

October 27, 2011

Chris Platten
Wylie, McBride, Platten & Renner
2125 Canoas Garden Avenue, Suite 120
San Jose, CA 95125

RE: October 19, 2011 Request for Information

Dear Chris:

We are in receipt of your email dated October 19, 2011, that you sent on behalf of IFPTE, Local 21, regarding retirement reform negotiations. This letter is responsive to your request for information. However, we wanted to clarify several points that you make in your email.

First, as we have indicated at the negotiations, the City did not request that IFPTE Local 21 cost its proposal assuming 100% of the current employees will opt in to the program IFPTE Local 21 is proposing. You further indicated that because IFPTE Local 21 is assuming that 100% of the current employees will opt in to IFPTE Local 21's proposed program, that the SRBR would be eliminated. However, in the IFPTE proposal, it does not specify what would happen if 100% of the current employees do not opt in. We are requesting clarification on what would happen to the SRBR for current employees who elect not to opt in under the IFPTE Local 21 proposal. As we have previously indicated, the City's position is that the SRBR is not a vested benefit and can be eliminated as the City has proposed to IFPTE Local 21.

In your email you also state, "We appreciate the City's acknowledgement that the costing of proposals is impacted by the limitation of a constrained amortization period, and that the costs associated with proposals would change if a longer amortization period, say 30 years where used...." As we have indicated during our negotiation sessions, the Retirement Board makes a decision on the amortization period and the City does not interfere with the Board's decision on assumptions and methodologies that are used in the valuation.

The following is responsive to the information request.

1. What is the normal cost of the City's proposal (i.e., the ballot measure), in precise percentage? So far, the City has only indicated a "range" of possible normal cost figures,

which is not sufficient for determining the distance in relative positions between the parties.

As we have indicated during our negotiations, the City estimates that the Pension Normal Cost for new employees is estimated to be 7-9% of pensionable pay. As you are aware, the City's actuary is currently reviewing the data and we will provide any further information that becomes available.

2. What will it cost Local 21 members if the City's proposal is implemented?

The actual cost to IFPTE Local 21 members is unknown at this time because we do not know how many employees will elect the Voluntary Election Program. As we have previously indicated, once we know how many current employees will elect the Voluntary Election Program, the Board's actuary will need to determine the cost to the City and employees. This is similar to IFPTE's proposal. We would not know the actual cost until it was determined how many current employees would elect the opt in program.

3. We want the savings expected under the City's proposal, set forth in the same manner as was provided to the City, at its request, for Local 21's proposal, i.e., by tier, fiscal year, etc.

The following is a summary of the City's estimated savings for both retirement plans, for all funds.

	Estimated 2012-2013 Savings	Estimated 2013-2014 Savings	Estimated 2014-2015 Savings	Estimated 2015-2016 Savings
SRBR	\$4.7 million			
Retiree Healthcare		\$17.9 million		
Additional Retirement Contributions/Voluntary Election Program	\$20.9 million	\$20.9 million ¹ - \$99.3 million	\$10.6 million ²	\$2.4 million ³
New Employees	\$0	\$0	\$0	\$0
COLA for current employees and retirees	\$39.7 million			

¹ Assumes no current employee will elect the Voluntary Election Program. Actual savings if employees elect the Voluntary Election Program is unknown until it is determined how many employees will elect the Voluntary Election Program

² Assumes no current employee will elect the Voluntary Election Program. Actual savings if employees elect the Voluntary Election Program is unknown until it is determined how many employees will elect the Voluntary Election Program

³ Assumes no current employee will elect the Voluntary Election Program. Actual savings if employees elect the Voluntary Election Program is unknown until it is determined how many employees will elect the Voluntary Election Program

4. Under the City's proposal (e.g, §2), the benefits are expressly "not intended to grant any vested rights to any post employment benefit." And "[t]he City expressly retains its authority to amend, change or terminate any retirement or other post employment benefit program provided by the City." This means that all of the plan benefits, if not the plan itself, are terminable at-will. Is this correct?

The City retains the ability to change the benefits, including but not limited to, terminating the benefits.

5. Under the City's proposal, (e.g, §7(a)), the City's contribution is capped at 9% of payroll and in no event shall the City contribution to such plan exceed 50% of the cost of the Tier 2 plan (both normal cost and unfunded liabilities). The plan now a defined contribution plan. Is that correct?

The proposal the City has made to IFPTE Local 21 is a defined benefit plan and not a defined contribution plan.

6. Under the City's proposal, if the plan is terminable at-will, there are no enforceable retirement benefits promised. Is that correct?

As indicated above, the City retains the ability to change the benefits, including but not limited to, terminating the benefits.

7. Under the City's proposal, what happens if the employees cannot afford to contribute 50% of total costs?

The City's proposal provides that current employees that do not elect the Voluntary Election Program and remain in the current level of benefits would be responsible for 50% of the unfunded liability, phased in at 5% per year and capped at 25% for the unfunded liability. This does not include the employee cost for the Normal Cost or the employee's share of retiree healthcare.

The City's proposal for new employees would require the City and employees to equally share the Normal Cost and Unfunded Liability for any retirement benefits.

8. Under the City's proposal, what happens to annuitants benefits if the plan is terminated?

Please see Section 3.28.070 of the San Jose Municipal Code.

9. Under the City's proposal, what happens to survivor benefits if the plan is terminated?

Please see Section 3.28.070 of the San Jose Municipal Code.

10. Under the City's proposal, what happens to disabled employees or retirees if the plan is terminated?

Please see Section 3.28.070 of the San Jose Municipal Code.

11. Under the City's proposal, (e.g., §7(a)), because the City's contribution is capped and "may be designed as a 'hybrid plan' consisting of a combination of Social Security, a defined benefit plan and/or a defined contribution plan" the proposal is for a defined contribution plan. Does the City agree?

As we have indicated before, the City is proposing a defined benefit plan.

12. As a defined contribution plan, doesn't the City's proposal run afoul of the same IRS Revenue Ruling (2006-43) as that confronting Orange County?

The City is proposing a defined benefit plan and does believe it should be compared to any issues confronting Orange County.

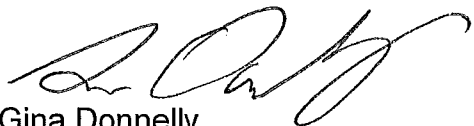
13. Under the City's proposal, if the plan does violate the Internal Revenue Code making the entire plan a non-tax qualified plan, what happens then?

This is addressed in Section 15 of the revised draft proposed ballot measure dated October 20, 2011.

14. Under the City's proposal, if a current employee opt-in to the VEP, does that employee become liable for future unfunded liabilities, and if so, is that liability capped or limited?

This is addressed in Section 7(c) of the revised draft proposed ballot measure dated October 20, 2011.

Sincerely,



Gina Donnelly
Deputy Director of Employee Relations

c: Nancy Ostrowski, IFPTE Local 21