

2011 ABMEI, AFSCME (CEO-MEF), IBEW, OE-3 COALITION – CITY OF SAN JOSE NEGOTIATIONS

UNION PROPOSAL – NEW HIRE TIER 2

Rationale:

This proposal addresses the issue of retirement. It is made in good faith and is in response to the City's incorporation of desired changes to its retirement benefits in the proposed ballot measure. The non-management, rank-and-file unions are at the bargaining table to work with the City. This proposal maintains our effort to ensure that the City of San Jose continues to be a great place to work. It is critical that the City not incur unnecessary costs and that it continues to work efficiently and effectively. It is also important that we maintain the defined benefit plan in the interest of pursuing retirement security and in the interest of having the most efficient retirement program possible.

This proposal aims to address our three primary goals: provide retirement security for city workers, reduce the cost of retirement benefits for new hires, and address the volatility in city costs to provide such benefits.

Second Tier Retirement Proposal from Non-Management, Rank-and-File Unions

Purpose: This proposal aims to achieve three goals regarding the retirement benefits and city costs for future employees in the Federated Plan:

1. Maintaining benefit levels that provide retirement security for the city's workers in the Federated Retirement Plan,
2. Reducing the volatility in the city's costs, and
3. Lowering the cost of retirement benefits.

Proposals to Reduce the Volatility in the City's Retirement Costs

<u>Proposal #</u>	<u>Details</u>	<u>Rationale</u>
1.	<p>COLA's forfeited based on funding ratio test*:</p> <ol style="list-style-type: none"> a. Plan COLA would not be paid if funding ratio falls below 75% b. No retiree/beneficiary could miss more than 5 COLA's in total c. Funding ratio test would be based upon the market value of assets 	<p>If this were in place today:</p> <ul style="list-style-type: none"> - Plan liability would be reduced by 1.8% each time funding test was triggered. - Unfunded liability would be reduced by 6% each time funding test was triggered. - Retirees would contribute to restoring health of plan
2.	<p>Employee contributions would vary based upon funding status of plan*:</p> <ol style="list-style-type: none"> a. Employees would contribute base amount: 3/11ths of normal cost b. If funding ratio falls below 75%, employee contribution rises to 1/2 normal cost c. Funding ratio test would be based upon the actuarial value of assets 	<p>If this were in place today:</p> <ul style="list-style-type: none"> - Increased employee contributions would result in lower city contributions by roughly 4% of pay. - City contributions to the Federated plan increased by 13% since 2001, this would prevent about 1/3rd of increase - Workers would contribute to reducing city cost volatility
3.	<p>City would never contribute less than 8/11ths of normal cost</p>	<p>Prevents contribution holidays</p>

* Assumes city makes 100% of its required contributions. Funding ratio test would be adjusted, if the city failed to meet its obligations.

Proposals to Reduce the Retirement Costs

<u>Proposal #</u>	<u>Details</u>	<u>Rationale</u>
4.	<p>Raise Retirement Eligibility</p> <ol style="list-style-type: none"> a. Pensions: Age 60 and 5 Years of Service b. Retiree Health Care: Age 60 and 15 Years of Service 	<ul style="list-style-type: none"> - This will reduce costs of pensions and retiree health care for new hires. - Would eliminate 5 of the 10 highest health cost years
5.	<p>Use 3-year highest pay for pension benefit, returning to prior policy</p>	<ul style="list-style-type: none"> - This reduces costs for new hires, by roughly 3-4%
6.	<p>Limit pensionable earnings by adding a compensation cap to the Federated Plan</p> <ol style="list-style-type: none"> a. Compensation cap would be equal to the maximum, Social Security taxable wage base in effect during the year when an employee retired. b. Social Security taxable wage base for 2011 is \$106,800. 	<ul style="list-style-type: none"> - This reduces costs and alters the focus of the plan