August 9, 2011

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RE: Information Request

We are in receipt of your letter dated July 29, 2011, in which you request information regarding retirement. In your letter you indicate that you seek "the following information and clarifications with respect to the City's Pension Plan and the interconnected Proposed Ballot Measure language." As we indicated, because we have no agreement with ABMEI, CEO, IBEW, MEF and OE#3 to negotiate over retirement reform and the draft proposed ballot measure concurrently, the negotiations will remain separate.

The following is responsive to your request for information:

1. Please provide an updated actuarial calculation with respect to the City's Federated Pension Plan liabilities that takes into account last year's pay decreases. Specifically, plan actuaries assumed a 3.9% increase in compensation when calculating the unfunded liabilities of the Federated Pension plan in the 2010 valuation report. However, since such calculations the AFSCME-represented units' compensation has been reduced by 12.06 and 12.16 percent respectively. This implies that the calculation of projected benefits from last year would have been utilizing pay projections for current workers that exceed today's pay levels by nearly 16%. Other units have also had

significant cuts to compensation. Please provide the following information associated with these pay reductions and/or freezes:

a. The impact on the projected pension liability
b. The impact on the accrued liabilities
c. The impact on the unfunded liabilities
d. The impact on employee and city contributions over the next five years

Please provide all assumptions contained in such calculations and describe the method employed in calculating such amounts.

As you know, the Federated City Employees' Retirement System's actuary performs actuarial valuations on a fiscal year basis for both the pension plan and retiree healthcare. The actuary will be performing a valuation using payroll data as of June 30, 2011, in the next several months. As part of this report, assumptions will be reviewed by the Board, including the assumed wage inflation rate that should be used. At this time it is unknown what the Board will adopt as the assumed wage inflation rate.

Once the Board adopts the actuarial assumptions to be used in the next valuation, the Boards' actuary will complete the actuarial valuation that provides the liability and contribution rates for the next fiscal year.

2. We understand that asset returns were above the assumed level for the plan year ending on June 30, 2011, and we would like to understand the impact of the recent returns (even if only unaudited figures are available). Please provide the following information regarding the asset returns in the past plan year:

a. Current market valuation of Pension Plan assets, as of June 30, 2011
b. The return on investment for the year ending on June 30, 2011
c. How these returns affect the City's unfunded liabilities
d. How these returns affect the City's contributions over the next 5 years

We have contacted the Department of Retirement Services and have been informed that the investment returns for the plan year ending on June 30, 2011, are currently not available. This information is anticipated to be available in September. Quarterly reports through March 2011, are available at the following website:

http://www.sjretirement.com/Fed/Investments/Investments-Performance.asp

As mentioned in Response #1, the Boards' actuary will be performing a valuation using data as of June 30, 2011, in the next several months.

3. To the extent the City has hired its own actuaries and is not relying on the Pension Plan's actuaries for the above-requested information, please also provide analyses conducted by the City's actuaries and describe how the City's actuary's methods, assumptions and conclusions differ, if at all, from those of the Plan's actuary.

The City has retained an outside actuary, however, the City's actuary has not been directed to complete any of the analysis you specify above.

4. With respect to the Ballot Measure Proposal, several components are triggered based on the city's unfunded liabilities exceeding a level defined as of June 30, 2010. Does the

City intend or have an understanding as to whether these defined levels will be indexed in any way going forward? If so, describe how such computations will be indexed.

The City does not have information readily available responsive to this request.

5. With respect to cost-sharing of unfunded liabilities by employees remaining in the Pension Plan, as contemplated in the proposal, on what asset basis will cost-sharing be computed? For example, will the City utilize the market value of plan assets or the actuarial value of assets?

   Currently, the contributions are determined using the actuarial value of assets. It is anticipated that the actuarial value of assets would be used to determine the rates for the unfunded liability.

6. Please indicate the respective shares of the retiree health care plan's annual required contribution (ARC) which is attributable to the cost of current workers compared to the share of the cost attributable to retirees. Please indicate the method of allocation and describe the method of computing such allocation.

   The City does not have information readily available responsive to this request.

7. Where the Ballot Measure Proposal states that existing and new employees will "contribute a minimum of 50% of the cost of retiree healthcare," please clarify whether the City is referring to 50% of the cost of current workers' costs or 50% of the ARC, which includes retiree costs. If the Proposal intends to have employees contribute 50% of the ARC, please provide the percentage of costs that current workers would be paying toward their own benefits.

   As you know the City and employees are currently phasing-in to fully pre-fund retiree healthcare. This includes sharing the costs equally to pay the Annual Required Contributions (ARC). This includes the costs for the Normal Cost and unfunded liability.

8. The Ballot Measure Proposal contains various "reservation of rights" provisions that allow for amendment and elimination of benefits and also provide that benefits are not vested (for example, see sections 2, 4 and 6(f) of the Proposal). Does the City understand these provisions to have the effect of making accrued benefits earned by employees under either the Tier 1, Modified Tier 1, or Tier 2 plans unvested benefits? If so to what benefits or benefit components does this non-vesting apply, in the City's view? In addition is it the City's understanding that such provisions apply to current employees or retirees?

   The benefits described in the ballot measure, if passed by the voters, shall be unvested. The City Council shall retain its authority to amend, change or repeal any retirement or other post employment benefit program under the Charter. This shall apply to current and future employees and retirees.

9. With respect to the Voluntary Election Program described in section 5 of the Ballot Measure Proposal, for employees who elect the VEP option, how will their benefits be defined and computed with respect to their benefits accrued under the Pension Plan prior to electing the VEP option? In addition, how will the varying COLA adjustments and retirement ages be reconciled with respect to such employees upon retirement?

Section 5 of the draft proposed ballot measure outlines the parameters of a Voluntary Election Program. The opt in program has not been defined. The City is interested in hearing the Unions' ideas on a voluntary opt in program that are within the parameters outlined in the draft proposed ballot measure.

10. Also with respect to employees electing the VEP option, and to the extent cost-sharing provisions are triggered as a result of an increase in unfunded liability over June 30, 2010 levels, will employees' remaining in the Pension Plan be saddled with cost-sharing associated with unfunded liabilities associated with employees who have elected the VEP option? Alternatively, is an employees' cost sharing under these provisions associated only with the proportion of unfunded liabilities associated with the particular employees' vested benefits?

    As indicated above, the draft proposed ballot measure outlines the parameters of a VEP. This program has not been defined and the City would be interested in hearing the Unions' ideas on a voluntary opt in program that fall within the parameters outlined in the draft proposed ballot. During our discussions, the parties can discuss the questions raised in this information request.

11. With respect to the increase in retirement age for current employees with vested accrued benefits under the Pension Plan, does the City intend that such employees benefits will be adjusted to account for the diminished value of such benefits as a result of the increased retirement age? If so, how will such benefits be adjusted to ensure the actuarial value of such benefits are preserved?

    It is unclear what you are asking in this question. We would appreciate clarification on what you mean when you ask "does the City intend that such employees benefits will be adjusted to account for the diminished value of such benefits as a result of the increased retirement age."

Sincerely,

Gina Donnelly
Deputy Director of Employee Relations

c: Charles Allen, AFSCME