP), Confidential Employees' Organization (CEO), International Brotherhood of Electrical Workers (IBEW), Municipal Employees' Federation (MEF) and International Union of Operating Engineers, Local #3 (OE#3).

RETIREE HEALTHCARE STAKEHOLDER SOLUTIONS WORKING GROUP

Facilitator:

By August 1, 2013, the City and the Coalition members will mutually agree on an independent person or entity that is knowledgeable in the area of retiree healthcare benefits to facilitate the Working Group.

The facilitator will facilitate the discussions, provide information to the parties, and generally assist in the development of options for long-term solutions. Upon the mutual agreement of the City and Coalition members, other subject matter experts may be engaged to assist in analyzing possible solutions.

The costs of the facilitator and any subject matter experts will be shared equally between the City and the Coalition members.

Participation:

In addition to the City and a representative from each bargaining unit in the Coalition, members of the Working Committee will include a representative of the retirees, and any unrepresented employee group(s).

Meetings:

The City and the Coalition will jointly schedule Working Group sessions in coordination with the facilitator. More frequent and longer Working Group sessions will be scheduled in the early stages of the process. The Working Group sessions will be open to employees and the public.

TIMELINE FOR RETIREE HEALTHCARE SOLUTIONS WORKING GROUP AND NEGOTIATIONS:


The Working Group shall agree upon a facilitator no later than August 1, 2013. The time period to schedule Working Group sessions will be from August 1, 2013, and conclude no later than December 31, 2013, unless the parties mutually agree to extend the timeframe. The City and the Coalition agree that this process will not supplant the meet and confer process regarding retiree healthcare.

Negotiations between the City and the bargaining units shall commence within 14 days upon notice of either party, but no earlier than January 1, 2014. The City and the bargaining units shall negotiate in good faith in an effort to reach a mutual agreement. Applicable impasse dispute resolution procedures shall apply. The parties intend to meet and confer through coalition bargaining. However, all parties reserve their respective rights to withdraw from coalition bargaining. In such an event, the City and any bargaining unit that withdraws from the Coalition will bargain separately.

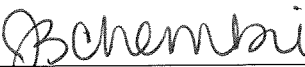
Side Letter Agreement
Retiree Healthcare Stakeholder Solutions Working Group and Negotiations

This Side Letter Agreement is considered part of the tentative agreement on retiree healthcare with the bargaining units and shall become effective only as part of the overall retiree healthcare agreement. Each bargaining unit conducts separate ratification processes, and this Side Letter Agreement shall be effective for those bargaining units who ratify the overall tentative agreement on retiree healthcare and only during the term of those agreements with each respective bargaining unit.


FOR THE CITY:



Alex Gurza
Deputy City Manager
6-11-13
Date

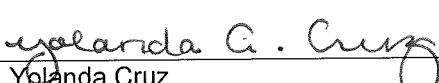


Jennifer Schembri
Deputy Director of Employee Relations
6/11/13
Date




Cheryl Parkman
Executive Analyst
Office of Employee Relations
6/11/13
Date

FOR THE UNION:



Yolanda Cruz
President
MEF, AFSCME Local 101
6/10/13
Date




Charles Allen
Business Agent
AFSCME, Local 101
6/10/13
Date

FOR THE UNION:

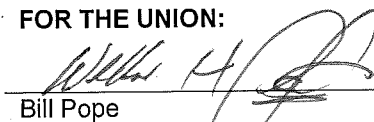


LaVerne Washington
President
CEO, AFSCME Local 101
6/10/13
Date



Charles Allen
Business Agent
AFSCME, Local 101
6/10/13
Date

FOR THE UNION:

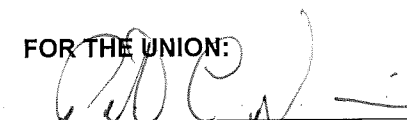


Bill Pope
Business Representative
Operating Engineers, Local 3
Date

FOR THE UNION:

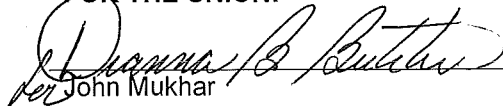
Vera Todorov
President
ALP
Date

FOR THE UNION:

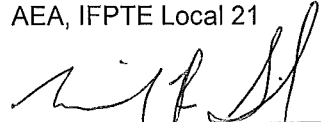


Peter Fenerin
President
ABMEI
6/10/13
Date

FOR THE UNION:

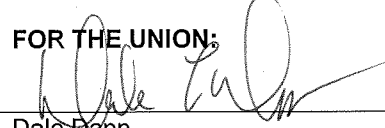

John Mukhar
President
AEA, IFPTE Local 21

6/10/13
Date

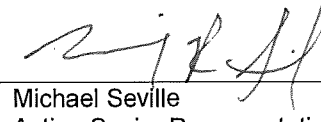

Michael Seville
Acting Senior Representative
IFPTE, Local 101

6/10/13
Date

FOR THE UNION:



Dale Dapp
President
AMSP, IFPTE Local 21

6/10/2013
Date

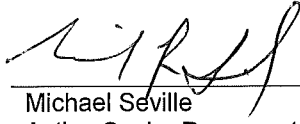

Michael Seville
Acting Senior Representative
IFPTE, Local 101

6/10/13
Date

FOR THE UNION:

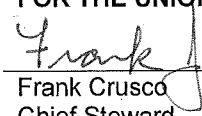

Matt Farrell
President
CAMP, IFPTE Local 21

6/10/2013
Date

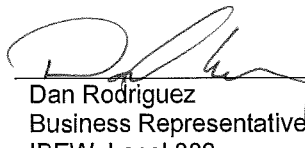

Michael Seville
Acting Senior Representative
IFPTE, Local 101

6/10/13
Date

FOR THE UNION:


Frank Crusco
Chief Steward
IBEW, Local 332

6-10-13
Date


Dan Rodriguez
Business Representative
IBEW, Local 332

6/10/13
Date