



PROFESSIONAL & TECHNICAL ENGINEERS, LOCAL 21, AFL-CIO  
*An Organization of Professional, Technical, and Administrative Employees*

September 28, 2011

Gina Donnelly  
Deputy Director of Employee Relations  
City of San Jose  
200 East Santa Clara Street  
San Jose, CA 95113

**RE: Pension Reform Proposal**

Dear Gina,

IFPTE Local 21, CAMP, AEA and AMSP have attached to this letter a comprehensive pension reform proposal that will reduce the City cost for pensions by \$153.8 million dollars from FY12-FY16.

When combined with the SJPOA/SJFF Local 230 and Association of Retired San Jose Police Officers and Firefighters proposals, the City's cost for pensions is reduced by \$467 million dollars from FY12-FY16.

Our proposal increases the retirement age, reduces the pension benefit, lowers the COLA, eliminates SRBR, and reduces normal cost to 10.45%. It achieves all of these goals in a manner that avoids litigation and provides certainty to our members, the City and most importantly to the residents we serve.

Thomas Lowman performed the actuarial valuation of the Local 21 proposal. Mr. Lowman is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Mr. Lowman will make himself available to meet with you and/or your actuary to confirm our cost savings numbers and provide his methodology and analysis. We look forward to our next bargaining session to further discuss our proposal.

Sincerely,

Nancy J. Ostrowski  
IFPTE Local 21 Senior Staff  
Chair – San Jose Coalition

Cc: AEA Bargaining Team  
AMSP Bargaining Team  
CAMP Bargaining Team  
Alex Gurza  
Aracely Rodriguez

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IFPTE LOCAL AEA, AMSP and CAMP PROPOSAL TO THE CITY OF SAN JOSE  
Fair and Affordable Pension Benefits for Future Employees—Tier 3  
September 28, 2011

Our Tier 3 proposal, when combined with our Tier 2 proposal will decrease the City pension cost by approximately **\$153.8 million dollars from FY13 through FY16**

Our Fair and Affordable Pension Benefit proposal for Future Employees will provide a stable and fair pension for long-term city employees at a reduced cost to the City. Our proposal decreases the current benefit accrual rate, increases the retirement age, reduces the COLA, doubles the years to vest in the system, eliminates SRBR, and splits normal cost on a 50-50 basis.

**Normal Cost** projection would be reduced from **18.16% down to 10.45%**  
**split evenly between City/Future Employee (5.225% each).**<sup>1</sup>

**Benefit Accrual Rate**

Reduce current retirement accrual rate from 2.5% to 2% per year.

**Retirement Age**

Increase full retirement age from 55-years to 60-years.

**Cost of Living Allowance (COLA)**

Reduce the current 3% COLA to Bay Area Consumer Price Index capped at 2%.

**Final Average Salary Calculation**

Increase from the current highest 12-months to the average of the highest 36-months in calculating final average salary.

**Vesting**

Double the years of service required to become vested in the pension plan from the current 5-years to 10-years.

**Normal Cost Split**

Increase the employee share of normal cost from the current 8-3 (City/Employee) ratio to 1-1 (City/Employee).

**SRBR**

Eliminate for future employees.

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<sup>1</sup> Our actuary, Thomas Lowman, is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

IFPTE Local 21 AEA, AMSP and CAMP PROPOSAL  
TO THE CITY OF SAN JOSE

Fair and Affordable Pension Benefits for Current Employees—Tier 2 OPT-IN  
September 28, 2011

Our Tier 2 proposal, when combined with our Tier 3 proposal will decrease the City pension cost by approximately **\$153.8 million dollars from FY13 through FY16.**<sup>1</sup>

Reducing the cost of retirement benefits for current employees in a fair, reasonable and legally allowable manner is our goal. The voluntary opt-in plan below would be available to all current employees. Each employee that voluntarily decides to join the Tier 2 plan shall do so by making an irrevocable decision by March 1, 2012.

All retirement benefits accrued and earned by individual employees for prior service shall be preserved for payment at the time of retirement. Current employees choosing to participate in the opt-in Tier 2 plan shall **prospectively accrue** reduced pension benefits based on the plan elements detailed below:

**Incentives to Opt-In to Lower Cost Plan**

Incentivizing as many employees as possible to opt-into the lower benefit plan should be a shared goal of our bargaining units and the City.

Incentives ***could*** include, but not be limited to, the following; wage increases, opt-in signing bonus, time certain no layoff provision, and/or retention of sick leave payout for those opting in.

**Benefit Accrual Rate**

Reduce current retirement accrual rate from 2.5% to 2% per year for future service.

**Retirement Age**

Increase full retirement age from 55-years to 60-years. Upon date of implementation for all years of service shall increase by six months annually on July 1 of each year until the retirement age reaches the age of 60 for employees in the Federated City Employees' Retirement System.

**Cost of Living Allowance (COLA)**

Reduce the current 3% COLA to Bay Area Consumer Price Index capped at 2%.

**Final Average Salary Calculation**

Increase from the current highest 12-months to the average of the highest 36-months.

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IFPTE Local 21 AEA, AMSP and CAMP PROPOSAL  
TO THE CITY OF SAN JOSE

Fair and Affordable Pension Benefits for Current Employees—Tier 2 OPT-IN  
September 28, 2011

**Normal Cost Split**

Normal cost split would remain 8-3 (City/Employee) for employees opting in to lower benefit plan.

**SRBR**

Eliminate.

**Normal Cost** projection would be reduced from **18.16% down to 10.45%** for prospective service.

**Year-to-Year Summary of Pension Cost Reduction Based on Local 21 Proposal**

	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>
Current City Projections	\$88.0	\$90.3	\$107.9	\$122.6	\$133.7	\$137.8
Proposal Cost	\$88.0	\$90.3	\$74.7	\$85.9	\$94.0	\$93.6
Local 21 Savings			<b>(\$33.2)</b>	<b>(\$36.7)</b>	<b>(\$39.7)</b>	<b>(\$44.2)</b>
<b>5-year cumulative savings</b>	<b>\$153.8 million<sup>2</sup></b>					

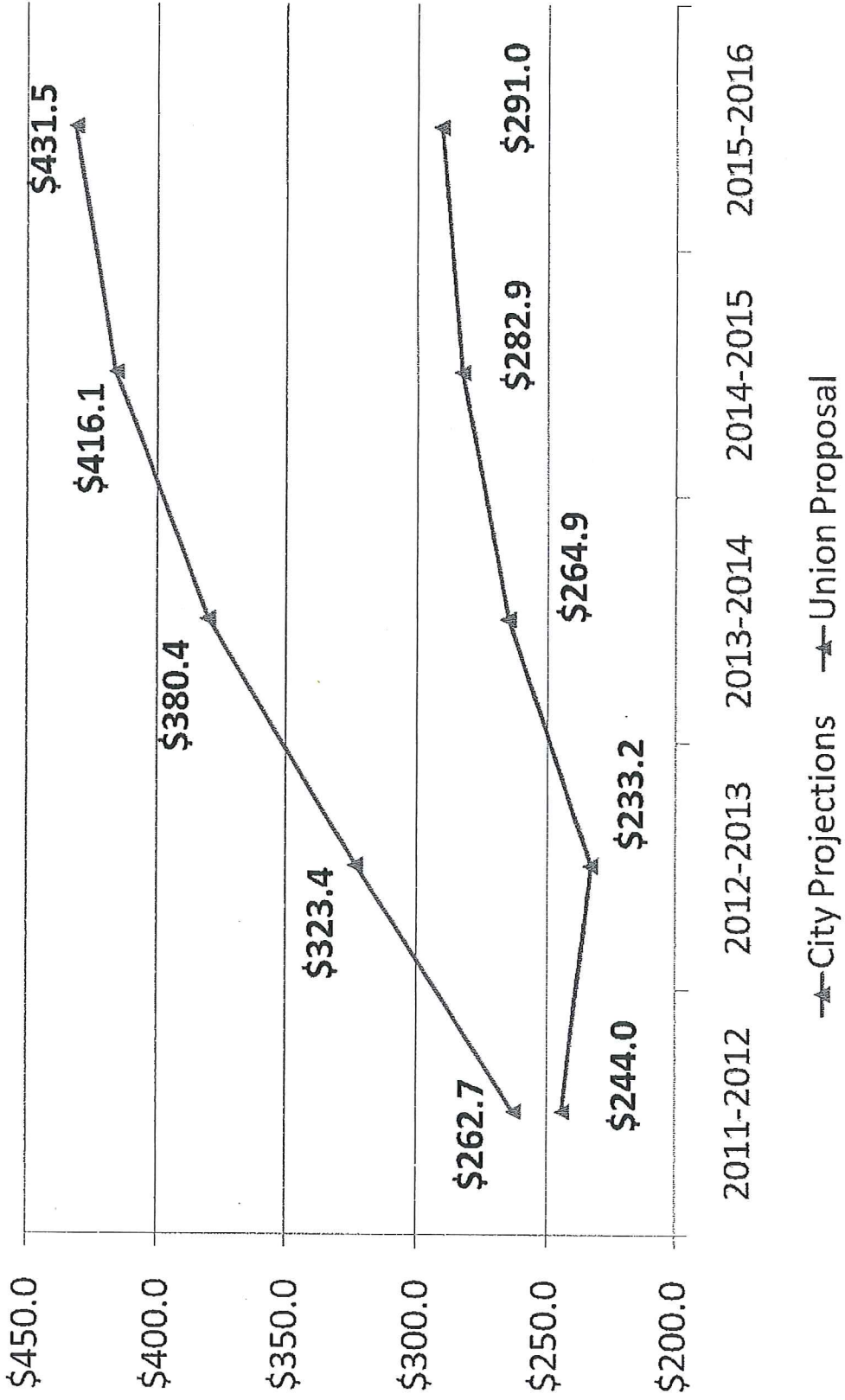
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<sup>2</sup> Thomas Lowman performed the actuarial valuation of the Local 21 proposal. Mr. Lowman is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.



# City Pension Projections vs. Police/Fire & Local 21 Proposal

## \$467 Million Pension Savings



**San Jose Federated City Employees' Retirement System**

**Inputs**

Payroll growth assumption (for amortization factor)  
 Actual payroll growth from this val date to next  
 Annual increase in benefit payments  
 Max contribution \$ increase yr to yr  
 FYE 6/30/2012 Contribution override  
 Interest rate assumption on val date  
 Amortization period for new gains/losses, assump changes (years)  
 Asset return for FY ending on val date  
 Valuation Option: (enter 1 - 6)  
 NC as % of payroll for Tier 1 6/30/2011 onwards  
 NC as % of payroll for Tier 2 6/30/2011 onwards  
 Tier 1 employee share of NC  
 Tier 2 employee share of NC  
 Percent of payroll in Tier 2 on val date  
 ARC is \$ or % or great of the two (member contributions remains % of pay)  
 Continue SRBR?  
 Lower COLA for current actives and retirees (proposed by Rocha)?

**Current Employees Plan (Tier 1):  
Future Hires Plan (Tier 2):**

3.90% 3.83% 3.83% 3.83% 3.83% 3.83%  
 -10.00% 6.00% 7.75% 7.75% 7.75% 7.75%  
 \$ 100,000,000 \$ 100,000,000 \$ 100,000,000 \$ 100,000,000 \$ 100,000,000 \$ 100,000,000  
 \$ 7.95% no 20 120 for new bases/30 for old bases = current practice) 7.75% 7.75% 7.75%  
 18.00% 4 1 = Current plan, 2 = Rocha plan, 3 = Constant plan, 4 = Opt In Plan for  
 10.45% 10.45% This is only used for val option 1; for val option 2 and val option 3, see c  
 27.27% Current plan = 3/11 or 27.27%  
 50.00% (This rate multiplied by NC as % of payroll equals employee portion of N  
 0.00% 6.60% 13.20% 19.80% 26.40%  
 3 1 = % of payroll, 2 = \$ amount, 3 = greater of % or \$; current practice is.  
 No Yes = continue SRBR, No = eliminate SRBR on 6/30/2011  
 No Yes = 1.5% COLA, NO = 3.0% COLA (current); for options 4 - 6 should i

**Opt in for future service opt  
Opt In Plan Mandatory**

3.83% 3.83% 3.83% 3.83% 3.83% 3.83%  
 7.75% 7.75% 7.75% 7.75% 7.75% 7.75%  
 10.45% 10.45% 10.45% 10.45% 10.45% 10.45%  
 27.27% 27.27% 27.27% 27.27% 27.27% 27.27%  
 50.00% 50.00% 50.00% 50.00% 50.00% 50.00%  
 0.00% 0.00% 0.00% 0.00% 0.00% 0.00%  
 3 3 3 3 3 3  
 No No No No No No  
 No No No No No No

**Output**

Date of valuation 06/30/09 06/30/10 06/30/11 06/30/12 06/30/13 06/30/14 06/30/15  
 For contribution fye 6/30/xxxx 2011  
 Total City plan cost (\$) in fye xxxx + 2 \$ 88,011,193 \$ 90,265,014 \$ 75,770,729 \$ 86,251,968 \$ 93,946,419 \$ 93,081,889 \$ 93,201,429  
 Total City plan cost in fye xxxx + 2 as % of fye xxxx + 2 payroll 32.72% 27.47% 30.11% 31.59% 30.14% 29.07%  
 Total member cost (\$) in fye xxxx + 2 12,918,044 7,658,272 8,389,017 9,164,504 9,987,087 10,859,236  
 Total member cost in fye xxxx + 2 as % of fye xxxx + 2 payroll 4.68% 2.78% 2.93% 3.08% 3.23% 3.39%  
 Total cost in fye xxxx + 2 (\$) \$ 103,183,058 83,429,001 94,640,985 103,110,923 103,068,976 104,060,665  
 Total cost in fye xxxx + 2 as % of fye xxxx + 2 payroll 37.40% 30.24% 33.04% 34.67% 33.38% 32.46%  
 Funding % (AVA / AL) 70.7% 68.9% 65.5% 64.9% 67.6% 69.8%  
 Funding % (MVA / AL) 54.6% 60.3% 67.0% 67.3% 68.6% 69.8%  
 Projections from Retirement Services Department and City Manager's Budget Office  
 City contribution % 23.2% 27.1% 30.5% 34.0% 36.4%