

SENT VIA EMAIL

April 16, 2012

Bill Pope
Business Representative
Operating Engineers, Local No. 3
1654 The Alameda, Suite 110
San Jose, CA 95126

RE: Last, Best and Final Offer on Healthcare, Medicare Part A and B and Pension Benefits for New Employees

Dear Bill:

We first want to express our sincere appreciation for the dedication and work that OE#3 has put into the retirement reform negotiations. As you know, the City and OE#3 have dedicated a lot of time and effort into these negotiations, meeting approximately ten (10) times and engaging in seven (7) mediation sessions. It is unfortunate that despite these efforts, we were unable to reach an agreement.

Enclosed please find the City's Last, Best and Final Offer on Healthcare, Medicare Part A and B and Pension Benefits for New Employees. Please let us know if the terms of the City's Last, Best and Final offer are acceptable to OE#3 no later than Friday, April 20th. It is our intent to take this Last, Best and Final Offer for Council approval in open session on May 1, 2012.

An ordinance will need to be adopted to implement the pension benefits for new employees. Approval of the City's Last, Best and Final Offer by the Council provides the City the authority to implement the pension benefits for new employees as of July 1, 2012.

Sincerely,



Gina Donnelly
Deputy Director of Employee Relations

c: Alex Gurza, Deputy City Manager

Enclosure

**CITY OF SAN JOSE AND OE#3
LAST, BEST, AND FINAL OFFER**

HEALTHCARE

See attached

RETIREMENT BENEFITS FOR NEW EMPLOYEES

See attached

MEDICARE PART A AND B

See attached

April 16, 2012

CITY PROPOSAL – HEALTHCARE COST SHARING

Proposed Language:

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

Effective December 23, 2012, the City pays eighty-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 HMO Benefit Plan 3800 will be available to employees represented by OE#3 in addition to the existing plan options.

Customer Name:
Customer ID:
Benefit Plan 3800
HCR TYPE XD5; \$1500 DED;
\$40 OUTP; 30% INPT; \$30/\$10RX
Proposed Benefit Summary
Principal Benefits for Kaiser Permanente Deductible HMO Plan ()

The Services described below are covered only if all the following conditions are satisfied:

- The Services are Medically Necessary
- The Services are provided, prescribed, authorized, or directed by a Plan Physician and you receive the Services from Plan Providers inside our Northern California Region Service Area (your Home Region), except where specifically noted to the contrary in the *Evidence of Coverage (EOC)* for authorized referrals, hospice care, Emergency Services, Post-Stabilization Care, Out-of-Area Urgent Care, and emergency ambulance Services

Annual Out-of-Pocket Maximum for Certain Services

For Services subject to the maximum, you will not pay any more Cost Sharing during a calendar year if the Copayments and Coinsurance you pay for those Services, plus all your Deductible payments, add up to one of the following amounts:

For self-only enrollment (a Family of one Member).....	\$4,000 per calendar year
For any one Member in a Family of two or more Members.....	\$4,000 per calendar year
For an entire Family of two or more Members	\$8,000 per calendar year

Deductible for Certain Services as specified below

You must pay Charges for Services you receive in a calendar year until you reach one of the following Deductible amounts:

For self-only enrollment (a Family of one Member).....	\$1,500 per calendar year
For any one Member in a Family of two or more Members.....	\$1,500 per calendar year
For an entire Family of two or more Members	\$3,000 per calendar year

Lifetime Maximum

None

Professional Services (Plan Provider office visits)
You Pay

Most primary and specialty care consultations and exams	\$40 per visit (Deductible doesn't apply)
Routine physical maintenance exams.....	No charge (Deductible doesn't apply)
Well-child preventive exams (through age 23 months).....	No charge (Deductible doesn't apply)
Family planning counseling	No charge (Deductible doesn't apply)
Scheduled prenatal care exams and first postpartum follow-up consultation and exam	No charge (Deductible doesn't apply)
Eye exams for refraction	No charge (Deductible doesn't apply)
Hearing exams	No charge (Deductible doesn't apply)
Urgent care consultations and exams.....	\$40 per visit (Deductible doesn't apply)
Physical, occupational, and speech therapy	\$40 per visit after Deductible

Outpatient Services
You Pay

Outpatient surgery and certain other outpatient procedures	30% Coinsurance after Deductible
Allergy injections (including allergy serum)	No charge after Deductible
Most immunizations (including vaccines).....	No charge (Deductible doesn't apply)
Most X-rays and laboratory tests.....	\$10 per encounter after Deductible
Preventive X-rays, screenings, and laboratory tests as described in the <i>EOC</i>	No charge (Deductible doesn't apply)
MRI, most CT, and PET scans.....	\$50 per procedure after Deductible
Health education:	
Covered individual health education counseling and programs	No charge (Deductible doesn't apply)
Covered group educational programs.....	No charge (Deductible doesn't apply)

Hospitalization Services
You Pay

Room and board, surgery, anesthesia, X-rays, laboratory tests, and drugs	30% Coinsurance after Deductible
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Emergency Health Coverage
You Pay

Emergency Department visits	30% Coinsurance after Deductible
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Ambulance Services
You Pay

Ambulance Services.....	\$150 per trip after Deductible
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continued

Prescription Drug Coverage	You Pay
Most covered outpatient items in accord with our drug formulary guidelines:	
Generic items from a Plan Pharmacy.....	\$10 for up to a 30-day supply, \$20 for a 31- to 60-day supply, or \$30 for a 61- to 100-day supply (Deductible doesn't apply)
Generic refills from our mail-order service	\$10 for up to a 30-day supply or \$20 for a 31- to 100-day supply (Deductible doesn't apply)
Brand-name items from a Plan Pharmacy	\$30 for up to a 30-day supply, \$60 for a 31- to 60-day supply, or \$90 for a 61- to 100-day supply (Deductible doesn't apply)
Brand-name refills from our mail-order service	\$30 for up to a 30-day supply or \$60 for a 31- to 100-day supply (Deductible doesn't apply)
Durable Medical Equipment	You Pay
Most covered durable medical equipment for home use in accord with our durable medical equipment formulary guidelines.....	
	20% Coinsurance (Deductible doesn't apply)
Mental Health Services	You Pay
Inpatient psychiatric hospitalization and intensive psychiatric treatment programs.....	
	30% Coinsurance after Deductible
Outpatient mental health evaluation and treatment.....	\$40 per individual visit (Deductible doesn't apply) \$20 per group visit (Deductible doesn't apply)
Chemical Dependency Services	You Pay
Inpatient detoxification.....	
	30% Coinsurance after Deductible
Individual outpatient chemical dependency consultations and treatment	\$40 per visit (Deductible doesn't apply)
Group outpatient chemical dependency treatment.....	\$5 per visit (Deductible doesn't apply)
Home Health Services	You Pay
Home health care (up to 100 visits per calendar year).....	
	No charge (Deductible doesn't apply)
Other	You Pay
Skilled nursing facility care (up to 100 days per benefit period)	
	30% Coinsurance after Deductible
All covered Services related to infertility treatment.....	50% Coinsurance (Deductible doesn't apply)
Hospice care	No charge (Deductible doesn't apply)

This is a summary of the most frequently asked-about benefits. This chart does not explain benefits, Cost Sharing, out-of-pocket maximums, exclusions, or limitations, nor does it list all benefits and Cost Sharing. For a complete explanation, please refer to the EOC. Please note that we provide all benefits required by law (for example, diabetes testing supplies).

Proposed monthly dues effective:

- Subscriber**
- Subscriber & Spouse**
- Subscriber & Child(ren)**
- Subscriber & Family**

CITY PROPOSAL – RETIREMENT BENEFITS FOR NEW EMPLOYEES

The benefits set forth below shall apply to full time eligible employees who are hired on or after July 1, 2012, and shall be referred to as Tier 2 in the Federated City Employees' Retirement System.

Proposed Language:

Pension Formula

The pension benefit formula for eligible employees hired on or after July 1, 2012, shall be 2.0% percent per year of service subject to a maximum of 65% of final compensation.

Final Compensation

Final compensation shall mean the average annual earned pay of the highest three consecutive years of service. Final compensation shall be base pay only, excluding premium pays or other additional compensation.

Minimum Service

Employees shall be eligible for a service retirement after earning five (5) years of retirement service credit and meeting the age requirement specified below.

Retirement Service Credit

Employees shall be eligible for a full year of service credit upon reaching 2,080 hours of regular time worked (including paid leave, but not overtime).

Age

Employees hired on or after July 1, 2012, shall be eligible to retire at age 65 with at least five (5) years of retirement service credit.

Employees can retire at a minimum of age 55 with at least five (5) years of retirement service credit; however, the member's benefit shall be reduced so it does not exceed the actuarial value of full retirement. This reduced benefit shall be determined by the Federated City Employees' Retirement System actuary.

Deferral of Retirement

Employees who leave employment who have at least five (5) years of retirement service credit may defer the retirement benefit until the employee becomes eligible to retire.

Cost of Living Adjustment (COLA)

Plan members shall receive a cost of living adjustment limited to the increase in the consumer price index (San Jose – San Francisco – Oakland U.S. Bureau of Labor Statistics index, CPI-U, December to December), capped at 1.5% per fiscal year. The first COLA adjustment shall be prorated based on the number of months retired.

Disability Retirements

Service Connected

Plan members who are eligible for a service connected disability retirement benefit shall receive an annual benefit based on 50% of the average annual pensionable pay of the highest three consecutive years of service.

Non-Service Connected

Plan members who are eligible for a non-service connected disability retirement benefit shall receive 2.0% times years of City service, but not less than 20% and not greater than 50% based on the average annual pensionable pay of the highest three consecutive years of service. Plan members shall not be eligible for a non-service connected disability retirement unless the member has earned 5 years of retirement service credit.

Survivorship Benefits

Death Before Retirement

If an employee dies during employment with the City and was not eligible for retirement, a return of employee contributions, plus interest shall be returned to the spouse, domestic partner, or estate.

If an employee dies during employment with the City and was eligible for retirement, a monthly benefit equivalent to what the employee would have received if retired at the time of death shall be provided to the spouse, domestic partner, or estate.

Death Before Retirement - Employees killed in the line of duty

If an employee is killed in the line of duty, the surviving spouse or domestic partner shall receive a monthly benefit equivalent to 50% of the average annual pensionable pay of the highest three consecutive years of service.

Death After Retirement

At the time of retirement, an employee may elect to receive a lower pension benefit to provide survivorship benefits to a spouse/domestic partner or child(ren) designated at

the time of retirement. The Board's actuary shall determine the pension benefit for a 50%, 75% or 100% continuance that is actuarially equivalent to the member's benefit.

Defined Contribution Plan

Employees may supplement the retirement benefit by electing to make contributions to a defined contribution plan offered by the City, up to the annual IRS limit.

Cost Sharing

The City and Plan members in Tier 2 shall share equally in all costs of Tier 2 to the pension plan, including, but not limited to administrative expenses, normal cost and unfunded actuarial liability.

Reciprocity

Employees hired on or after July 1, 2012, shall be eligible for the benefits under the reciprocal agreement with CalPERS that are in effect at the time of the employee's retirement.

Rights

The City expressly retains its authority to amend, change or terminate any retirement or other post employment benefit provided by the City.

The retirement benefits for employees in Tier 2 shall include those described herein and shall not include any other benefits received by other members of the Federated City Employees' Retirement System, including, but not limited to, the purchase of service credit and redeposit of contributions.

CITY PROPOSAL – MEDICARE PART A AND B ENROLLMENT

Proposed Language:

Effective July 1, 2012, a member who is eligible for retiree healthcare benefits in the Federated City Employees' Retirement System shall be required to enroll in Medicare Part A and B at the age of 65. Additionally, the plan member shall be required to enroll in a Medicare Plan provided by the Federated City Employees' Retirement System and assign Medicare Part A and B to the Medicare Plan if required by the healthcare provider.

If a plan member was hired before March 1986 and is not eligible for Medicare Part A at no cost, the plan member shall be required to provide such verification from the U.S. Social Security Administration to the Department of Retirement Services within 6 months from the date the plan member becomes age 65. Plan members shall be required to enroll in a Medicare Plan provided by the Federated City Employees' Retirement System within 6 months from the date the plan member is age 65.

If a plan member fails to meet the requirements set forth above within 6 months from the date the member becomes age 65, the plan shall cease to provide retiree healthcare benefits until the plan member completes such requirements. This means that the member and qualifying dependents (if applicable) shall not receive retiree healthcare benefits. The Plan member and qualifying dependents shall be re-enrolled in retiree healthcare benefits beginning the 1st day of the following month after such requirements have been completed.

If the Plan member dies during the period which the plan member failed to complete the requirements set forth above, the eligible spouse or domestic partner and child(ren) shall be re-enrolled in a health insurance plan. When the spouse or domestic partner is age 65, the same requirements must be fulfilled, otherwise retiree healthcare coverage will cease until such requirements are completed, as set forth above.