Sent to Council:

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APR 17 2012

City Manager's Office

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Leanna Bieganski

SUBJECT: Early Council Packet

DATE: April 17, 2012

Approved

Date 4-17-12

EARLY DISTRIBUTION COUNCIL PACKET FOR MAY 1, 2012

Please find attached the Early Distribution Council Packet for the May 1, 2012 Council Meeting.

3.x Annual Summary of Upcoming Labor Negotiations.

Recommendation: Accept staff report on Annual Summary of Upcoming Labor Negotiations. CEQA: Not a Project, File No. PP10-069(a), Annual Reports. (City Manager's Office)

3.x Terms of an Agreement with, or Implementation of Terms Contained in the City's Last, Best and Final Offer to the Association of Building, Mechanical, and Electrical Inspectors (ABMEI).

Recommendation: Adopt a resolution approving the terms of an agreement with, or approving the implementation of terms contained in the City's Last, Best and Final Offer to the Association of Building, Mechanical, and Electrical Inspectors (ABMEI). CEQA: Not a Project, File No. PP10-069(b), Personnel Related Decisions. (City Manager's Office)

3.x Terms of an Agreement with, or Implementation of Terms Contained in the City's Last, Best and Final Offer to the Association of Engineers and Architects, International Federation of Professional and Technical Engineers, Local 21, Units 41/42 And Unit 43 (AEA).

Recommendation: Adopt a resolution:

(a) To approve the terms of an agreement with, or approve the implementation of terms contained in the City's Last, Best and Final Offer to the Association of Engineers and Architects, International Federation of Professional and Technical Engineers, Local 21, Units 041 and 042.

(b) To approve the terms of an agreement with, or approve the implementation of terms contained in the City's Last, Best and Final Offer to the Association of Engineers and Architects, International Federation of Professional and Technical Engineers, Local 21, Unit 043.

CEQA: Not a Project, File No. PP10-069(b), Personnel Related Decisions. (City Manager's Office)

3.x Terms of an Agreement with, or Implementation of Terms Contained in the City's Last, Best and Final Offer to the Association of Legal Professionals of San Jose (ALP).

Recommendation: Adopt a resolution approving the terms of an agreement with, or approving the implementation of terms contained in the City's Last, Best and Final Offer to the Association of Legal Professionals of San Jose (ALP). CEQA: Not a Project, File No. PP10-069(b), Personnel Related Decisions. (City Manager's Office)

3.x Terms of an Agreement with, or Implementation of Terms Contained in the City's Last, Best and Final Offer to the Association of Maintenance Supervisory Personnel, International Federation of Professional and Technical Engineers, Local 21 (AMSP).

Recommendation: Adopt a resolution approving the terms of an agreement with, or approving the implementation of terms contained in the City's Last, Best and Final Offer to the Association of Maintenance Supervisory Personnel, International Federation of Professional and Technical Engineers, Local 21 (AMSP). CEQA: Not a Project, File No. PP10-069(b), Personnel Related Decisions. (City Manager's Office)

3.x Terms of an Agreement with, or Implementation of Terms Contained in the City's Last, Best and Final Offer to the City Association of Management Personnel, International Federation of Professional and Technical Engineers, Local 21 (CAMP).

Recommendation: Adopt a resolution approving the terms of an agreement with, or approving the implementation of terms contained in the City's Last, Best and Final Offer to the City Association of Management Personnel, International Federation of Professional and Technical Engineers, Local 21 (CAMP). CEQA: Not a Project, File No. PP10-069(b), Personnel Related Decisions. (City Manager's Office)

3.x Terms of an Agreement with, or Implementation of Terms Contained in the City's Last, Best and Final Offer to the International Brotherhood of Electrical Workers, Local No. 332 (IBEW).

Recommendation: Adopt a resolution approving the terms of an agreement with, or approving the implementation of terms contained in the City's Last, Best and Final Offer to the International Brotherhood of Electrical Workers, Local No. 332 (IBEW). CEQA: Not a Project, File No. PP10-069(b), Personnel Related Decisions. (City Manager's Office)

3.x Terms of an Agreement with, or Implementation of Terms Contained in the City's Last, Best and Final Offer to the International Union of Operating Engineers, Local No. 3 (OE3).

Recommendation: Adopt a resolution approving the terms of an agreement with, or approving the implementation of terms contained in the City's Last, Best and Final Offer to the International Union of Operating Engineers, Local No. 3 (OE3). CEQA: Not a Project, File No. PP10-069(b), Personnel Related Decisions. (City Manager's Office)

3.x Terms of an Agreement with, or Implementation of Terms Contained in the City's Last, Best and Final Offer to the Municipal Employees' Federation, AFSCME, Local No. 101 (MEF).

Recommendation: Adopt a resolution approving the terms of an agreement with, or approving the implementation of terms contained in the City's Last, Best and Final Offer to the Municipal Employees' Federation, AFSCME, Local No. 101 (MEF). CEQA: Not a Project, File No. PP10-069(b), Personnel Related Decisions. (City Manager's Office)

3.x Terms of an Agreement with, or Implementation of Terms Contained in the City's Last, Best and Final Offer to the Confidential Employees' Organization, AFSCME, Local No. 101 (CEO).

Recommendation: Adopt a resolution approving the terms of an agreement with, or approving the implementation of terms contained in the City's Last, Best and Final Offer to the Confidential Employees' Organization, AFSCME, Local No. 101 (CEO). CEQA: Not a Project, File No. PP10-069(b), Personnel Related Decisions. (City Manager's Office)

3.x Benefit Changes for Executive Management and Professional Employees in Unit 99 and Other Unrepresented Employees (Units 81/82)

Recommendation: Adopt a resolution approving benefit changes for executive management and professional employees in Unit 99 and other unrepresented employees (Units 81/82). CEQA: Not a Project, File No. PP10-069(b), Personnel Related Decisions. (City Manager's Office)

4.x Public Hearing for the Approval of the 2012-2013 Consolidated Annual Action Plan.

Recommendation:
(a) Hold a final public hearing regarding the approval of the City's 2012-2013 Consolidated Annual Action Plan (ConPlan) and take public comment.
(b) Adopt the 2012-2013 Consolidated Annual Action Plan, including the FY 2012-2013 funding recommendations for the Community Development Block Grant (CDBG) Program, the HOME Investment Partnership Program (HOME), the Housing Opportunities for People with HIV/AIDS (HOPWA) Program, and the Emergency Shelter Grant (ESG) Program.
(c) Adopt a resolution authorizing the Director of Housing to negotiate and execute all non-capital agreements and contracts not requiring CEQA/NEPA review and to negotiate all capital project agreements and contracts, including any amendments or modifications, for the expenditure of CDBG, ESG, HOME and HOPWA funds on behalf of the City, and after CEQA/NEPA review and City Council approval, to execute all documents.
(d) Authorize the Housing Department to submit the 2012-2013 Consolidated Annual Action Plan to the U.S. Department of Housing and Urban Development (HUD).

CEQA: Not a Project, File No.PP10-069(a), Annual Report. Specific development projects that are funded as a result of the Consolidated Annual Action Plan are subject to project-specific CEQA clearance. (Housing)

These items will also be included in the Council Agenda Packet with item numbers.

/s/
LEANNA BIEGANSKI
Council Liaison

COUNCIL AGENDA: 05/01/12
ITEM:

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Debra Figone

SUBJECT: **ANNUAL SUMMARY OF LABOR NEGOTIATIONS**

DATE: April 17, 2012

COUNCIL DISTRICT: City-Wide
SNI AREA: N/A

RECOMMENDATION

Accept staff report and public input on the Annual Summary of Upcoming Labor Negotiations.

OUTCOME

As recommended by the Sunshine Reform Taskforce and approved by the City Council, this report will provide the public an opportunity to have information related to labor negotiations in advance of the commencement of negotiations and to provide input to the City Council.

BACKGROUND

Pursuant to the Public Information provisions of the Sunshine Reform Task Force Phase I Report approved by the City Council on August 21, 2007, staff is to bring forward to the City Council in open session on an annual basis a summary of labor negotiations for the upcoming year. The purpose of this process is to provide an opportunity for the public to be informed about the City's labor negotiations before the City commences negotiations and to provide the City Council input before the negotiations begin.

This memo provides a summary of background information related to labor negotiations, a summary of bargaining unit information, personnel cost information, and a summary of labor negotiations cost saving strategies.

The following chart shows the City's bargaining units, total Full Time Equivalents (FTEs[1]) for the 2012-2013 Base Budget represented by each bargaining unit and the expiration of their most recent contract. In addition to the bargaining units listed below, there are approximately 227 FTE's in the unrepresented employee groups known as Units 99, 81 and 82.

Bargaining Unit/Union	FTEs[2]	Contract Expiration
International Brotherhood of Electrical Workers, Local 332 (IBEW)	74	06/30/11
International Union of Operating Engineers, Local #3 (OE#3)	692	06/30/11
Municipal Employees' Federation, AFSCME Local 101 (MEF)	1785	06/30/11
Confidential Employees' Organization, AFSCME Local 101 (CEO)	178	09/18/11
Association of Legal Professionals of San Jose (ALP)	32	06/30/12
San Jose Police Officers' Association (POA)	1109	06/30/13
San Jose Fire Fighters, IAFF, Local 230 (IAFF)	645	06/30/13
Association of Building, Mechanical and Electrical Inspectors (ABMEI)	64	06/30/13
Association of Engineers and Architects, IFPTE Local 21 (AEA) Unit 41/42 and Unit 43	203	06/30/13
Association of Maintenance Supervisory Personnel, IFPTE Local 21 (AMSP)	77	06/30/13
City Association of Management Personnel, IFPTE Local 21 (CAMP)	322	06/30/13
TOTAL	**5181**	

In November 2010, the City Council in open session approved a Fiscal Year 2011-2012 goal of reducing the total ongoing employee compensation for all City employees by ten percent (10%) and rolling back any general wage increases received in Fiscal Year 2010-2011, which also included the healthcare changes recommended by the City Auditor and approved by the City Council in August 2009. "Total compensation" is the total cost to the City of pay and benefits, including base pay, retirement contributions, health insurance and other benefits. In addition, the City Council approved direction to achieve the following reforms in Fiscal Year 2011-2012: retirement reform, including pension and retiree healthcare benefits for new hires; options for current employees; Supplemental Retiree Benefit Reserve (SRBR) or "13th Check;" sick leave payout; disability leave supplement, overtime calculation, vacation sellback and compensation structure.

The City reached agreement with seven bargaining groups. The City/ALP agreement will expire on June 30, 2012, and the remaining six contracts will expire on June 30, 2013. In May 2011, the City Council imposed terms and conditions for IBEW, OE#3, MEF and CEO.

The City has made significant progress towards the goals and negotiation parameters established by the City Council for Fiscal Year 2011-2012. The 10% total compensation reduction was

[1] Full Time Equivalents (FTEs) are the combined total number of budgeted full-time positions. For example, one full-time position equals one FTE. Similarly, two half-time positions equal one FTE.
[2] Source: 2012-2013 Base Budget. Does not include 227 unrepresented positions.

achieved with all eleven bargaining units, including the City Auditor's recommendations for changes to healthcare, specifically, plan design changes ($25 co-pay plan), elimination of dual coverage and reduced Health-In-Lieu amounts. The chart below demonstrates our progress in the additional areas of reform included in the Council's direction:

Employee Unit	Ongoing Total Compensation Reduction	Modify Step Increases	Disability Leave Supplement	Sick leave Payout	Modify Overtime Calculation	Vacation Sellback
AEA	-10%	N/A	Phased Out 06/24/12	In Negotiation/Mediation	N/A	Phased Out 12/23/12
ALP	-10%	N/A	Reduced to 3 months	In Negotiation/Mediation	N/A	Reduced to 60 Hours
AMSP	-10%	N/A	Phased Out 06/24/12	In Negotiation/Mediation	N/A	Phased Out 12/23/12
CAMP	-10%	N/A	Phased Out 06/24/12	In Negotiation/Mediation	N/A	Phased Out 12/23/12
ABMEI	-10%	Reduced to 2.5%	Phased Out 06/24/12	In Negotiation/Mediation	Status Quo	N/A
IBEW	-10%	Reduced to 2.5%	Reduced to 3 months	Eliminated 01/01/12	Actual Hours Worked Only	N/A
OE#3	-10%	Reduced to 2.5%	Reduced to 3 months	Eliminated 01/01/12	Actual Hours Worked Only	N/A
MEF	-10%[3]	Reduced to 2.5%	Reduced to 3 months	Eliminated 01/01/12	Actual Hours Worked Only	N/A
CEO	-10%[4]	Reduced to 2.5%	Reduced to 3 months	Eliminated 01/01/12	Actual Hours Worked Only	N/A
POA	-10%	Status Quo	Status Quo	In Negotiation/Mediation	Status Quo	N/A
IAFF, Local 230	-10%	Status Quo	Status Quo	In Negotiation/Mediation	Status Quo	N/A
Unit 99/Unit 82[5]	-10%	N/A	Phased Out 06/24/12	TBD	N/A	Phased Out 12/23/12

In addition to negotiations for successor agreements, the City has been in negotiations with all bargaining groups regarding retirement reform and a related ballot measure. On May 24, 2011, the City Council approved the Fiscal Reform Plan which included recommendations for retirement benefit reforms. The City Council also provided direction to staff to prepare a draft ballot measure that would include various proposed changes to the City Charter regarding retirement benefits for new employees, current employees and current retirees. This ballot measure was approved on March 6, 2012, for the June 2012 election.

[3] Also achieved Council direction to roll back 2% General Wage Increase received in Fiscal Year 2010-2011.
[4] Also achieved Council direction to roll back 2% General Wage Increase received in Fiscal Year 2010-2011.
[5] Unit 99/Unit 82 are comprised of unrepresented employees whose benefits are determined by the City Council through the recommendations of the City Manager.

ANALYSIS

Personnel Costs

As a service organization, the great majority of the City's costs pay for the employees who provide those services. Over the last several years, the City has experienced a significant increase in those costs. It is projected that increases in personnel costs will continue. From Fiscal Year 2002-2003 Adopted Budget to Fiscal Year 2012-2013 Base Budget, the average cost per employee is projected to increase by 62.27% from $85,897 in the Fiscal Year 2002-2003 Adopted Budget to $139,381 in the Fiscal Year 2012-2013 Base Budget. During that same timeframe, the City's workforce has been reduced from 7,418 to 5,409[6]. The chart below shows the difference in budgeted costs of base payroll, retirement benefits, healthcare benefits and other benefits from Fiscal Year 2002-2003 to the projected Fiscal Year 2012-2013 Base Budget costs.

Citywide Salary & Benefits[7 8]	2002-2003 Adopted Budget	2012-2013 Base Budget	Difference
BASE PAYROLL	$516,923,469	$443,570,199	-14.19%
RETIREMENT BENEFITS	**$73,488,586**	**$243,665,030**	**231.57%**
Federated Retirement/Other[9]	$46,105,680	$122,529,771	165.76%
Police/Fire Retirement	$27,382,906	$121,135,259	342.38%
HEALTH/DENTAL BENEFITS	$37,418,540	$58,078,566	55.21%
OTHER BENEFITS (Unemployment and Other Miscellaneous Benefits)	$9,329,611	$8,599,055	-7.83%
TOTAL (ALL BENEFITS)	**$120,236,737**	**$310,342,651**	**158.11%**
GRAND TOTAL	**$637,160,206**	**$753,912,850**	**18.32%**
Average Total Cost Per FTE	**$85,897**	**$139,381**	**62.27%**
TOTAL FTE	**7,418**	**5,409**	**-27.08%**

As noted in the chart above, it is projected that there will be a 342.38% increase in costs for Police and Fire retirement benefits compared to a 165.76% increase in the Federated plan

[6] **Source:** City of San Jose Salary and Fringe Benefit Costs by Bargaining Unit & Fund for 2002-2003 through 2012-2013 Base Budget.
[7] **Source:** City of San Jose Salary and Fringe Benefit Costs by Bargaining Unit & Fund for 2002-2003 through 2012-2013 Base Budget.
[8] **Note:** Does not include worker's compensation cost or overtime. The figures above are budgeted costs and include the cost of providing paid time off, such as vacation, holidays, personal/executive leave, and sick leave, to the extent that paid leave is taken during the fiscal year. The actual salary and benefit costs of individual employees vary.
[9] Other Retirement benefits include retirement costs associated with part-time employees and the Mayor and City Council.

covering other City employees. Furthermore, the most recent projections from the Retirement Plans' actuary, the City's contribution rates will continue to increase significantly in both retirement plans, but more significantly for the Police and Fire retirement plan.

2012-2013 Cost Savings Strategies which are Subject to Meet and Confer With the City's Bargaining Units

There has been various cost savings strategies identified in recent years, which will continue to be evaluated for the upcoming negotiations in further pursuit of the elimination of the structural deficit which was identified by the City Council in 2007 as one of its top priorities.

Sick Leave Payment Modifications Upon Retirement

Prior to 2012, all employees who retired from City service were eligible to receive payment for their unused accrued sick leave in accordance with the terms negotiated for their bargaining unit. Employees represented by CEO, IBEW, MEF and OE#3, ceased to receive any sick leave payout benefit effective January 1, 2012. Employees represented by all other bargaining units are currently engaged in negotiations/mediation regarding the sick leave payout benefit.

Outsourcing and Civilianization

It is imperative that the City fully maximize its current resources and look for outsourcing opportunities. This may allow for the preservation of high quality services at a lower cost.

It is also important that the City fully maximize its current sworn public safety employees in areas requiring their training and expertise and not allocate those resources to work that can be performed by civilian employees or outsourced at a lower cost. This includes allocating sworn public safety employees currently performing civilian activities to functions requiring sworn public safety employees.

Retirement Reform

Negotiations have been completed with all the bargaining groups on the issue of retirement reform as well as a related ballot measure scheduled for the June 2012 election. In addition, the City has issued Last, Best and Final offers to the nine non-sworn bargaining units regarding Tier 2 pension benefits for new hires, Medicare Part A and B enrollment and the introduction of a fourth option in healthcare plans for active employees to select coverage. Establishment of Tier 2 retirement benefits for employees represented by POA and IAFF Local 230 is pending.

Labor Negotiations Background

The City negotiates in accordance with various laws, regulations and City policies, as explained below.

Guiding Principles for Labor Negotiations

In June of 2007, the City Council approved guiding principles for labor negotiations, which aligned the approach to bargaining with the priorities established by both the Council and the community. The Guiding Principles for Labor Negotiations are attached.

Council Policy- Labor Negotiation Guidelines

In March of 2008, the City Council approved a Council Policy on Labor Negotiation Guidelines, which applies to the Mayor, members of the City Council and Mayor and Council Staff. The purpose of the policy is to set guidelines for the City Council and Council staff to ensure labor negotiations are conducted in good faith and to avoid actions that would circumvent the City's designated bargaining team. The Council Policy- Labor Negotiation Guidelines are attached.

Meyers-Milias-Brown Act (MMBA)

The MMBA governs the labor-management relations in California local government, including cities, counties, and most special districts. The MMBA provides the right to organize, sets guidelines for such things as the scope of representation and the requirement to meet and confer in good faith.

The MMBA states that the governing body of a public agency shall meet and confer in good faith regarding wages, hours and other terms and conditions of employment with representatives of recognized employee organizations (i.e. unions/bargaining units).

Although it is commonly referred to as an obligation to "negotiate", the MMBA refers to the obligation to "meet and confer" in good faith. The MMBA defines meeting and conferring in good faith as having the mutual obligation to personally meet and confer promptly upon request by either party and continue for a reasonable period of time in order to exchange freely information, opinions, and proposals and to endeavor to reach agreement on matters within the scope of representation.

The MMBA defines the scope of representation as all matters related to employment conditions and employer-employee relations, including, but not limited to, wages, hours and other terms and conditions of employment, except, however, that the scope of representation shall not include consideration of the merits, necessity, or organization of any service or activity provided by law or executive order.

City of San Jose Employer-Employee Relations Resolution (#39367)

In addition to the MMBA, the City of San Jose has local rules that govern collective bargaining between the City and the recognized bargaining units that represent City employees.

Section 21 of Resolution #39367 designates the City Manager as the Municipal Employee Relations Officer. As such, the City Manager is the City's principal representative in all matters of employer-employee relations, with authority to meet and confer in good faith on matters within the scope of representation including wages, hours and other terms and conditions of employment. Resolution #39367 also authorizes the City Manager to delegate these duties and responsibilities to an Employee Relations Officer or other members of his/her staff.

Negotiation/"Meet and Confer" Process

As mentioned above, under the Meyers-Milias-Brown Act (MMBA), the City has an obligation to "meet and confer" in good faith with the City's bargaining units regarding wages, hours and other terms and conditions of employment. The City Manager has delegated the authority to meet and confer to the Office of Employee Relations. The negotiations for a new agreement typically commence prior to the expiration of an existing Memorandum of Agreement (MOA). The City and the Union each establish a negotiating team. Resolution #39367 provides for paid release time for up to three bargaining unit team members for time spent during the negotiation meetings that coincide with the employees' normal work hours.

During the negotiations, the City team meets with the union team to discuss various issues and interests for the new contract. The City's negotiating team is provided negotiation authorization by the City Council through the City Manager. Proposals are exchanged related to the issues presented during the negotiations. Tentative agreements are often reached on individual issues as part of the negotiation process and ultimately, a tentative agreement is reached on the entire contract. All tentative agreements are contingent upon ratification of the union membership and approval of the City Council in open session.

If negotiations do not result in a tentative agreement on a new contract, Resolution #39367 states that impasse procedures may be invoked by either party and provides for mediation as the impasse procedure. If mediation assists the parties in reaching an agreement, it is still contingent upon ratification of the union membership and approval of the City Council in open session.

Assembly Bill 646 Regarding Impasse Procedures for Local Public Employee Organizations

As a result of the passage of Assembly Bill 646 (AB646), effective January 1, 2012, local government agencies, like the City of San Jose, are required to include fact finding in their impasse procedures for any bargaining unit requesting to do so that is not subject to binding interest arbitration. Previously, if the parties reached an impasse and have exhausted any applicable impasse procedures, a public agency had the option to unilaterally implement its last, best, and final offer. AB646 provides that the employee organization, if the mediator is unable to affect settlement of the controversy within 30 days of his or her appointment, may request that the matter be submitted to a fact finding panel; it should be noted that the ability to request to submit the matter to a fact finding panel appears to rest solely with the employee organization. The fact finding panel consists of one member selected by each party as well as a chairperson selected by the Public Employment Relations Board (PERB) or by mutual agreement of the parties. The fact finding panel is authorized to make investigations and hold hearings, as well as issue subpoenas requiring the attendance and testimony of witnesses and the production of evidence. The additional costs associated with fact finding, generally, are to be divided amongst the parties. If the dispute is not settled within 30 days, the fact finding panel may make findings of fact and recommend terms of settlement, for advisory purposes only. These findings and recommendations are first issued to the parties, but are required to be publicly available within 10 days after their receipt. The addition of fact finding to the MMBA prohibits a public agency from implementing its last, best, and final offer until (1) at least 10 days after the fact finders' written findings of fact and recommended terms of settlement have been submitted to the parties, ***and*** (2) the agency has held a public hearing regarding the impasse. Revisions to Resolution #39367, discussed above, will be necessary in order to incorporate fact finding into the existing impasse procedures. These revisions will be brought to the City Council for discussion in the near future.

It is the goal of both parties to reach a negotiated agreement. However, the MMBA states that a public agency may, after impasse procedures have been exhausted, including fact finding if invoked, implement its last, best, and final offer. In addition, after impasse procedures have been concluded and an agreement has not been reached on a new contract, the bargaining unit has the right to strike and/or engage in other protected concerted activity, except for police officers and fire fighters who do not have the right to strike.

For the San Jose Police Officers' Association (POA) and the San Jose Fire Fighters (IAFF, Local 230), if the parties fail to reach agreement after participating in mediation, City Charter Section 1111, provides for an Arbitration Board, comprised of a City representative, Union representative, and a neutral arbitrator to decide each issue by majority vote. The results of arbitration are binding. The voters of San Jose passed a Measure in the November 2010 election that amends City Charter Section 1111. By passage of this Measure, the City Charter has been amended to limit outside arbitrators from: basing awards to employees primarily on the City's ability to pay; creating any unfunded liability for the City; increasing police and firefighter compensation more than the rate of increase in General Fund revenues; granting retroactive benefits; and depriving or interfering with the discretion of the Police or Fire Chief to make managerial, operational, or staffing decisions.

2012 Labor Negotiations

In April 2012, the City will be negotiating with the Association of Legal Professionals of San Jose (ALP) for a successor agreement. ALP represents approximately 32 Full Time Equivalents (FTEs), including the classifications of Deputy City Attorney and Senior Deputy City Attorney. ALP contract expires June 30, 2012, and negotiations with ALP are expected to begin in May 2012.

In addition, the following bargaining units currently have expired agreements:

International Brotherhood of Electrical Workers (IBEW)

IBEW represents approximately 74 Full Time Equivalents (FTEs), including classifications of Electrician and Senior Electrician. IBEW's contract expired June 30, 2011. In May 2011, the City Council imposed terms and conditions for IBEW.

Operating Engineers, Local No. 3 (OE#3)

OE#3 represents approximately 692 Full Time Equivalents (FTEs), including the classifications of Maintenance Assistant, Park Ranger and Parking and Traffic Control Officer. OE#3's contract expired June 30, 2011. In May 2011, the City Council imposed terms and conditions for OE#3.

Municipal Employees' Federation/AFSCME Local 101 (MEF)

MEF represents approximately 1,785 Full Time Equivalents (FTEs), including the classifications of Librarian, Code Enforcement Inspectors and Recreation Leaders. MEF's contract expired June 30, 2011. In May 2011, the City Council imposed terms and conditions for MEF.

Confidential Employees' Organization/AFSCME Local 101 (CEO)

CEO represents approximately 178 Full Time Equivalents (FTEs), including the classifications of Analyst and Administrative Assistant. CEO's contract expired September 18, 2011. In May 2011, the City Council imposed terms and conditions for CEO.

Transparency/Sunshine Reform

These annual reports are to provide the public with information related to labor negotiations, prior to that authorization being given and the negotiation process being completed in order to provide an opportunity for the public to give input to the City Council.

Also as part of the Sunshine Reform, the City is providing the public with much more information on the City's internet than it has in the past. This includes information related to ongoing negotiations, costs of benefits and other payroll costs. The link to this website is: http://www.sanjoseca.gov/employeeRelations/labor.asp.

CONCLUSION

There is no question that in emerging from ten years of budget shortfalls in the General Fund and the fiscal challenges facing some other City funds, the City Council will continue to be faced with very difficult decisions. A major consideration this year will be continuing the efforts to date to control or reduce personnel costs in accordance with the Fiscal Reform Plan in order to halt the decline in services and eventually create capacity to begin the restoration of services.

The increased volume and complexity of labor-related issues as well as the expansion of impasse procedures under AB646, make it essential that appropriate resources are allocated to the City's labor relations to ensure the best possible outcome for the City, its residents and employees.

EVALUATION AND FOLLOW-UP

When Tentative Agreements are reached with the bargaining units during negotiations for a new collective bargaining agreement, they will be brought to Council in open session for approval.

PUBLIC OUTREACH/INTEREST

☐ **Criterion 1**: Requires Council action on the use of public funds equal to $1 million or greater.
(Required: Website Posting)

☐ **Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**

☐ **Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This item is being provided in accordance with the Sunshine Ordinance and is requesting acceptance by Council on a report on upcoming Labor Negotiations. In order to provide the public with information about the City's labor negotiations, this report will be posted on the internet and will be sent out in Early Distribution. Bargaining unit representatives will be notified of this agenda item in advance. A copy will be sent to them as soon as the memo has been distributed.

COORDINATION

This memo has been coordinated with the City Attorney's Office and the City Manager's Budget Office.

CEQA

Not a project, File No. PP10-069 (a), Annual Report

Debra Figone
City Manager

For questions please contact Alex Gurza, Deputy City Manager, at 535-8155.

Attachments

COUNCL AGENDA: 06/12/07
ITEM: 3-3

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Les White

SUBJECT: See Below

DATE: May 31, 2007

COUNCIL DISTRICT: City-Wide
SNI AREA: N/A

SUBJECT: GUIDING PRINCIPLES FOR LABOR NEGOTIATIONS

RECOMMENDATION

Approve the guiding principles for labor negotiations.

OUTCOME

Adoption of the guiding principles for labor negotiations.

BACKGROUND

In accordance with the Mayor's March Budget Message, the proposed budget for Fiscal Year 2007-2008, responds to the priorities of both the community and the City Council, while addressing the sixth consecutive year of a multi-million dollar General Fund shortfall. However, projected growth in personal service costs continues to out-pace revenue growth through Fiscal Year 2011-2012.

Personal service costs account for two-thirds of the total General Fund uses. The increase of approximately 45% in the average budgeted position cost from 2000 to present can be attributed to three main cost components: salary, health care benefits and pension benefits. Along with the budget shortfalls already predicted for the next five fiscal years and the continued increases in cost for current employee salaries and benefits, liability for post-employment health care benefits for retirees has been estimated to be as high as $1.4 billion.

Salaries and benefits are determined through the negotiation process with the City's bargaining units. In order to address the significant issues identified above, the City should be guided by principles in labor negotiations in order to remain mindful of the service needs of the City and the continued fiscal challenges.

ANALYSIS

One of the primary functions of the City is to provide services to the community. Accordingly, 2/3 of the General Fund is allocated to personal services. However, personal services costs have risen significantly during a time of serious fiscal challenges. Fiscal Year 2007-2008 marks the sixth consecutive year of budget shortfalls, with projected shortfalls in the next four years.

As the City continues to explore innovative methods to bridge the gap between revenue and expenses, it is important to partner with our bargaining units in addressing these ongoing costs. Although it is very important to work together with our employees and bargaining unit representatives on collaborative efforts on an on-going basis, the cost of salaries and benefits of bargaining unit employees are determined through the contract negotiation process. These negotiations occur prior the expiration of the eleven agreements with the bargaining units. These agreements expire at different times and in different years.

The following guiding principles are being presented for consideration related to present and future labor negotiations:

- *Focus on the cost of total compensation*[1] *while considering the City's fiscal condition, revenue growth, and changes in the Consumer Price Index*
- *Use short-term and long-term strategies to address increasing benefit costs such as wellness programs, cost containment initiatives, etc.*
- *Maintain a consistent approach to bargaining through clear, ongoing communication of policy direction among City Council and City staff*
- *Remain mindful of increasing costs, including the retiree healthcare liability*
- *To the extent possible, preserve the City's market competitiveness as an employer*
- *Efficiently and effectively provide services that align with both the priorities of the community and the City Council*

These guiding principles will align the approach to bargaining with the priorities established by both the Council and the community.

PUBLIC OUTREACH/INTEREST

The purpose of this section is to describe discussions that have occurred with the public, stakeholders, community groups and/or other governmental agencies. Staff will be asked to use the following checklist to determine if items are to be considered items of "Significant Public Interest", thus requiring additional notification per the matrix below. Please note the outreach that was done.

[1] Total Compensation includes the total costs of a position including salary, pension, and all other benefits.

☐ **Criteria 1**: Requires Council action on the use of public funds equal to $1 million or greater. **(Required: Website Posting)**

☐ **Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**

☐ **Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

Public Outreach does not apply to the item; however, this memorandum will be placed on the City website for the June 12, 2007 Council Agenda.

COORDINATION

This memorandum has been coordinated with the City Manager's Budget Office and Office of Employee Relations. A meeting is scheduled with the City Labor Alliance (CLA) to review these principles and receive comments.

CEQA

Not a project.

LES WHITE
City Manager

For questions please contact me at 535-8111.

City of San José, California

COUNCIL POLICY

TITLE Council Labor Negotiation and Transparency Guidelines	**PAGE** 1 of 3	**POLICY NUMBER** 0-39
EFFECTIVE DATE March 4, 2008	**REVISED DATE** January 25, 2011	

APPROVED BY COUNCIL ACTION 3/4/2008, Item 3.6, Res. No. 74265; 1/25/11, Item 3.2, Res. No. 75705

BACKGROUND

Collective bargaining is governed by the Meyers-Milias-Brown Act (MMBA), the City of San José Employer-Employee Relations Resolution (#39367) and the City Charter. The City Charter designates the City Manager as the chief administrative officer of the City. Accordingly, Resolution #39367 delegates the authority to negotiate labor contracts on behalf of the City to the City Manager or the City Manager's designee.

Pursuant to the Meyers-Milias-Brown Act, the City has a right to insist that contract negotiations take place at the bargaining table between the designated representatives of the City and the designated representatives of the various bargaining unit employees. Members of the City Council shall not negotiate with employee representatives. Both the City and the bargaining units have an obligation under applicable laws to negotiate in good faith and not to bypass the negotiation teams.

As used in this policy, "negotiate" means to meet and confer with another to endeavor to reach agreement on matters within the scope of representation.

Unless agreed to by the City and the bargaining unit, negotiation sessions are confidential, but there is great public interest in having information about the negotiations available for public review.

PURPOSE

This policy applies only to the Mayor, members of the City Council, Mayor and Council staff, and Council Appointees.

References in this policy to members of the City Council or Council staff include the Mayor and Mayor's staff.

The purpose of this policy is to set guidelines for the City Council and Council staff to ensure labor negotiations are conducted in good faith, to avoid actions that would circumvent the City's designated bargaining team, and to provide timely and accurate information about the negotiations to the City Council and the public.

POLICY

It is the policy of the City Council that all of its members and staff and Council Appointees shall abide by the following guidelines when the City Manager or the City Manager's designee is in negotiations with any bargaining unit:

1. Pursuant to San Jose Resolution #39367, negotiations are conducted by the City Manager through his/her designee. Accordingly, negotiations regarding potential proposals and possible settlement shall occur between the City's designated negotiator(s) and the union's designated negotiator(s).

2. Pursuant to Section 411 of the City Charter, while the Council may express its views to the City Manager, the Council shall not interfere with the execution by the City Manager of his or her authority and duty to negotiate on behalf of the City.

3. Members of the City Council or Council staff or other Council Appointees shall not negotiate with the bargaining unit representatives or persons acting on their behalf.

4. In order to avoid misunderstandings and potential unfair labor practices, unless requested by the City Manager, members of the City Council or Council staff or other Council Appointees should not discuss with any bargaining unit representative or persons acting on their behalf any matter that is a subject of the negotiations while the City and the bargaining units are engaged in the negotiation process. The negotiating process shall be defined as the time period starting with the first negotiation session until a resolution has been achieved. This provision does not apply when the City Attorney is handling litigation on matters that are subject to negotiations, interest arbitration, or when the City Attorney is contacted by a bargaining unit's designated legal counsel to discuss legal issues. The City Attorney shall notify the City Manager of any such communications to ensure coordination with the legal issues and Council direction to the City Manager for labor negotiations.

5. Nothing in this policy shall prohibit members of the City Council, Council staff or Council Appointees from listening to bargaining unit representatives or persons acting on their behalf. Members of the City Council shall not knowingly respond to or discuss any proposals or any other confidential closed session discussion.

6. Nothing in this policy shall preclude the City Manager from requesting the assistance of the City Attorney or other Council Appointees in carrying out the responsibilities as the Municipal Employee Relations Officer.

7. Members of the City Council and City Council staff shall disclose to the City Manager and to the entire City Council material facts regarding issues related to ongoing negotiations. (See Council Policy 0-32 regarding disclosure of material facts).

8. Authorization and direction to the City Manager is provided in closed or open session. If done in closed session, in order to maintain the integrity of the negotiation process, closed session discussions must remain confidential.

9. Written proposals made or received shall be posted for public review on the City's web site after the proposals have been submitted to the designated negotiators.

10. The City Manager will provide periodic updates on labor negotiations to the City Council in open session except for elements that are required to be held confidential. These updates shall include a summary of proposals exchanged since the last update.

11. Bargaining unit representatives or persons acting on their behalf may comment on the City Manager's open session labor negotiations update. This shall be done during open session to ensure all of the Council receives the same information. The City Council may listen to these statements made in the public forum and may ask questions for clarification purposes, but shall not respond to the comments, or engage in dialogue or any other form of bargaining with the representatives.

12. Nothing in this policy shall limit, restrict, or modify any of the powers provided to Council Appointees under the City Charter.

COUNCIL AGENDA: 05/01/12
ITEM:

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Debra Figone

SUBJECT: SEE BELOW

DATE: April 17, 2012

SUBJECT: APPROVAL OF IMPLEMENTATION OF TERMS CONTAINED IN THE CITY'S LAST, BEST, AND FINAL OFFER TO THE ASSOCIATION OF BUILDING, MECHANICAL AND ELECTRICAL INSPECTORS (ABMEI)

COUNCIL DISTRICT: N/A
SNI AREA: N/A

RECOMMENDATION

Adoption of a resolution approving the implementation of terms contained in the City's Last, Best, and Final Offer dated April 16, 2012, to the Association of Building, Mechanical, and Electrical Inspectors (ABMEI).

OUTCOME

Adoption of the resolution and authorization to implement terms contained in the City's Last, Best, and Final Offer dated April 16, 2012, for employees represented by the Association of Building, Mechanical and Electrical Inspectors (ABMEI).

BACKGROUND

On or about April 29, 2011, the City reached a tentative agreement with the Association of Building, Mechanical and Electrical Inspectors (ABMEI), on a successor Memorandum of Agreement (MOA) for a term of July 1, 2011 to June 30, 2013. The tentative agreement was ratified by ABMEI membership on or about May 11, 2011, and approved by City Council on or about May 31, 2011. The agreement with ABMEI included a side letter that, upon written notice by either party, to continue negotiations on retirement reform, including meeting and conferring on pension and retiree healthcare benefits for both current and future employees, as well as possible modifications of healthcare (medical and dental) plans available to current employees, including plan design.

On or about June 13, 2011, the City met with ABMEI and other bargaining units to discuss retirement reform negotiations. The City subsequently provided ABMEI a draft framework for conducting retirement negotiations concurrently with negotiations over a proposed ballot measure, including a mutual commitment to complete negotiations by an immutable deadline of October 31,

2011. However, the parties were unable to reach an agreement on the framework for conducting simultaneous negotiations on retirement reform and a potential ballot measure.

On or about July 6, 2011, the City met with ABMEI, along with the Confidential Employees' Organization, AFSCME Local No. 101 (CEO), the International Brotherhood of Electrical Workers, Local No. 332 (IBEW), and the Municipal Employees' Federation, AFSCME Local No. 101 (MEF). During this meeting, ABMEI, CEO, IBEW and MEF notified the City of its intent to jointly negotiate retirement reform issues. The invitation to jointly negotiate retirement reform was also extended to the International Union of Operating Engineers, Local No. 3 (OE#3). On or about July 21, 2011, the City notified ABMEI of its interest to commence negotiations on retirement reform pursuant to the side letter with ABMEI. The City also agreed to engage in joint negotiations with ABMEI, CEO, IBEW, MEF and OE#3 on retirement reform.

The City and ABMEI met approximately eleven (11) times between June 13, 2011, and November 15, 2011. During these negotiations, the City and ABMEI exchanged proposals on retirement reform, including, but not limited to, pension benefits for new employees, retiree healthcare for new employees, enrollment in Medicare Part A and B, and healthcare plan design and cost sharing. The City and ABMEI were unable to reach an agreement and, on November 17, 2011, the parties reached impasse and subsequently engaged in the mediation process on November 22, 2011. Unfortunately, despite these efforts, the parties were unable to reach an agreement. On December 6, 2011, the City Council provided direction to staff to ask the bargaining units to re-engage in mediation on all retirement issues. ABMEI agreed to re-engage in the mediation process and participated in additional mediation with the City on December 21, 2011, January 4, January 6, January 13, January 30 and February 13, 2012. Despite these efforts, the parties again were unable to reach an agreement.

On April 16, 2012, the City provided ABMEI with a Last, Best, and Final Offer, including proposals on pension benefits for new employees, enrollment in Medicare Part A and B, and healthcare plan design and cost sharing. The City requested that ABMEI provide its response by April 20, 2012. If an agreement is reached with ABMEI, a Supplemental Memorandum will be issued.

Pursuant to the Meyers-Milias-Brown Act under California Government Code Section 3505.4, if, after meeting and conferring in good faith, an impasse has been reached between the public agency and the recognized employee organization, and impasse procedures, where applicable, have been exhausted, a public agency that is not required to proceed to interest arbitration may implement its last, best, and final offer, but shall not implement a memorandum of understanding.

ABMEI has been notified that this item will be placed on the Council Agenda for implementation of terms contained in the City's Last, Best, and Final Offer for employees represented by ABMEI, a complete copy of which is attached.

ANALYSIS

The following is a summary of the terms contained in the City's Last, Best, and Final Offer that would be implemented for employees represented by ABMEI:

Pension Benefits for New Employees (Tier 2)

Employees hired on or after July 1, 2012, shall be eligible for the following pension benefits. (This includes employees who leave or have left City service and are subsequently rehired or reinstated after July 1, 2012.)

Pension formula
2.0% per year of service, subject to a maximum of 65% of final compensation.

Final compensation
Average annual earned pay of the highest three consecutive years of service. Final compensation shall be base pay only.

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

Retirement Service Credit
Employees shall receive retirement service credit for regular time worked (including paid leave, but not overtime). 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 shall be eligible to retire at age 65 with at least five years of retirement service credit.

Employees can retire at a minimum of age 55 with at least five years of retirement service credit; however, the member's benefit shall be reduced so it does not exceed the actuarial value of full retirement at age 65.

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 shall be prorated based on the number of months retired.

Disability Retirements
Service Connected
Plan members 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 eligible for a non-service connected disability retirement benefit shall receive 2.0% times every year of 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.

Survivorship Benefits

Death Before Retirement

If the 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.

Election Death Benefit 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.

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.

Rights

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

Medicare Part A and B Enrollment (Current and New Plan Members)

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. If a plan member fails to meet the requirements within six (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.

Healthcare (Current and New Employees)

Effective January 1, 2013, Kaiser Permanente Deductible HMO Benefit Plan 3800 shall be available to employees, in addition to the existing plan options.

Effective December 23, 2012, the City shall pay eighty-five percent (85%) of cost of the lowest priced Non-Deductible HMO plan for the employee or the employee and dependent coverage and the employee shall pay fifteen percent (15%) of the premium for the lowest priced Non-Deductible HMO plan. (See discussion of lowest cost plan below.)

Discussion of Healthcare - Lowest Cost Plan

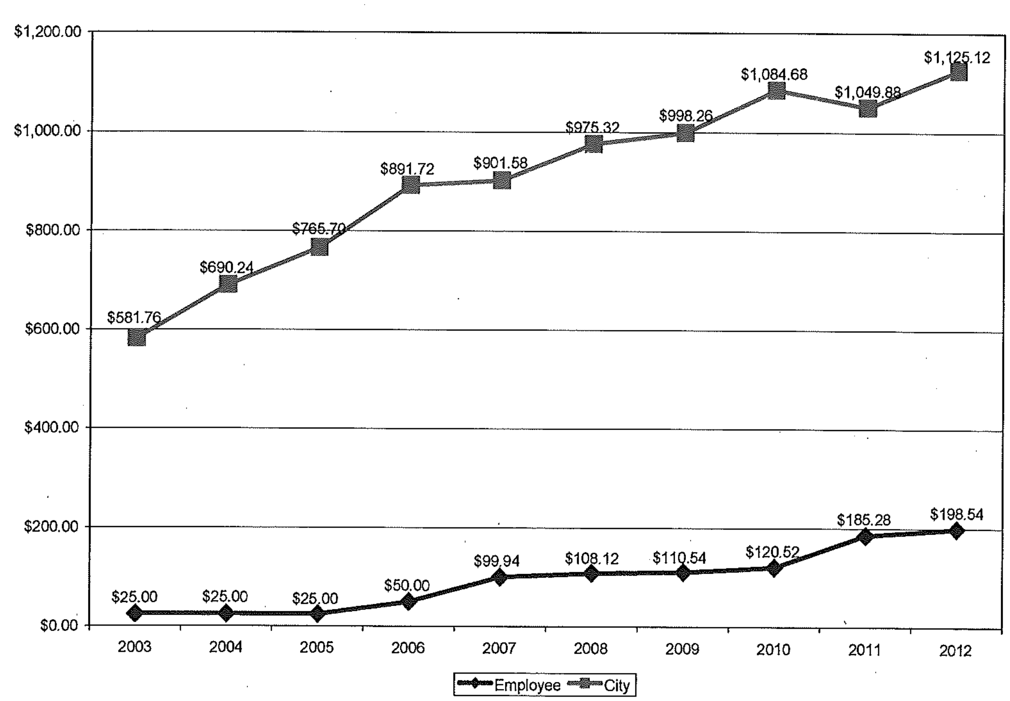
The City currently offers a choice of four health insurance plans for employees that include Kaiser, Blue Shield HMO, Blue Shield PPO and Blue Shield POS. The City pays 85% of the lowest priced plan for single or family coverage and employees pay 15% of the lowest priced plan. The Kaiser $25 co-pay plan is the lowest priced plan for 2012. The 2012 total monthly premium for the lowest priced plan for the City and employees are listed below.

Monthly Premium for Current Lowest Priced Healthcare Plan Kaiser ($25 co-pay plan)		
	Single	Family
Employee Contribution	$79.72	$198.54
City	$451.86	$1,125.12
Total	**$531.58**	**$1,323.66**

An employee who selects a plan other than the lowest priced plan pays any additional amount required for the premium beyond the cost of the lowest priced plan.

Annually, the City contributes, for active employees $5,422.32 for single coverage and $13,501.44 for family coverage. Since 2003, the total monthly premiums have increased by 118% as illustrated below. Healthcare costs are anticipated to continue to increase.

Monthly Lowest Cost Healthcare Plan (2003 – 2012)



Active Employees

The addition of the Kaiser Permanente Deductible HMO Benefit Plan 3800 (High Deductible Plan) would have no impact on the cost sharing for healthcare premiums for active employees. This plan is an HMO with annual deductibles and/or additional higher copayments or coinsurance that must be met for some services. It is important to note that some services are still 100% covered and the deductible does not need to be met, including, but not limited to, routine physical maintenance exams, urgent care consultations and exams and most immunizations (including vaccines). The City would continue to pay 85% of the cost of the lowest priced Non-Deductible HMO plan for the employee and dependent coverage and the employee would continue to pay fifteen percent (15%) of the premium for the lowest priced Non-Deductible HMO plan, which is currently the $25 co-pay plan. Effective January 1, 2013, a current employee may elect to enroll in the new Kaiser high deductible plan and would have a lower or no cost sharing for the premiums associated with this plan.

Retirees

The San Jose Municipal Code contains the level and eligibility for retiree healthcare benefits as part of the retirement plans. Generally, employees are eligible for retiree medical insurance coverage if at the time of retirement they have at least fifteen (15) years of retirement service credit. Even employees with 15 years of service in the Federated City Employees' Retirement System and 20 years of service in the Police and Fire Department Retirement Plan who leave City service prior to retirement (also known as deferred vesting) can qualify for lifetime retiree medical insurance upon retirement.

For eligible retirees, the benefit provides for 100% of the premium cost for the lowest priced plan available to active employees for either single or family coverage. (This is a higher level of benefit than active employees receive because retirees do not pay any premium for the lowest priced healthcare benefit plan.) Since the current benefit is tied to the cost of the premium rather than a fixed-dollar amount, the long-term cost of providing this benefit is integrally tied to the rising cost of healthcare.

As illustrated above, healthcare costs have risen significantly in the last ten years. This has a direct impact to the cost of retiree healthcare. Contributions for retiree medical benefits are made by the City and active employees in the ratio of one-to-one (50/50 split). Contributions for retiree dental benefits are made by the City and active employees in the ratio of eight-to-three.

The Fiscal Year 2012-2013 retiree healthcare portion of the contribution rates for the City's two retirement plans are as follows:

Current Retiree Healthcare Funding		
	Employee Contribution	City Contribution
Federated	7.26%	7.91%
Police	8.26%	8.96%
Fire	6.11%	6.62%

Note: Does not include pension contribution rates.

For many years, the City and active employees were partially pre-funding retiree healthcare, and only some funds were set aside to pay for future healthcare liabilities, but at a level far less than full pre-funding. As a result, the retiree healthcare plans are significantly underfunded and have a significant unfunded liability. As of June 30, 2011, the unfunded liability and funding ratio for the two plans are listed below:

Retiree Healthcare Unfunded Liability and Funding Ratio		
	Unfunded Actuarial Liability	**Funding Ratio**
Federated	$800.505 Million	14.00%
Police and Fire	$596.764 Million	9.20%
Total	$1.397 Billion	

The City and active employees are currently phasing into paying for the total Annual Required Contribution (ARC) over a period of five years. This has resulted in an incremental increase in the contributions for retiree healthcare each year. However, after the fifth year, the Board's actuary for the Federated City Employees' Retirement System has projected that the contributions required to pay the Annual Required Contribution (ARC) will nearly double for the City and employees, as shown in the chart below. As noted in the 2013-2017 General Fund Forecast, one of the main drivers for the 2013-2014 General Fund shortfall of $22.5 million is the increased cost (approximately $11 million) of the City's annual required contribution for retiree healthcare for employees in the Federated City Employees' Retirement System. Please note that the Administration has requested the projected retiree healthcare contributions for Police and Fire; however, they have not yet been completed.

Projected Phase-In Contribution Rates for Retiree Healthcare Only (Federated)			
Fiscal Year	**Employee**	**City**	**Total**
2008-2009	4.65%	5.25%	9.90%
2009-2010	5.07%	5.70%	10.77%
2010-2011	5.76%	6.41%	12.17%
2011-2012	6.51%	7.16%	13.67%
2012-2013	7.26%	7.91%	15.17%
2013-2014	15.50%	16.84%	32.34%

Source: Cheiron Actuarial Valuation as of June 30, 2011

Effective January 1, 2013, the lowest-cost plan that will be available to retirees will be the high deductible plan. Retirees and survivors will have an opportunity to make changes to their elections for coverage during the normal Annual Open Enrollment conducted by Retirement Services in November 2012, prior to the changes going into effect.

With the addition of the High Deductible Plan, the Plan will continue to pay 100% of the lowest priced plan. A retiree or survivor who enrolls in this plan would not have to pay any portion of the premium. A retiree or survivor may elect the $25 co-pay plan; however, the member would be responsible for the difference between the cost of the $25 co-pay plan and the high deductible plan. The 2013 healthcare rates have not been determined. If the 2012 healthcare rates continued for

calendar year 2013, the following chart illustrates the cost to a retiree who elects to enroll in the $25 co-pay plan.

	Retiree Costs – Post High Deductible Implementation
Non-Medicare Lowest Priced Plan (LPP) (High Deductible)	$0
Non-Medicare $25 Co-pay	$129.96/mo (single) $323.62/mo (family)
Medicare Supplement Lowest Priced Plan (LPP)	$0[1]

When a retiree becomes age 65, the member is required to enroll in Medicare Part A and B. The Federated City Employees' Retirement System and the Police and Fire Department Retirement Plan provide Medicare recipients with several options for a Medicare supplemental insurance plan. The total cost of the Medicare supplemental plans vary based on the plan selected by the retiree. There are several Medicare supplemental options available to retirees and the premium is paid 100% by the retirement system. As a result, the retiree or survivor may have no premium cost sharing, since the total cost of the Medicare supplemental plan is often less than the non-Medicare plans. The retiree will continue to be responsible for paying any premiums mandated by Medicare Part B and D.

EVALUATION AND FOLLOW-UP

None.

PUBLIC OUTREACH/INTEREST

☑ **Criteria 1:** Requires Council action on the use of public funds equal to $1 million or greater. **(Required: Website Posting)**

☐ **Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**

☐ **Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This item meets Criterion 1. This memorandum will be posted on the City's website for the May 1, 2012, Council Agenda.

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[1] Retirees enrolled in Medicare Part B contribute $99.00 - $319.70/month and $0 - $66.40/month for Medicare Part D, depending on the amount of the monthly pension. These rates are for 2012 and subject to change for 2013.

COORDINATION

This memorandum was coordinated with the City Manager's Budget Office and the City Attorney's Office.

COST IMPLICATIONS

2nd Tier Pension Benefit

The City's actuary, Bartel and Associates, estimated the normal cost of the pension retirement benefit formula for new employees to be approximately 13.8% of payroll, using the 7.5% earnings assumption. As the costs of the 2nd tier pension benefit are split 50/50 between the City and employees, the City's share of this is 6.9%. The pension retirement benefit formula for new employees is estimated to be 15.9% of payroll, using the 6.75% earnings assumption (7.95% for the City.) (Please refer to the attached Letter from John Bartel dated April 6, 2012.) However, the contribution rates are set by the Boards, based on an actuarial analysis prepared by the Boards' actuary. The Federated City Employees' Retirement System currently uses a 7.5% earnings assumption.

Healthcare – Lowest Cost Plan

The addition of the high deductible plan would result in a new plan that would be available to employees represented by ABMEI. For those employees that elect to enroll in the new Kaiser plan, the employee will experience a reduction in premium contributions in 2013. The City would continue to pay 85% of the total premium for the lowest priced Non-Deductible HMO plan, which is currently the $25 co-pay plan.

The high deductible plan would be available for all members and survivors in the Federated City Employees' Retirement System and Police and Fire Department Retirement Plan. The Plans will pay 100% of the lowest priced plan, which will be the high deductible plan in calendar year 2013. Since this plan is less expensive than the $25 co-pay plan, it will reduce the cost of retiree healthcare. Since the cost for retiree healthcare are shared equally between the City and employees, both the City and active employees will benefit from the positive impact to the contribution rates in the future.

CEQA

CEQA: Not a Project, File No. PP10-069(b), Personnel Related Decisions.

Debra Figone
City Manager

For questions please contact Alex Gurza, Deputy City Manager, at (408) 535-8150.

Attachments

HEALTHCARE

See attached

RETIREMENT BENEFITS FOR NEW EMPLOYEES

See attached

MEDICARE PART A AND B

See attached

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 ABMEI in addition to the existing plan options.

KAISER PERMANENTE

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 *EOC*	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
Emergency Health Coverage	**You Pay**
Emergency Department visits	30% Coinsurance after Deductible
Ambulance Services	**You Pay**
Ambulance Services	$150 per trip after Deductible

continues

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.

BARTEL ASSOCIATES, LLC

April 6, 2012

Debra Figone
City Manager
City of San Jose
200 East Santa Clara Street
San Jose, CA 95113

Re: Federated City Employees' Retirement System - Tier 2 Normal Cost Estimate

Dear Ms. Figone:

This letter provides an estimated total Normal Cost rate for the proposed Tier 2 benefit as compared to the pension benefit for current Federated employees. This letter does not take into account any possible City contributions to a defined contribution plan.

Summary of Proposed Benefit Changes

The following table summarizes the proposed Federated Tier 2 benefit as compared to the current pension benefit, showing the proposed Tier 2 benefit with a 2.0% accrual rate:

	Current Plan	**Proposed Tier 2**
■ Accrual Rate	■ 2.5% per year	■ 2.0% per year
■ Max Benefit	■ 75%	■ 65%
■ Eligibility	■ 55&5, or ■ 30 years	■ 65&5 ■ 55&5 with actuarial reduction
■ Final Average Earnings (FAE)	■ Highest 1 year (FAE1)	■ Highest 3 year (FAE3)
■ COLA	■ 3% fixed	■ CPI, max 1.5%
■ Survivor Form	■ 50% J&S	■ Single Life
■ Disability	■ Duty – 40%-75% FAE1 ■ Non-Duty – 20%-75% FAE1	■ Duty – 50% FAE3 ■ Non-Duty – 20%-50% FAE3
■ Cost Sharing	■ Normal Cost: • City – 73% • EE – 27% ■ Unfunded Liability: • City – 100% • EE – 0%	■ Normal Cost: • City – 50% • EE – 50% ■ Unfunded Liability: • City – 50% • EE – 50%

B4

Results

Following is a comparison of the estimated total Normal Cost as a percent of payroll (NC %) for the proposed Tier 2 benefit as compared to the pension benefit for current Federated employees. The results are shown using the June 30, 2011 valuation discount rate assumption of 7.5% and an alternative lower discount rate assumption of 6.75%.

	Current Plan (All Federated Employees)		**Proposed Tier 2 (Based on Demographics of Hires within Last 5 Years)**	
▪ Discount Rate	7.5%	6.75%	7.5%	6.75%
▪ Total NC %:				
• Benefits	20.55%	24.68%	13.1%	15.2%
• Admin Expenses	0.70%	0.70%	0.7%	0.7%
• SRBR	2.57%	2.57%[1]	0.0%	0.0%
• Total	23.82%	27.95%	13.8%	15.9%

Assumptions

The results are based on the Federated City Employees' Retirement System June 30, 2011 Actuarial Valuation, including actuarial methods and assumptions and valuation census data provided by the City, with the exception of rates of retirement which were adjusted to reflect expected later retirement ages under the Tier 2 benefit. As indicated in the table above, the current plan Normal Cost rates are based on all Federated participants included in the valuation, and the estimated Tier 2 Normal Cost rates are based on the demographics of the Federated participants included in the valuation who were hired within the last five years.

Actuarial Certification

As an Associate of the Society of Actuaries, a Fellow of the Conference of Consulting Actuaries and a member of the American Academy of Actuaries, I certify these results are consistent with generally accepted actuarial principles and practices. We based our results on the June 30, 2011 Actuarial Valuation of the Federated City Employees' Retirement System and the valuation census data provided by the City.

Please call me (650-377-1601) with any questions about this information.

Sincerely,

John E. Bartel
President

c: Alex Gurza, City of San Jose
Jennifer Schembri, City of San Jose

1 SRBR will likely increase as % of pay.

COUNCIL AGENDA: 05/01/12
ITEM:

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Debra Figone

SUBJECT: SEE BELOW

DATE: April 17, 2012

SUBJECT: APPROVAL OF IMPLEMENTATION OF TERMS CONTAINED IN THE CITY'S LAST, BEST, AND FINAL OFFER TO THE ASSOCIATION OF ENGINEERS AND ARCHITECTS, INTERNATIONAL FEDERATION OF PROFESSIONAL AND TECHNICAL ENGINEERS, LOCAL 21, UNITS 41/42 AND UNIT 43 (AEA)

COUNCIL DISTRICT: N/A
SNI AREA: N/A

RECOMMENDATION

Adoption of a resolution:

(a) To approve the implementation of terms contained in the City's Last, Best, and Final Offer dated April 16, 2012, to the Association of Engineers and Architects, International Federation of Professional and Technical Engineers, Local 21, Units 041 and 042.

(b) To approve the implementation of terms contained in the City's Last, Best, and Final Offer dated April 16, 2012, to the Association of Engineers and Architects, International Federation of Professional and Technical Engineers, Local 21, Unit 043.

OUTCOME

Adoption of the resolution and authorization to implement terms contained in the City's Last, Best, and Final Offer dated April 16, 2012, for employees represented by the Association of Engineers and Architects, International Federation of Professional and Technical Engineers, Local 21, Units 41/42 and Unit 43 (AEA).

BACKGROUND

On or about March 23, 2011, the City reached a tentative agreement with the Association of Engineers and Architects, International Federation of Professional and Technical Engineers, Local 21, Units 41/42 and Unit 43 (AEA), on a successor Memorandum of Agreement (MOA) for a term of July 1, 2011 to June 30, 2013. The tentative agreement was ratified by AEA membership on or about March 28, 2011, and approved by City Council on or about April 19, 2011. The agreement with AEA included a side letter that, upon written notice by either party, to continue negotiations on retirement reform, including meeting and conferring on pension and retiree healthcare benefits for both current and future employees, as well as possible modifications of healthcare (medical and dental) plans available to current employees, including plan design.

On or about May 25, 2011, AEA notified the City of its willingness to commence negotiations on retirement reform. The City responded the same day acknowledging AEA's willingness to begin retirement reform negotiations and notifying AEA of the City's intent to start the negotiations. On or about June 3, 2011, the City and AEA met to commence retirement reform negotiations.

On or about June 17, 2011, the City entered into a pledge of cooperation and agreement upon a framework for retirement reform negotiations with AEA, along with the City Association of Management Personnel, International Federation of Professional and Technical Engineers, Local 21 (CAMP) and the Association of Maintenance Supervisory Personnel, International Federation of Professional and Technical Engineers, Local 21 (AMSP).

Pursuant to the executed framework, AEA agreed to negotiate concurrently on the issues of retirement reform, including, among other issues, pension and retiree healthcare benefits for current and future employees, including but not limited to healthcare benefits; the Supplemental Retiree Benefit Reserve (SRBR); an opt-in program in which current employees could voluntarily choose to opt-out of the current level of pension benefits into a lower level of benefits; and other items as identified through negotiations. AEA also agreed to complete the negotiation process by October 31, 2011, and to proceed to impasse pursuant to the procedures outlined in the Employer-Employee Relations Resolution No. 39367.

The City and AEA met nineteen (19) times between June 3, 2011, and October 31, 2011. During these negotiations, the City and AEA exchanged proposals on retirement reform, including, but not limited to, pension benefits for new employees, retiree healthcare for new employees, enrollment in Medicare Part A and B, and healthcare plan design and cost sharing. The City and AEA were unable to reach an agreement by October 31, 2011, and, pursuant to the executed framework, the City and AEA reached impasse and subsequently engaged in the mediation process on or about and between November 3, November 8, November 14 and November 17, 2011. Unfortunately, despite these efforts, the parties were unable to reach an agreement. On December 6, 2011, the City Council provided direction to staff to ask the bargaining units to re-engage in mediation on all retirement issues. AEA agreed to re-engage in the mediation process and participated in additional mediation with the City on January 6, January 9, January 19, January 24, January 26, February 8 and February 9, 2012. Despite these efforts, the parties again were unable to reach an agreement.

On April 16, 2012, the City provided AEA with a Last, Best, and Final Offer, including proposals on pension benefits for new employees, enrollment in Medicare Part A and B, and healthcare plan design and cost sharing. The City requested that AEA provide its response by April 20, 2012. If an agreement is reached with AEA, a Supplemental Memorandum will be issued.

Pursuant to the Meyers-Milias-Brown Act under California Government Code Section 3505.4, if, after meeting and conferring in good faith, an impasse has been reached between the public agency and the recognized employee organization, and impasse procedures, where applicable, have been exhausted, a public agency that is not required to proceed to interest arbitration may implement its last, best, and final offer, but shall not implement a memorandum of understanding.

AEA has been notified that this item will be placed on the Council Agenda for implementation of terms contained in the City's Last, Best, and Final Offer for employees represented by AEA, a complete copy of which is attached.

ANALYSIS

The following is a summary of the terms contained in the City's Last, Best, and Final Offer that would be implemented for employees represented by AEA:

Pension Benefits for New Employees (Tier 2)

Employees hired on or after July 1, 2012, shall be eligible for the following pension benefits. (This includes employees who leave or have left City service and are subsequently rehired or reinstated after July 1, 2012.)

Pension formula
2.0% per year of service, subject to a maximum of 65% of final compensation.

Final compensation
Average annual earned pay of the highest three consecutive years of service. Final compensation shall be base pay only.

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

Retirement Service Credit
Employees shall receive retirement service credit for regular time worked (including paid leave, but not overtime). 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 shall be eligible to retire at age 65 with at least five years of retirement service credit.

Employees can retire at a minimum of age 55 with at least five years of retirement service credit; however, the member's benefit shall be reduced so it does not exceed the actuarial value of full retirement at age 65.

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 shall be prorated based on the number of months retired.

Disability Retirements
Service Connected
Plan members 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 eligible for a non-service connected disability retirement benefit shall receive 2.0% times every year of 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.

Survivorship Benefits
Death Before Retirement
If the 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.

Election Death Benefit 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.

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.

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

Medicare Part A and B Enrollment (Current and New Plan Members)

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. If a plan member fails to meet the requirements within six (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.

Healthcare (Current and New Employees)

Effective January 1, 2013, Kaiser Permanente Deductible HMO Benefit Plan 3800 shall be available to employees, in addition to the existing plan options.

Effective December 23, 2012, the City shall pay eighty-five percent (85%) of cost of the lowest priced Non-Deductible HMO plan for the employee or the employee and dependent coverage and the employee shall pay fifteen percent (15%) of the premium for the lowest priced Non-Deductible HMO plan. (See discussion of lowest cost plan below.)

Discussion of Healthcare - Lowest Cost Plan

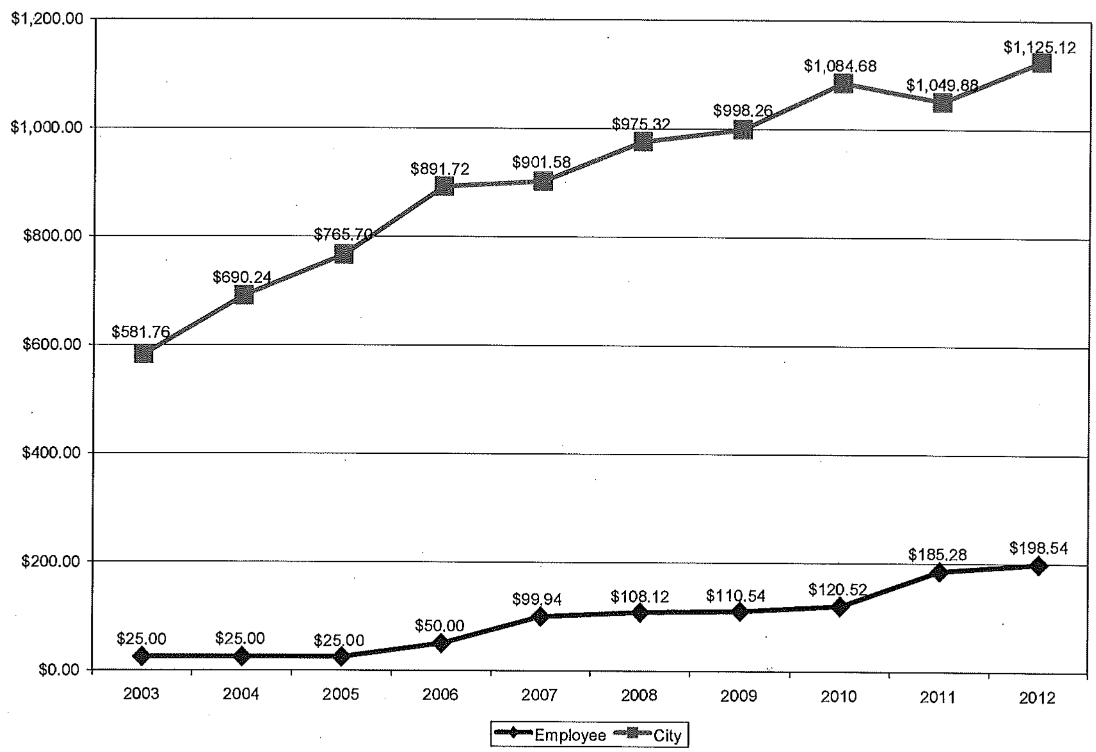
The City currently offers a choice of four health insurance plans for employees that include Kaiser, Blue Shield HMO, Blue Shield PPO and Blue Shield POS. The City pays 85% of the lowest priced plan for single or family coverage and employees pay 15% of the lowest priced plan. The Kaiser $25 co-pay plan is the lowest priced plan for 2012. The 2012 total monthly premium for the lowest priced plan for the City and employees are listed below.

Monthly Premium for Current Lowest Priced Healthcare Plan Kaiser ($25 co-pay plan)		
	Single	Family
Employee Contribution	$79.72	$198.54
City	$451.86	$1,125.12
Total	**$531.58**	**$1,323.66**

An employee who selects a plan other than the lowest priced plan pays any additional amount required for the premium beyond the cost of the lowest priced plan.

Annually, the City contributes, for active employees $5,422.32 for single coverage and $13,501.44 for family coverage. Since 2003, the total monthly premiums have increased by 118% as illustrated below. Healthcare costs are anticipated to continue to increase.

Monthly Lowest Cost Healthcare Plan
(2003 – 2012)



Active Employees

The addition of the Kaiser Permanente Deductible HMO Benefit Plan 3800 (High Deductible Plan) would have no impact on the cost sharing for healthcare premiums for active employees. This plan is an HMO with annual deductibles and/or additional higher copayments or coinsurance that must be met for some services. It is important to note that some services are still 100% covered and the deductible does not need to be met, including, but not limited to, routine physical maintenance exams, urgent care consultations and exams and most immunizations (including vaccines). This plan is an HMO with annual deductibles and/or additional higher copayments or coinsurance that must be met for some services. The City would continue to pay 85% of the cost of the lowest priced Non-Deductible HMO plan for the employee and dependent coverage and the employee would continue to pay fifteen percent (15%) of the premium for the lowest priced Non-Deductible HMO plan, which is currently the $25 co-pay plan. Effective January 1, 2013, a current employee may elect to enroll in the new Kaiser high deductible plan and would have a lower or no cost sharing for the premiums associated with this plan.

Retirees

The San Jose Municipal Code contains the level and eligibility for retiree healthcare benefits as part of the retirement plans. Generally, employees are eligible for retiree medical insurance coverage if at the time of retirement they have at least fifteen (15) years of retirement service credit. Even employees with 15 years of service in the Federated City Employees' Retirement System and 20 years of service in the Police and Fire Department Retirement Plan who leave City service prior to retirement (also known as deferred vesting) can qualify for lifetime retiree medical insurance upon retirement.

For eligible retirees, the benefit provides for 100% of the premium cost for the lowest priced plan available to active employees for either single or family coverage. (This is a higher level of benefit than active employees receive because retirees do not pay any premium for the lowest priced healthcare benefit plan.) Since the current benefit is tied to the cost of the premium rather than a fixed-dollar amount, the long-term cost of providing this benefit is integrally tied to the rising cost of healthcare.

As illustrated above, healthcare costs have risen significantly in the last ten years. This has a direct impact to the cost of retiree healthcare. Contributions for retiree medical benefits are made by the City and active employees in the ratio of one-to-one (50/50 split). Contributions for retiree dental benefits are made by the City and active employees in the ratio of eight-to-three.

The Fiscal Year 2012-2013 retiree healthcare portion of the contribution rates for the City's two retirement plans are as follows:

Current Retiree Healthcare Funding		
	Employee Contribution	City Contribution
Federated	7.26%	7.91%
Police	8.26%	8.96%
Fire	6.11%	6.62%

Note: Does not include pension contribution rates.

For many years, the City and active employees were partially pre-funding retiree healthcare, and only some funds were set aside to pay for future healthcare liabilities, but at a level far less than full pre-funding. As a result, the retiree healthcare plans are significantly underfunded and have a significant unfunded liability. As of June 30, 2011, the unfunded liability and funding ratio for the two plans are listed below:

Retiree Healthcare Unfunded Liability and Funding Ratio		
	Unfunded Actuarial Liability	**Funding Ratio**
Federated	$800.505 Million	14.00%
Police and Fire	$596.764 Million	9.20%
Total	$1.397 Billion	

The City and active employees are currently phasing into paying for the total Annual Required Contribution (ARC) over a period of five years. This has resulted in an incremental increase in the contributions for retiree healthcare each year. However, after the fifth year, the Board's actuary for the Federated City Employees' Retirement System has projected that the contributions required to pay the Annual Required Contribution (ARC) will nearly double for the City and employees, as shown in the chart below. As noted in the 2013-2017 General Fund Forecast, one of the main drivers for the 2013-2014 General Fund shortfall of $22.5 million is the increased cost (approximately $11 million) of the City's annual required contribution for retiree healthcare for employees in the Federated City Employees' Retirement System. Please note that the Administration has requested the projected retiree healthcare contributions for Police and Fire; however, they have not yet been completed.

Projected Phase-In Contribution Rates for Retiree Healthcare Only (Federated)			
Fiscal Year	**Employee**	**City**	**Total**
2008-2009	4.65%	5.25%	9.90%
2009-2010	5.07%	5.70%	10.77%
2010-2011	5.76%	6.41%	12.17%
2011-2012	6.51%	7.16%	13.67%
2012-2013	7.26%	7.91%	15.17%
2013-2014	15.50%	16.84%	32.34%

Source: Cheiron Actuarial Valuation as of June 30, 2011

Effective January 1, 2013, the lowest-cost plan that will be available to retirees will be the high deductible plan. Retirees and survivors will have an opportunity to make changes to their elections for coverage during the normal Annual Open Enrollment conducted by Retirement Services in November 2012, prior to the changes going into effect.

With the addition of the High Deductible Plan, the Plan will continue to pay 100% of the lowest priced plan. A retiree or survivor who enrolls in this plan would not have to pay any portion of the premium. A retiree or survivor may elect the $25 co-pay plan; however, the member would be responsible for the difference between the cost of the $25 co-pay plan and the high deductible plan. The 2013 healthcare rates have not been determined. If the 2012 healthcare rates continued for calendar year 2013, the following chart illustrates the cost to a retiree who elects to enroll in the $25 co-pay plan.

	Retiree Costs – Post High Deductible Implementation
Non-Medicare Lowest Priced Plan (LPP) (High Deductible)	$0
Non-Medicare $25 Co-pay	$129.96/mo (single) $323.62/mo (family)
Medicare Supplement Lowest Priced Plan (LPP)	$0[1]

When a retiree becomes age 65, the member is required to enroll in Medicare Part A and B. The Federated City Employees' Retirement System and the Police and Fire Department Retirement Plan provide Medicare recipients with several options for a Medicare supplemental insurance plan. The total cost of the Medicare supplemental plans vary based on the plan selected by the retiree. There are several Medicare supplemental options available to retirees and the premium is paid 100% by the retirement system. As a result, the retiree or survivor may have no premium cost sharing, since the total cost of the Medicare supplemental plan is often less than the non-Medicare plans. The retiree will continue to be responsible for paying any premiums mandated by Medicare Part B and D.

EVALUATION AND FOLLOW-UP

None.

PUBLIC OUTREACH/INTEREST

☑ **Criteria 1:** Requires Council action on the use of public funds equal to $1 million or greater. **(Required: Website Posting)**

☐ **Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**

☐ **Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This item meets Criterion 1. This memorandum will be posted on the City's website for the May 1, 2012, Council Agenda.

[1] Retirees enrolled in Medicare Part B contribute $99.00 - $319.70/month and $0 - $66.40/month for Medicare Part D, depending on the amount of the monthly pension. These rates are for 2012 and subject to change for 2013.

COORDINATION

This memorandum was coordinated with the City Manager's Budget Office and the City Attorney's Office.

COST IMPLICATIONS

2nd Tier Pension Benefit

The City's actuary, Bartel and Associates, estimated the normal cost of the pension retirement benefit formula for new employees to be approximately 13.8% of payroll, using the 7.5% earnings assumption. As the costs of the 2nd tier pension benefit are split 50/50 between the City and employees, the City's share of this is 6.9%. The pension retirement benefit formula for new employees is estimated to be 15.9% of payroll, using the 6.75% earnings assumption (7.95% for the City.) (Please refer to the attached Letter from John Bartel dated April 6, 2012.) However, the contribution rates are set by the Boards, based on an actuarial analysis prepared by the Boards' actuary. The Federated City Employees' Retirement System currently uses a 7.5% earnings assumption.

Healthcare – Lowest Cost Plan

The addition of the high deductible plan would result in a new plan that would be available to employees represented by AEA. For those employees that elect to enroll in the new Kaiser plan, the employee will experience a reduction in premium contributions in 2013. The City would continue to pay 85% of the total premium for the lowest priced Non-Deductible HMO plan, which is currently the $25 co-pay plan.

The high deductible plan would be available for all members and survivors in the Federated City Employees' Retirement System and Police and Fire Department Retirement Plan. The Plans will pay 100% of the lowest priced plan, which will be the high deductible plan in calendar year 2013. Since this plan is less expensive than the $25 co-pay plan, it will reduce the cost of retiree healthcare. Since the cost for retiree healthcare are shared equally between the City and employees, both the City and active employees will benefit from the positive impact to the contribution rates in the future.

CEQA

CEQA: Not a Project, File No. PP10-069(b), Personnel Related Decisions.

Debra Figone
City Manager

For questions please contact Alex Gurza, Deputy City Manager, at (408) 535-8150.

Attachments

HEALTHCARE

See attached

RETIREMENT BENEFITS FOR NEW EMPLOYEES

See attached

MEDICARE PART A AND B

See attached

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 AEA in addition to the existing plan options.

KAISER PERMANENTE

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 *EOC*	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
Emergency Health Coverage	**You Pay**
Emergency Department visits	30% Coinsurance after Deductible
Ambulance Services	**You Pay**
Ambulance Services	$150 per trip after Deductible

continues

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.

BARTEL ASSOCIATES, LLC

April 6, 2012

Debra Figone
City Manager
City of San Jose
200 East Santa Clara Street
San Jose, CA 95113

Re: Federated City Employees' Retirement System - Tier 2 Normal Cost Estimate

Dear Ms. Figone:

This letter provides an estimated total Normal Cost rate for the proposed Tier 2 benefit as compared to the pension benefit for current Federated employees. This letter does not take into account any possible City contributions to a defined contribution plan.

Summary of Proposed Benefit Changes

The following table summarizes the proposed Federated Tier 2 benefit as compared to the current pension benefit, showing the proposed Tier 2 benefit with a 2.0% accrual rate:

	Current Plan	**Proposed Tier 2**
■ Accrual Rate	■ 2.5% per year	■ 2.0% per year
■ Max Benefit	■ 75%	■ 65%
■ Eligibility	■ 55&5, or ■ 30 years	■ 65&5 ■ 55&5 with actuarial reduction
■ Final Average Earnings (FAE)	■ Highest 1 year (FAE1)	■ Highest 3 year (FAE3)
■ COLA	■ 3% fixed	■ CPI, max 1.5%
■ Survivor Form	■ 50% J&S	■ Single Life
■ Disability	■ Duty – 40%-75% FAE1 ■ Non-Duty – 20%-75% FAE1	■ Duty – 50% FAE3 ■ Non-Duty – 20%-50% FAE3
■ Cost Sharing	■ Normal Cost: • City – 73% • EE – 27% ■ Unfunded Liability: • City – 100% • EE – 0%	■ Normal Cost: • City – 50% • EE – 50% ■ Unfunded Liability: • City – 50% • EE – 50%

Results

Following is a comparison of the estimated total Normal Cost as a percent of payroll (NC %) for the proposed Tier 2 benefit as compared to the pension benefit for current Federated employees. The results are shown using the June 30, 2011 valuation discount rate assumption of 7.5% and an alternative lower discount rate assumption of 6.75%.

	Current Plan (All Federated Employees)		**Proposed Tier 2 (Based on Demographics of Hires within Last 5 Years)**	
■ Discount Rate	7.5%	6.75%	7.5%	6.75%
■ Total NC %:				
• Benefits	20.55%	24.68%	13.1%	15.2%
• Admin Expenses	0.70%	0.70%	0.7%	0.7%
• SRBR	2.57%	2.57%[1]	0.0%	0.0%
• Total	23.82%	27.95%	13.8%	15.9%

Assumptions

The results are based on the Federated City Employees' Retirement System June 30, 2011 Actuarial Valuation, including actuarial methods and assumptions and valuation census data provided by the City, with the exception of rates of retirement which were adjusted to reflect expected later retirement ages under the Tier 2 benefit. As indicated in the table above, the current plan Normal Cost rates are based on all Federated participants included in the valuation, and the estimated Tier 2 Normal Cost rates are based on the demographics of the Federated participants included in the valuation who were hired within the last five years.

Actuarial Certification

As an Associate of the Society of Actuaries, a Fellow of the Conference of Consulting Actuaries and a member of the American Academy of Actuaries, I certify these results are consistent with generally accepted actuarial principles and practices. We based our results on the June 30, 2011 Actuarial Valuation of the Federated City Employees' Retirement System and the valuation census data provided by the City.

Please call me (650-377-1601) with any questions about this information.

Sincerely,

John E. Bartel
President

c: Alex Gurza, City of San Jose
Jennifer Schembri, City of San Jose

[1] SRBR will likely increase as % of pay.

COUNCIL AGENDA: 05/01/12
ITEM:

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Debra Figone

SUBJECT: **SEE BELOW**

DATE: April 17, 2012

SUBJECT: **APPROVAL OF IMPLEMENTATION OF TERMS CONTAINED IN THE CITY'S LAST, BEST, AND FINAL OFFER TO THE ASSOCIATION OF LEGAL PROFESSIONALS OF SAN JOSE (ALP)**

COUNCIL DISTRICT: N/A
SNI AREA: N/A

RECOMMENDATION

Adoption of a resolution approving the implementation of terms contained in the City's Last, Best, and Final Offer dated April 16, 2012, to the Association of Legal Professionals of San Jose (ALP).

OUTCOME

Adoption of the resolution and authorization to implement terms contained in the City's Last, Best, and Final Offer dated April 16, 2012, for employees represented by the Association of Legal Professionals of San Jose (ALP).

BACKGROUND

On or about May 27, 2011, the City reached a tentative agreement with the Association of Legal Professionals of San Jose, on a successor Agreement for a term of July 1, 2011 to June 30, 2012. The tentative agreement was ratified by the ALP membership on or about May 27, 2011, and approved by City Council on or about May 31, 2011. The agreement with ALP included a provision that, upon written notice by either party, to meet and confer on retirement reform, including pension and retiree healthcare benefits for both current and future employees, as well as possible modifications of healthcare (medical and dental) plans available to current employees, including plan design.

On or about June 13, 2011, the City met with ALP and other bargaining units to discuss retirement reform negotiations. On or about July 22, 2011, the City notified ALP of its interest to commence negotiations on retirement reform pursuant to the terms of the Agreement.

The City and ALP met approximately nine (9) times between August 11, 2011, and November 7, 2011. During these negotiations, the City and ALP exchanged proposals on retirement reform, including, but not limited to, pension benefits for new employees, retiree healthcare for new employees, enrollment in Medicare Part A and B, and healthcare plan design and cost sharing. The City and ALP were unable to reach an agreement and the parties reached impasse and subsequently engaged in the mediation process on November 17, 2011. Unfortunately, despite these efforts, the parties were unable to reach an agreement. On December 6, 2011, the City Council provided direction to staff to ask the bargaining units to re-engage in mediation on all retirement issues. ALP agreed to re-engage in the mediation process and participated in additional mediation with the City and several bargaining groups on December 21, 2011, January 4, January 6, January 13, January 30 and February 13, 2012. Despite these efforts, the parties again were unable to reach an agreement.

On April 16, 2012, the City provided ALP with a Last, Best, and Final Offer, including proposals on pension benefits for new employees, enrollment in Medicare Part A and B, and healthcare plan design and cost sharing. The City requested that ALP provide its response by April 20, 2012. If an agreement is reached with ALP, a Supplemental Memorandum will be issued.

Pursuant to the Meyers-Milias-Brown Act under California Government Code Section 3505.4, if, after meeting and conferring in good faith, an impasse has been reached between the public agency and the recognized employee organization, and impasse procedures, where applicable, have been exhausted, a public agency that is not required to proceed to interest arbitration may implement its last, best, and final offer, but shall not implement a memorandum of understanding.

ALP has been notified that this item will be placed on the Council Agenda for implementation of terms contained in the City's Last, Best, and Final Offer for employees represented by ALP, a complete copy of which is attached.

ANALYSIS

The following is a summary of the terms contained in the City's Last, Best, and Final Offer that would be implemented for employees represented by ALP:

Pension Benefits for New Employees (Tier 2)

Employees hired on or after July 1, 2012, shall be eligible for the following pension benefits. (This includes employees who leave or have left City service and are subsequently rehired or reinstated after July 1, 2012.)

Pension formula
2.0% per year of service, subject to a maximum of 65% of final compensation.

Final compensation
Average annual earned pay of the highest three consecutive years of service. Final compensation shall be base pay only.

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

Retirement Service Credit
Employees shall receive retirement service credit for regular time worked (including paid leave, but not overtime). 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 shall be eligible to retire at age 65 with at least five years of retirement service credit.

Employees can retire at a minimum of age 55 with at least five years of retirement service credit; however, the member's benefit shall be reduced so it does not exceed the actuarial value of full retirement at age 65.

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 shall be prorated based on the number of months retired.

Disability Retirements
Service Connected
Plan members 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 eligible for a non-service connected disability retirement benefit shall receive 2.0% times every year of 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.

Survivorship Benefits
Death Before Retirement
If the 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.

Election Death Benefit 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.

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.

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

Medicare Part A and B Enrollment (Current and New Plan Members)

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. If a plan member fails to meet the requirements within six (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.

Healthcare (Current and New Employees)

Effective January 1, 2013, Kaiser Permanente Deductible HMO Benefit Plan 3800 shall be available to employees, in addition to the existing plan options.

Effective December 23, 2012, the City shall pay eighty-five percent (85%) of cost of the lowest priced Non-Deductible HMO plan for the employee or the employee and dependent coverage and the employee shall pay fifteen percent (15%) of the premium for the lowest priced Non-Deductible HMO plan. (See discussion of lowest cost plan below.)

Discussion of Healthcare - Lowest Cost Plan

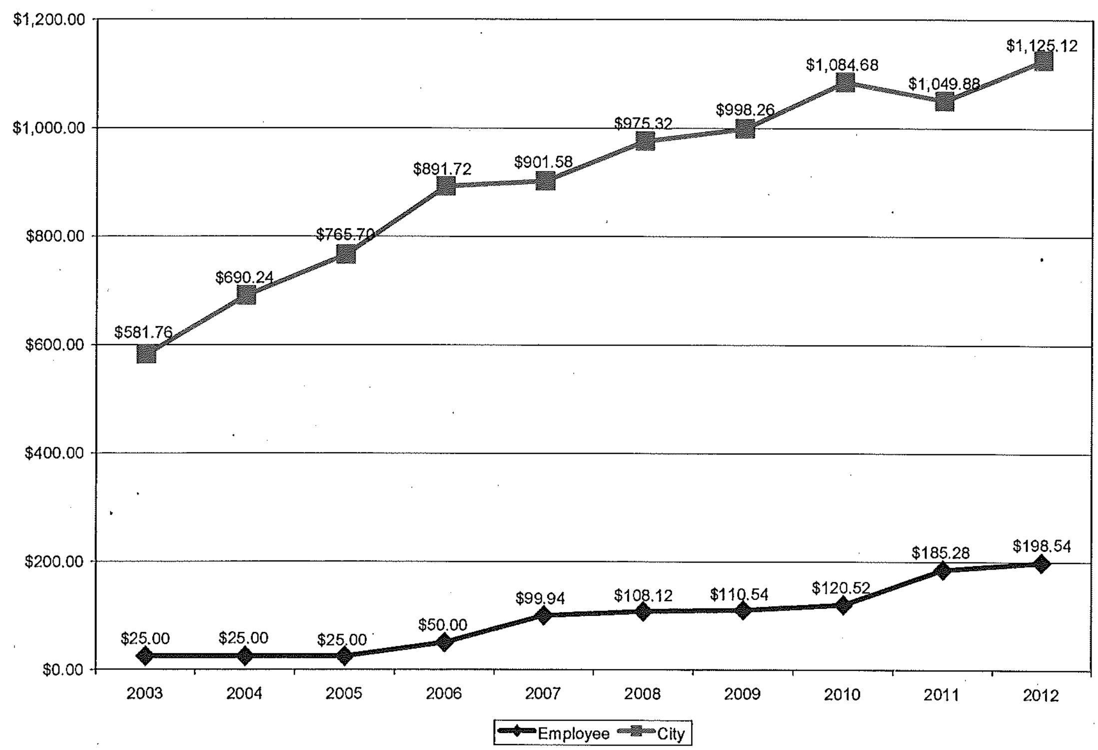
The City currently offers a choice of four health insurance plans for employees that include Kaiser, Blue Shield HMO, Blue Shield PPO and Blue Shield POS. The City pays 85% of the lowest priced plan for single or family coverage and employees pay 15% of the lowest priced plan. The Kaiser $25 co-pay plan is the lowest priced plan for 2012. The 2012 total monthly premium for the lowest priced plan for the City and employees are listed below.

Monthly Premium for Current Lowest Priced Healthcare Plan Kaiser ($25 co-pay plan)		
	Single	Family
Employee Contribution	$79.72	$198.54
City	$451.86	$1,125.12
Total	**$531.58**	**$1,323.66**

An employee who selects a plan other than the lowest priced plan pays any additional amount required for the premium beyond the cost of the lowest priced plan.

Annually, the City contributes, for active employees $5,422.32 for single coverage and $13,501.44 for family coverage. Since 2003, the total monthly premiums have increased by 118% as illustrated below. Healthcare costs are anticipated to continue to increase.

Monthly Lowest Cost Healthcare Plan (2003 – 2012)



Active Employees

The addition of the Kaiser Permanente Deductible HMO Benefit Plan 3800 (High Deductible Plan) would have no impact on the cost sharing for healthcare premiums for active employees. This plan is an HMO with annual deductibles and/or additional higher copayments or coinsurance that must be met for some services. It is important to note that some services are still 100% covered and the deductible does not need to be met, including, but not limited to, routine physical maintenance exams, urgent care consultations and exams and most immunizations (including vaccines). The City would continue to pay 85% of the cost of the lowest priced Non-Deductible HMO plan for the employee and dependent coverage and the employee continue to pay fifteen percent (15%) of the premium for the lowest priced Non-Deductible HMO plan, which is currently the $25 co-pay plan. Effective January 1, 2013, a current employee may elect to enroll in the new Kaiser high deductible plan and would have a lower or no cost sharing for the premiums associated with this plan.

Retirees

The San Jose Municipal Code contains the level and eligibility for retiree healthcare benefits as part of the retirement plans. Generally, employees are eligible for retiree medical insurance coverage if at the time of retirement they have at least fifteen (15) years of retirement service credit. Even employees with 15 years of service in the Federated City Employees' Retirement System and 20 years of service in the Police and Fire Department Retirement Plan who leave City service prior to retirement (also known as deferred vesting) can qualify for lifetime retiree medical insurance upon retirement.

For eligible retirees, the benefit provides for 100% of the premium cost for the lowest priced plan available to active employees for either single or family coverage. (This is a higher level of benefit than active employees receive because retirees do not pay any premium for the lowest priced healthcare benefit plan.) Since the current benefit is tied to the cost of the premium rather than a fixed-dollar amount, the long-term cost of providing this benefit is integrally tied to the rising cost of healthcare.

As illustrated above, healthcare costs have risen significantly in the last ten years. This has a direct impact to the cost of retiree healthcare. Contributions for retiree medical benefits are made by the City and active employees in the ratio of one-to-one (50/50 split). Contributions for retiree dental benefits are made by the City and active employees in the ratio of eight-to-three.

The Fiscal Year 2012-2013 retiree healthcare portion of the contribution rates for the City's two retirement plans are as follows:

Current Retiree Healthcare Funding		
	Employee Contribution	City Contribution
Federated	7.26%	7.91%
Police	8.26%	8.96%
Fire	6.11%	6.62%

Note: Does not include pension contribution rates.

For many years, the City and active employees were partially pre-funding retiree healthcare, and only some funds were set aside to pay for future healthcare liabilities, but at a level far less than full pre-funding. As a result, the retiree healthcare plans are significantly underfunded and have a significant unfunded liability. As of June 30, 2011, the unfunded liability and funding ratio for the two plans are listed below:

Retiree Healthcare Unfunded Liability and Funding Ratio		
	Unfunded Actuarial Liability	**Funding Ratio**
Federated	$800.505 Million	14.00%
Police and Fire	$596.764 Million	9.20%
Total	$1.397 Billion	

The City and active employees are currently phasing into paying the total Annual Required Contribution (ARC) over a period of five years. This has resulted in an incremental increase in the contributions for retiree healthcare each year. However, after the fifth year, the Board's actuary for the Federated City Employees' Retirement System has projected that the contributions required to pay the Annual Required Contribution (ARC) will nearly double for the City and employees, as shown in the chart below. As noted in the 2013-2017 General Fund Forecast, one of the main drivers for the 2013-2014 General Fund shortfall of $22.5 million is the increased cost (approximately $11 million) of the City's annual required contribution for retiree healthcare for employees in the Federated City Employees' Retirement System. Please note that the Administration has requested the projected retiree healthcare contributions for Police and Fire; however, they have not yet been completed.

Projected Phase-In Contribution Rates for Retiree Healthcare Only (Federated)			
Fiscal Year	**Employee**	**City**	**Total**
2008-2009	4.65%	5.25%	9.90%
2009-2010	5.07%	5.70%	10.77%
2010-2011	5.76%	6.41%	12.17%
2011-2012	6.51%	7.16%	13.67%
2012-2013	7.26%	7.91%	15.17%
2013-2014	15.50%	16.84%	32.34%

Source: Cheiron Actuarial Valuation as of June 30, 2011

Effective January 1, 2013, the lowest-cost plan that will be available to retirees will be the high deductible plan. Retirees and survivors will have an opportunity to make changes to their elections for coverage during the normal Annual Open Enrollment conducted by Retirement Services in November 2012, prior to the changes going into effect.

With the addition of the High Deductible Plan, the Plan will continue to pay 100% of the lowest priced plan. A retiree or survivor who enrolls in this plan would not have to pay any portion of the premium. A retiree or survivor may elect the $25 co-pay plan; however, the member would be responsible for the difference between the cost of the $25 co-pay plan and the high deductible plan. The 2013 healthcare rates have not been determined. If the 2012 healthcare rates continued for calendar year 2013, the following chart illustrates the cost to a retiree who elects to enroll in the $25 co-pay plan.

	Retiree Costs – Post High Deductible Implementation
Non-Medicare Lowest Priced Plan (LPP) (High Deductible)	$0
Non-Medicare $25 Co-pay	$129.96/mo (single) $323.62/mo (family)
Medicare Supplement Lowest Priced Plan (LPP)	$0[1]

When a retiree becomes age 65, the member is required to enroll in Medicare Part A and B. The Federated City Employees' Retirement System and the Police and Fire Department Retirement Plan provide Medicare recipients with several options for a Medicare supplemental insurance plan. The total cost of the Medicare supplemental plans vary based on the plan selected by the retiree. There are several Medicare supplemental options available to retirees and the premium is paid 100% by the retirement system. As a result, the retiree or survivor may have no premium cost sharing, since the total cost of the Medicare supplemental plan is often less than the non-Medicare plans. The retiree will continue to be responsible for paying any premiums mandated by Medicare Part B and D.

EVALUATION AND FOLLOW-UP

None.

PUBLIC OUTREACH/INTEREST

☑ **Criteria 1:** Requires Council action on the use of public funds equal to $1 million or greater. **(Required: Website Posting)**

☐ **Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**

☐ **Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This item meets Criterion 1. This memorandum will be posted on the City's website for the May 1, 2012, Council Agenda.

[1] Retirees enrolled in Medicare Part B contribute $99.00 - $319.70/month and $0 - $66.40/month for Medicare Part D, depending on the amount of the monthly pension. These rates are for 2012 and subject to change for 2013.

COORDINATION

This memorandum was coordinated with the City Manager's Budget Office and the City Attorney's Office.

COST IMPLICATIONS

2nd Tier Pension Benefit

The City's actuary, Bartel and Associates, estimated the normal cost of the pension retirement benefit formula for new employees to be approximately 13.8% of payroll, using the 7.5% earnings assumption. As the costs of the 2nd tier pension benefit are split 50/50 between the City and employees, the City's share of this is 6.9%. The pension retirement benefit formula for new employees is estimated to be 15.9% of payroll, using the 6.75% earnings assumption (7.95% for the City.) (Please refer to the attached Letter from John Bartel dated April 6, 2012.) However, the contribution rates are set by the Boards, based on an actuarial analysis prepared by the Boards' actuary. The Federated City Employees' Retirement System currently uses a 7.5% earnings assumption.

Healthcare – Lowest Cost Plan

The addition of the high deductible plan would result in a new plan that would be available to employees represented by ALP. For those employees that elect to enroll in the new Kaiser plan, the employee will experience a reduction in premium contributions in 2013. The City would continue to pay 85% of the total premium for the lowest priced Non-Deductible HMO plan, which is currently the $25 co-pay plan.

The high deductible plan would be available for all members and survivors in the Federated City Employees' Retirement System and Police and Fire Department Retirement Plan. The Plans will pay 100% of the lowest priced plan, which will be the high deductible plan in calendar year 2013. Since this plan is less expensive than the $25 co-pay plan, it will reduce the cost of retiree healthcare. Since the cost for retiree healthcare are shared equally between the City and employees, both the City and active employees will benefit from the positive impact to the contribution rates in the future.

CEQA

CEQA: Not a Project, File No. PP10-069(b), Personnel Related Decisions.

Debra Figone
City Manager

For questions please contact Alex Gurza, Deputy City Manager, at (408) 535-8150.

Attachments

HEALTHCARE

See attached

RETIREMENT BENEFITS FOR NEW EMPLOYEES

See attached

MEDICARE PART A AND B

See attached

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.

<u>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.</u>

<u>Effective January 1, 2013, Kaiser Permanente Deductible HMO Benefit Plan 3800 will be available to employees represented by ALP in addition to the existing plan options.</u>

KAISER PERMANENTE

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 *EOC*	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
Emergency Health Coverage	**You Pay**
Emergency Department visits	30% Coinsurance after Deductible
Ambulance Services	**You Pay**
Ambulance Services	$150 per trip after Deductible

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.

BARTEL ASSOCIATES, LLC

April 6, 2012

Debra Figone
City Manager
City of San Jose
200 East Santa Clara Street
San Jose, CA 95113

Re: Federated City Employees' Retirement System - Tier 2 Normal Cost Estimate

Dear Ms. Figone:

This letter provides an estimated total Normal Cost rate for the proposed Tier 2 benefit as compared to the pension benefit for current Federated employees. This letter does not take into account any possible City contributions to a defined contribution plan.

Summary of Proposed Benefit Changes

The following table summarizes the proposed Federated Tier 2 benefit as compared to the current pension benefit, showing the proposed Tier 2 benefit with a 2.0% accrual rate:

	Current Plan	**Proposed Tier 2**
■ Accrual Rate	■ 2.5% per year	■ 2.0% per year
■ Max Benefit	■ 75%	■ 65%
■ Eligibility	■ 55&5, or ■ 30 years	■ 65&5 ■ 55&5 with actuarial reduction
■ Final Average Earnings (FAE)	■ Highest 1 year (FAE1)	■ Highest 3 year (FAE3)
■ COLA	■ 3% fixed	■ CPI, max 1.5%
■ Survivor Form	■ 50% J&S	■ Single Life
■ Disability	■ Duty – 40%-75% FAE1 ■ Non-Duty – 20%-75% FAE1	■ Duty – 50% FAE3 ■ Non-Duty – 20%-50% FAE3
■ Cost Sharing	■ Normal Cost: • City – 73% • EE – 27% ■ Unfunded Liability: • City – 100% • EE – 0%	■ Normal Cost: • City – 50% • EE – 50% ■ Unfunded Liability: • City – 50% • EE – 50%

B-4

Results

Following is a comparison of the estimated total Normal Cost as a percent of payroll (NC %) for the proposed Tier 2 benefit as compared to the pension benefit for current Federated employees. The results are shown using the June 30, 2011 valuation discount rate assumption of 7.5% and an alternative lower discount rate assumption of 6.75%.

	Current Plan (All Federated Employees)		**Proposed Tier 2 (Based on Demographics of Hires within Last 5 Years)**	
■ Discount Rate	7.5%	6.75%	7.5%	6.75%
■ Total NC %:				
• Benefits	20.55%	24.68%	13.1%	15.2%
• Admin Expenses	0.70%	0.70%	0.7%	0.7%
• SRBR	2.57%	2.57%[1]	0.0%	0.0%
• Total	23.82%	27.95%	13.8%	15.9%

Assumptions

The results are based on the Federated City Employees' Retirement System June 30, 2011 Actuarial Valuation, including actuarial methods and assumptions and valuation census data provided by the City, with the exception of rates of retirement which were adjusted to reflect expected later retirement ages under the Tier 2 benefit. As indicated in the table above, the current plan Normal Cost rates are based on all Federated participants included in the valuation, and the estimated Tier 2 Normal Cost rates are based on the demographics of the Federated participants included in the valuation who were hired within the last five years.

Actuarial Certification

As an Associate of the Society of Actuaries, a Fellow of the Conference of Consulting Actuaries and a member of the American Academy of Actuaries, I certify these results are consistent with generally accepted actuarial principles and practices. We based our results on the June 30, 2011 Actuarial Valuation of the Federated City Employees' Retirement System and the valuation census data provided by the City.

Please call me (650-377-1601) with any questions about this information.

Sincerely,

John E. Bartel
President

c: Alex Gurza, City of San Jose
Jennifer Schembri, City of San Jose

1 SRBR will likely increase as % of pay.

COUNCIL AGENDA: 05/01/12
ITEM:

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Debra Figone

SUBJECT: **SEE BELOW**

DATE: April 17, 2012

SUBJECT: **APPROVAL OF IMPLEMENTATION OF TERMS CONTAINED IN THE CITY'S LAST, BEST, AND FINAL OFFER TO THE ASSOCIATION OF MAINTENANCE SUPERVISORY PERSONNEL, INTERNATIONAL FEDERATION OF PROFESSIONAL AND TECHNICAL ENGINEERS, LOCAL 21 (AMSP)**

COUNCIL DISTRICT: N/A
SNI AREA: N/A

RECOMMENDATION

Adoption of a resolution approving the implementation of terms contained in the City's Last, Best, and Final Offer dated April 16, 2012, to the Association of Maintenance Supervisory Personnel, International Federation of Professional and Technical Engineers, Local 21 (AMSP).

OUTCOME

Adoption of the resolution and authorization to implement terms contained in the City's Last, Best, and Final Offer dated April 16, 2012, for employees represented by the Association of Maintenance Supervisory Personnel, International Federation of Professional and Technical Engineers, Local 21 (AMSP).

BACKGROUND

On or about March 23, 2011, the City reached a tentative agreement with the Association of Maintenance Supervisory Personnel, International Federation of Professional and Technical Engineers, Local 21 (AMSP) on a successor Memorandum of Agreement (MOA) for a term of July 1, 2011 to June 30, 2013. The tentative agreement was ratified by the AMSP membership on or about March 28, 2011, and approved by City Council on or about April 19, 2011. The agreement with AMSP included a side letter that, upon written notice by either party, to continue negotiations on retirement reform, including meeting and conferring on pension and retiree healthcare benefits for both current and future employees, as well as possible modifications of healthcare (medical and dental) plans available to current employees, including plan design.

On or about May 25, 2011, AMSP notified the City of its willingness to commence negotiations on retirement reform. The City responded the same day acknowledging AMSP's willingness to begin retirement reform negotiations and notifying AMSP of the City's intent to start the negotiations. On or about June 3, 2011, the City and AMSP met to commence retirement reform negotiations.

On or about June 17, 2011, the City entered into a pledge of cooperation and agreement upon a framework for retirement reform negotiations with AMSP, along with the City Association of Management Personnel, International Federation of Professional and Technical Engineers, Local 21 (CAMP) and the Association of Engineers and Architects, International Federation of Professional and Technical Engineers, Local 21 (AEA).

Pursuant to the executed framework, AMSP agreed to negotiate concurrently on the issues of retirement reform, including, among other issues, pension and retiree healthcare benefits for current and future employees, including but not limited to healthcare benefits; the Supplemental Retiree Benefit Reserve (SRBR); an opt-in program in which current employees could voluntarily choose to opt-out of the current level of pension benefits into a lower level of benefits; and other items as identified through negotiations. AMSP also agreed to complete the negotiation process by October 31, 2011, and to proceed to impasse pursuant to the procedures outlined in the Employer-Employee Relations Resolution No. 39367.

The City and AMSP met nineteen (19) times between June 3, 2011, and October 31, 2011. During these negotiations, the City and AMSP exchanged proposals on retirement reform, including, but not limited to, pension benefits for new employees, retiree healthcare for new employees, enrollment in Medicare Part A and B, and healthcare plan design and cost sharing. The City and AMSP were unable to reach an agreement by October 31, 2011, and, pursuant to the executed framework, the City and AMSP reached impasse and subsequently engaged in the mediation process on or about and between November 3, November 8, November 14 and November 17, 2011. Unfortunately, despite these efforts, the parties were unable to reach an agreement. On December 6, 2011, the City Council provided direction to ask the bargaining units to re-engage in mediation on all retirement issues. AMSP agreed to re-engage in the mediation process and participated in additional mediation with the City on January 6, January 9, January 19, January 24, January 26, February 8 and February 9, 2012. Despite these efforts, the parties again were unable to reach an agreement.

On April 16, 2012, the City provided AMSP with a Last, Best, and Final Offer, including proposals on pension benefits for new employees, enrollment in Medicare Part A and B, and healthcare plan design and cost sharing. The City requested that AMSP provide its response by April 20, 2012. If an agreement is reached with AMSP, a Supplemental Memorandum will be issued.

Pursuant to the Meyers-Milias-Brown Act under California Government Code Section 3505.4, if, after meeting and conferring in good faith, an impasse has been reached between the public agency and the recognized employee organization, and impasse procedures, where applicable, have been exhausted, a public agency that is not required to proceed to interest arbitration may implement its last, best, and final offer, but shall not implement a memorandum of understanding.

AMSP has been notified that this item will be placed on the Council Agenda for implementation of terms contained in the City's Last, Best, and Final Offer for employees represented by AMSP, a complete copy of which is attached.

ANALYSIS

The following is a summary of the terms contained in the City's Last, Best, and Final Offer that would be implemented for employees represented by AMSP:

Pension Benefits for New Employees (Tier 2)

Employees hired on or after July 1, 2012, shall be eligible for the following pension benefits. (This includes employees who leave or have left City service and are subsequently rehired or reinstated after July 1, 2012.)

Pension formula
2.0% per year of service, subject to a maximum of 65% of final compensation.

Final compensation
Average annual earned pay of the highest three consecutive years of service. Final compensation shall be base pay only.

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

Retirement Service Credit
Employees shall receive retirement service credit for regular time worked (including paid leave, but not overtime). 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 shall be eligible to retire at age 65 with at least five years of retirement service credit.

Employees can retire at a minimum of age 55 with at least five years of retirement service credit; however, the member's benefit shall be reduced so it does not exceed the actuarial value of full retirement at age 65.

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 shall be prorated based on the number of months retired.

Disability Retirements
Service Connected
Plan members 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 eligible for a non-service connected disability retirement benefit shall receive 2.0% times every year of 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.

Survivorship Benefits
Death Before Retirement
If the 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.

Election 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.

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.

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

Medicare Part A and B Enrollment (Current and New Plan Members)

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. If a plan member fails to meet the requirements within six (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.

Healthcare (Current and New Employees)

Effective January 1, 2013, Kaiser Permanente Deductible HMO Benefit Plan 3800 shall be available to employees, in addition to the existing plan options.

Effective December 23, 2012, the City shall pay eighty-five percent (85%) of cost of the lowest priced Non-Deductible HMO plan for the employee or the employee and dependent coverage and the employee shall pay fifteen percent (15%) of the premium for the lowest priced Non-Deductible HMO plan. (See discussion of lowest cost plan below.)

Discussion of Healthcare - Lowest Cost Plan

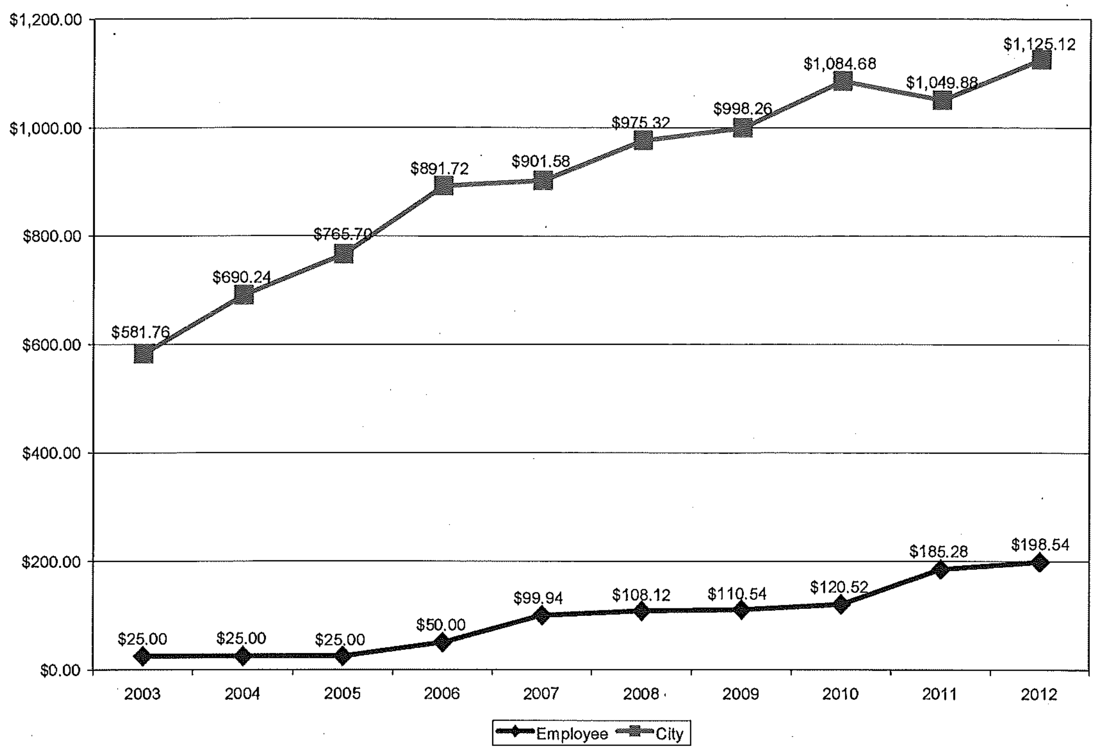
The City currently offers a choice of four health insurance plans for employees that include Kaiser, Blue Shield HMO, Blue Shield PPO and Blue Shield POS. The City pays 85% of the lowest priced plan for single or family coverage and employees pay 15% of the lowest priced plan. The Kaiser $25 co-pay plan is the lowest priced plan for 2012. The 2012 total monthly premium for the lowest priced plan for the City and employees are listed below.

Monthly Premium for Current Lowest Priced Healthcare Plan Kaiser ($25 co-pay plan)		
	Single	Family
Employee Contribution	$79.72	$198.54
City	$451.86	$1,125.12
Total	**$531.58**	**$1,323.66**

An employee who selects a plan other than the lowest priced plan pays any additional amount required for the premium beyond the cost of the lowest priced plan.

Annually, the City contributes, for active employees $5,422.32 for single coverage and $13,501.44 for family coverage. Since 2003, the total monthly premiums have increased by 118% as illustrated below. Healthcare costs are anticipated to continue to increase.

**Monthly Lowest Cost Healthcare Plan
(2003 – 2012)**



Active Employees

The addition of the Kaiser Permanente Deductible HMO Benefit Plan 3800 (High Deductible Plan) would have no impact on the cost sharing for healthcare premiums for active employees. This plan is an HMO with annual deductibles and/or additional higher copayments or coinsurance that must be met for some services. It is important to note that some services are still 100% covered and the deductible does not need to be met, including, but not limited to, routine physical maintenance exams, urgent care consultations and exams and most immunizations (including vaccines). The City would continue to pay 85% of the cost of the lowest priced Non-Deductible HMO plan for the employee and dependent coverage and the employee would continue to pay fifteen percent (15%) of the premium for the lowest priced Non-Deductible HMO plan, which is currently the $25 co-pay plan. Effective January 1, 2013, a current employee may elect to enroll in the new Kaiser high deductible plan and would have a lower or no cost sharing for the premiums associated with this plan.

Retirees

The San Jose Municipal Code contains the level and eligibility for retiree healthcare benefits as part of the retirement plans. Generally, employees are eligible for retiree medical insurance coverage if at the time of retirement they have at least fifteen (15) years of retirement service credit. Even employees with 15 years of service in the Federated City Employees' Retirement System and 20 years of service in the Police and Fire Department Retirement Plan who leave City service prior to retirement (also known as deferred vesting) can qualify for lifetime retiree medical insurance upon retirement.

For eligible retirees, the benefit provides for 100% of the premium cost for the lowest priced plan available to active employees for either single or family coverage. (This is a higher level of benefit than active employees receive because retirees do not pay any premium for the lowest priced healthcare benefit plan.) Since the current benefit is tied to the cost of the premium rather than a fixed-dollar amount, the long-term cost of providing this benefit is integrally tied to the rising cost of healthcare.

As illustrated above, healthcare costs have risen significantly in the last ten years. This has a direct impact to the cost of retiree healthcare. Contributions for retiree medical benefits are made by the City and active employees in the ratio of one-to-one (50/50 split). Contributions for retiree dental benefits are made by the City and active employees in the ratio of eight-to-three.

The Fiscal Year 2012-2013 retiree healthcare portion of the contribution rates for the City's two retirement plans are as follows:

Current Retiree Healthcare Funding		
	Employee Contribution	City Contribution
Federated	7.26%	7.91%
Police	8.26%	8.96%
Fire	6.11%	6.62%

Note: Does not include pension contribution rates.

For many years, the City and active employees were partially pre-funding retiree healthcare, and only some funds were set aside to pay for future healthcare liabilities, but at a level far less than full pre-funding. As a result, the retiree healthcare plans are significantly underfunded and have a significant unfunded liability. As of June 30, 2011, the unfunded liability and funding ratio for the two plans are listed below:

Retiree Healthcare Unfunded Liability and Funding Ratio		
	Unfunded Actuarial Liability	**Funding Ratio**
Federated	$800.505 Million	14.00%
Police and Fire	$596.764 Million	9.20%
Total	$1.397 Billion	

The City and active employees are currently phasing into paying for the total Annual Required Contribution (ARC) over a period of five years. This has resulted in an incremental increase in the contributions for retiree healthcare each year. However, after the fifth year, the Board's actuary for the Federated City Employees' Retirement System has projected that the contributions required to pay the Annual Required Contribution (ARC) will nearly double for the City and employees, as shown in the chart below. As noted in the 2013-2017 General Fund Forecast, one of the main drivers for the 2013-2014 General Fund shortfall of $22.5 million is the increased cost (approximately $11 million) of the City's annual required contribution for retiree healthcare for employees in the Federated City Employees' Retirement System. Please note that the Administration has requested the projected retiree healthcare contributions for Police and Fire; however, they have not yet been completed.

Projected Phase-In Contribution Rates for Retiree Healthcare Only (Federated)			
Fiscal Year	**Employee**	**City**	**Total**
2008-2009	4.65%	5.25%	9.90%
2009-2010	5.07%	5.70%	10.77%
2010-2011	5.76%	6.41%	12.17%
2011-2012	6.51%	7.16%	13.67%
2012-2013	7.26%	7.91%	15.17%
2013-2014	15.50%	16.84%	32.34%

Source: Cheiron Actuarial Valuation as of June 30, 2011

Effective January 1, 2013, the lowest-cost plan that will be available to retirees will be the high deductible plan. Retirees and survivors will have an opportunity to make changes to their elections for coverage during the normal Annual Open Enrollment conducted by Retirement Services in November 2012, prior to the changes going into effect.

With the addition of the High Deductible Plan, the Plan will continue to pay 100% of the lowest priced plan. A retiree or survivor who enrolls in this plan would not have to pay any portion of the premium. A retiree or survivor may elect the $25 co-pay plan; however, the member would be responsible for the difference between the cost of the $25 co-pay plan and the high deductible plan. The 2013 healthcare rates have not been determined. If the 2012 healthcare rates continued for calendar year 2013, the following chart illustrates the cost to a retiree who elects to enroll in the $25 co-pay plan.

	Retiree Costs – Post High Deductible Implementation
Non-Medicare Lowest Priced Plan (LPP) (High Deductible)	$0
Non-Medicare $25 Co-pay	$129.96/mo (single) $323.62/mo (family)
Medicare Supplement Lowest Priced Plan (LPP)	$0[1]

When a retiree becomes age 65, the member is required to enroll in Medicare Part A and B. The Federated City Employees' Retirement System and the Police and Fire Department Retirement Plan provide Medicare recipients with several options for a Medicare supplemental insurance plan. The

[1] Retirees enrolled in Medicare Part B contribute $99.00 - $319.70/month and $0 - $66.40/month for Medicare Part D, depending on the amount of the monthly pension. These rates are for 2012 and subject to change for 2013.

total cost of the Medicare supplemental plans vary based on the plan selected by the retiree. There are several Medicare supplemental options available to retirees and the premium is paid 100% by the retirement system. As a result, the retiree or survivor may have no premium cost sharing, since the total cost of the Medicare supplemental plan is often less than the non-Medicare plans. The retiree will continue to be responsible for paying any premiums mandated by Medicare Part B and D.

EVALUATION AND FOLLOW-UP

None.

PUBLIC OUTREACH/INTEREST

☑ **Criteria 1:** Requires Council action on the use of public funds equal to $1 million or greater. **(Required: Website Posting)**

☐ **Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**

☐ **Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This item meets Criterion 1. This memorandum will be posted on the City's website for the May 1, 2012, Council Agenda.

COORDINATION

This memorandum was coordinated with the City Manager's Budget Office and the City Attorney's Office.

COST IMPLICATIONS

2nd Tier Pension Benefit

The City's actuary, Bartel and Associates, estimated the normal cost of the pension retirement benefit formula for new employees to be approximately 13.8% of payroll, using the 7.5% earnings assumption. As the costs of the 2nd tier pension benefit are split 50/50 between the City and employees, the City's share of this is 6.9%. The pension retirement benefit formula for new employees is estimated to be 15.9% of payroll, using the 6.75% earnings assumption (7.95% for the City.) (Please refer to the attached Letter from John Bartel dated April 6, 2012.) However, the contribution rates are set by the Boards, based on an actuarial analysis prepared by the Boards' actuary. The Federated City Employees' Retirement System currently uses a 7.5% earnings assumption.

Healthcare – Lowest Cost Plan

The addition of the high deductible plan would result in a new plan that would be available to employees represented by AMSP. For those employees that elect to enroll in the new Kaiser plan, the employee will experience a reduction in premium contributions in 2013. The City would continue to pay 85% of the total premium for the lowest priced Non-Deductible HMO plan, which is currently the $25 co-pay plan.

The high deductible plan would be available for all members and survivors in the Federated City Employees' Retirement System and Police and Fire Department Retirement Plan. The Plans will pay 100% of the lowest priced plan, which will be the high deductible plan in calendar year 2013. Since this plan is less expensive than the $25 co-pay plan, it will reduce the cost of retiree healthcare. Since the cost for retiree healthcare are shared equally between the City and employees, both the City and active employees will benefit from the positive impact to the contribution rates in the future.

CEQA

CEQA: Not a Project, File No. PP10-069(b), Personnel Related Decisions.

Debra Figone
City Manager

For questions please contact Alex Gurza, Deputy City Manager, at (408) 535-8150.

Attachments

HEALTHCARE

See attached

RETIREMENT BENEFITS FOR NEW EMPLOYEES

See attached

MEDICARE PART A AND B

See attached

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.

<u>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.</u>

<u>*Effective January 1, 2013, Kaiser Permanente Deductible HMO Benefit Plan 3800 will be available to employees represented by AMSP in addition to the existing plan options.*</u>

KAISER PERMANENTE

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 *EOC*	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
Emergency Health Coverage	**You Pay**
Emergency Department visits	30% Coinsurance after Deductible
Ambulance Services	**You Pay**
Ambulance Services	$150 per trip after Deductible

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.

BARTEL ASSOCIATES, LLC

April 6, 2012

Debra Figone
City Manager
City of San Jose
200 East Santa Clara Street
San Jose, CA 95113

Re: Federated City Employees' Retirement System - Tier 2 Normal Cost Estimate

Dear Ms. Figone:

This letter provides an estimated total Normal Cost rate for the proposed Tier 2 benefit as compared to the pension benefit for current Federated employees. This letter does not take into account any possible City contributions to a defined contribution plan.

Summary of Proposed Benefit Changes

The following table summarizes the proposed Federated Tier 2 benefit as compared to the current pension benefit, showing the proposed Tier 2 benefit with a 2.0% accrual rate:

	Current Plan	**Proposed Tier 2**
■ Accrual Rate	■ 2.5% per year	■ 2.0% per year
■ Max Benefit	■ 75%	■ 65%
■ Eligibility	■ 55&5, or ■ 30 years	■ 65&5 ■ 55&5 with actuarial reduction
■ Final Average Earnings (FAE)	■ Highest 1 year (FAE1)	■ Highest 3 year (FAE3)
■ COLA	■ 3% fixed	■ CPI, max 1.5%
■ Survivor Form	■ 50% J&S	■ Single Life
■ Disability	■ Duty – 40%-75% FAE1 ■ Non-Duty – 20%-75% FAE1	■ Duty – 50% FAE3 ■ Non-Duty – 20%-50% FAE3
■ Cost Sharing	■ Normal Cost: • City – 73% • EE – 27% ■ Unfunded Liability: • City – 100% • EE – 0%	■ Normal Cost: • City – 50% • EE – 50% ■ Unfunded Liability: • City – 50% • EE – 50%

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main: 650/377-1600 • *fax:* 650/345-8057 • *web:* www.bartel-associates.com

Results

Following is a comparison of the estimated total Normal Cost as a percent of payroll (NC %) for the proposed Tier 2 benefit as compared to the pension benefit for current Federated employees. The results are shown using the June 30, 2011 valuation discount rate assumption of 7.5% and an alternative lower discount rate assumption of 6.75%.

	Current Plan (All Federated Employees)		Proposed Tier 2 (Based on Demographics of Hires within Last 5 Years)	
■ Discount Rate	7.5%	6.75%	7.5%	6.75%
■ Total NC %:				
• Benefits	20.55%	24.68%	13.1%	15.2%
• Admin Expenses	0.70%	0.70%	0.7%	0.7%
• SRBR	2.57%	2.57%[1]	0.0%	0.0%
• Total	23.82%	27.95%	13.8%	15.9%

Assumptions

The results are based on the Federated City Employees' Retirement System June 30, 2011 Actuarial Valuation, including actuarial methods and assumptions and valuation census data provided by the City, with the exception of rates of retirement which were adjusted to reflect expected later retirement ages under the Tier 2 benefit. As indicated in the table above, the current plan Normal Cost rates are based on all Federated participants included in the valuation, and the estimated Tier 2 Normal Cost rates are based on the demographics of the Federated participants included in the valuation who were hired within the last five years.

Actuarial Certification

As an Associate of the Society of Actuaries, a Fellow of the Conference of Consulting Actuaries and a member of the American Academy of Actuaries, I certify these results are consistent with generally accepted actuarial principles and practices. We based our results on the June 30, 2011 Actuarial Valuation of the Federated City Employees' Retirement System and the valuation census data provided by the City.

Please call me (650-377-1601) with any questions about this information.

Sincerely,

John E. Bartel
President

c: Alex Gurza, City of San Jose
Jennifer Schembri, City of San Jose

1 SRBR will likely increase as % of pay.

COUNCIL AGENDA: 05/01/12
ITEM:

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Debra Figone

SUBJECT: SEE BELOW

DATE: April 17, 2012

SUBJECT: APPROVAL OF IMPLEMENTATION OF TERMS CONTAINED IN THE CITY'S LAST, BEST, AND FINAL OFFER TO THE CITY ASSOCIATION OF MANAGEMENT PERSONNEL, INTERNATIONAL FEDERATION OF PROFESSIONAL AND TECHNICAL ENGINEERS, LOCAL 21 (CAMP)

COUNCIL DISTRICT: N/A
SNI AREA: N/A

RECOMMENDATION

Adoption of a resolution approving the implementation of terms contained in the City's Last, Best, and Final Offer dated April 16, 2012, to the City Association of Management Personnel, International Federation of Professional and Technical Engineers, Local 21.

OUTCOME

Adoption of the resolution and authorization to implement terms contained in the City's Last, Best, and Final Offer dated April 16, 2012, for employees represented by the City Association of Management Personnel, International Federation of Professional and Technical Engineers, Local 21 (CAMP).

BACKGROUND

On or about March 23, 2011, the City reached a tentative agreement with the City Association of Management Personnel, International Federation of Professional and Technical Engineers, Local 21 (CAMP) on a successor Memorandum of Agreement (MOA) for a term of July 1, 2011 to June 30, 2013. The tentative agreement was ratified by the CAMP membership on or about March 28, 2011, and approved by City Council on or about April 19, 2011. The agreement with CAMP included a side letter that, upon written notice by either party, to continue negotiations on retirement reform, including meeting and conferring on pension and retiree healthcare benefits for both current and future employees, as well as possible modifications of healthcare (medical and dental) plans available to current employees, including plan design.

On or about May 25, 2011, CAMP notified the City of its willingness to commence negotiations on retirement reform. The City responded the same day acknowledging CAMP's willingness to begin retirement reform negotiations and notifying CAMP of the City's intent to start the negotiations. On or about June 3, 2011, the City and CAMP met to commence retirement reform negotiations.

On or about June 17, 2011, the City entered into a pledge of cooperation and agreement upon a framework for retirement reform negotiations with CAMP, along with the Association of Maintenance Supervisory Personnel, International Federation of Professional and Technical Engineers, Local 21 (AMSP) and the Association of Engineers and Architects, International Federation of Professional and Technical Engineers, Local 21 (AEA).

Pursuant to the executed framework, CAMP agreed to negotiate concurrently on the issues of retirement reform, including, among other issues, pension and retiree healthcare benefits for current and future employees, including but not limited to healthcare benefits; the Supplemental Retiree Benefit Reserve (SRBR); an opt-in program in which current employees could voluntarily choose to opt-out of the current level of pension benefits into a lower level of benefits; and other items as identified through negotiations. CAMP also agreed to complete the negotiation process by October 31, 2011, and to proceed to impasse pursuant to the procedures outlined in the Employer-Employee Relations Resolution No. 39367.

The City and CAMP met nineteen (19) times between June 3, 2011, and October 31, 2011. During these negotiations, the City and CAMP exchanged proposals on retirement reform, including but not limited to, pension benefits for new employees, retiree healthcare for new employees, enrollment in Medicare Part A and B, and healthcare plan design and cost sharing. The City and CAMP were unable to reach an agreement by October 31, 2011, and, pursuant to the executed framework, the City and CAMP reached impasse and subsequently engaged in the mediation process on or about and between November 3, November 8, November 14 and November 17, 2011. Unfortunately, despite these efforts, the parties were unable to reach an agreement. On December 6, 2011, the City Council provided direction to staff to ask the bargaining units to re-engage in mediation on all retirement issues. CAMP agreed to re-engage in the mediation process and participated in additional mediation with the City on January 6, January 9, January 19, January 24, January 26, February 8 and February 9, 2012. Despite these efforts, the parties again were unable to reach an agreement.

On April 16, 2012, the City provided CAMP with a Last, Best, and Final Offer, including proposals on pension benefits for new employees, enrollment in Medicare Part A and B, and healthcare plan design and cost sharing. The City requested that CAMP provide its response by April 20, 2012. If an agreement is reached with CAMP, a Supplemental Memorandum will be issued.

Pursuant to the Meyers-Milias-Brown Act under California Government Code Section 3505.4, if, after meeting and conferring in good faith, an impasse has been reached between the public agency and the recognized employee organization, and impasse procedures, where applicable, have been exhausted, a public agency that is not required to proceed to interest arbitration may implement its last, best, and final offer, but shall not implement a memorandum of understanding.

CAMP has been notified that this item will be placed on the Council Agenda for implementation of terms contained in the City's Last, Best, and Final Offer for employees represented by CAMP, a complete copy of which is attached.

ANALYSIS

The following is a summary of the terms contained in the City's Last, Best, and Final Offer that would be implemented for employees represented by CAMP:

Pension Benefits for New Employees (Tier 2)

Employees hired on or after July 1, 2012, shall be eligible for the following pension benefits. (This includes employees who leave or have left City service and are subsequently rehired or reinstated after July 1, 2012.)

Pension formula
2.0% per year of service, subject to a maximum of 65% of final compensation.

Final compensation
Average annual earned pay of the highest three consecutive years of service. Final compensation shall be base pay only.

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

Retirement Service Credit
Employees shall receive retirement service credit for regular time worked (including paid leave, but not overtime). 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 shall be eligible to retire at age 65 with at least five years of retirement service credit.

Employees can retire at a minimum of age 55 with at least five years of retirement service credit; however, the member's benefit shall be reduced so it does not exceed the actuarial value of full retirement at age 65.

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 shall be prorated based on the number of months retired.

Disability Retirements
Service Connected
Plan members 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 eligible for a non-service connected disability retirement benefit shall receive 2.0% times every year of 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.

<u>Survivorship Benefits</u>
Death Before Retirement
If the 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.

Election Death Benefit 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.

<u>Cost Sharing</u>
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.

<u>Rights</u>
The City expressly retains its authority to amend, change or terminate any retirement benefit provided by the City.

Medicare Part A and B Enrollment (Current and New Plan Members)

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. If a plan member fails to meet the requirements within six (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.

Healthcare (Current and New Employees)

Effective January 1, 2013, Kaiser Permanente Deductible HMO Benefit Plan 3800 shall be available to employees, in addition to the existing plan options.

Effective December 23, 2012, the City shall pay eighty-five percent (85%) of cost of the lowest priced Non-Deductible HMO plan for the employee or the employee and dependent coverage and the employee shall pay fifteen percent (15%) of the premium for the lowest priced Non-Deductible HMO plan. (See discussion of lowest cost plan below.)

<u>Discussion of Healthcare - Lowest Cost Plan</u>

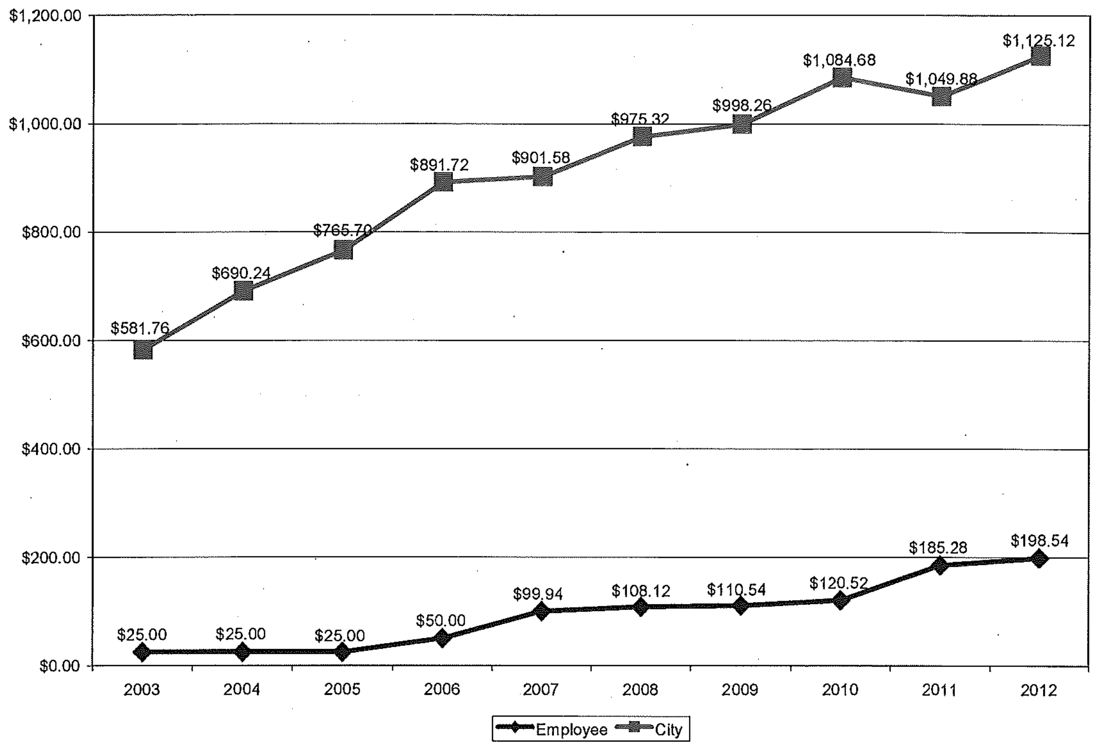
The City currently offers a choice of four health insurance plans for employees that include Kaiser, Blue Shield HMO, Blue Shield PPO and Blue Shield POS. The City pays 85% of the lowest priced plan for single or family coverage and employees pay 15% of the lowest priced plan. The Kaiser $25 co-pay plan is the lowest priced plan for 2012. The 2012 total monthly premium for the lowest priced plan for the City and employees are listed below.

Monthly Premium for Current Lowest Priced Healthcare Plan Kaiser ($25 co-pay plan)		
	Single	Family
Employee Contribution	$79.72	$198.54
City	$451.86	$1,125.12
Total	**$531.58**	**$1,323.66**

An employee who selects a plan other than the lowest priced plan pays any additional amount required for the premium beyond the cost of the lowest priced plan.

Annually, the City contributes, for active employees $5,422.32 for single coverage and $13,501.44 for family coverage. Since 2003, the total monthly premiums have increased by 118% as illustrated below. Healthcare costs are anticipated to continue to increase.

Monthly Lowest Cost Healthcare Plan (2003 – 2012)



Active Employees

The addition of the Kaiser Permanente Deductible HMO Benefit Plan 3800 (High Deductible Plan) would have no impact on the cost sharing for healthcare premiums for active employees. This plan is an HMO with annual deductibles and/or additional higher copayments or coinsurance that must be met for some services. It is important to note that some services are still 100% covered and the deductible does not need to be met, including, but not limited to, routine physical maintenance exams, urgent care consultations and exams and most immunizations (including vaccines). The City would continue to pay 85% of the cost of the lowest priced Non-Deductible HMO plan for the employee and dependent coverage and the employee would continue to pay fifteen percent (15%) of the premium for the lowest priced Non-Deductible HMO plan, which is currently the $25 co-pay plan. Effective January 1, 2013, a current employee may elect to enroll in the new Kaiser high deductible plan and would have a lower or no cost sharing for the premiums associated with this plan.

Retirees

The San Jose Municipal Code contains the level and eligibility for retiree healthcare benefits as part of the retirement plans. Generally, employees are eligible for retiree medical insurance coverage if at the time of retirement they have at least fifteen (15) years of retirement service credit. Even employees with 15 years of service in the Federated City Employees' Retirement System and 20 years of service in the Police and Fire Department Retirement Plan who leave City service prior to retirement (also known as deferred vesting) can qualify for lifetime retiree medical insurance upon retirement.

For eligible retirees, the benefit provides for 100% of the premium cost for the lowest priced plan available to active employees for either single or family coverage. (This is a higher level of benefit than active employees receive because retirees do not pay any premium for the lowest priced healthcare benefit plan.) Since the current benefit is tied to the cost of the premium rather than a fixed-dollar amount, the long-term cost of providing this benefit is integrally tied to the rising cost of healthcare.

As illustrated above, healthcare costs have risen significantly in the last ten years. This has a direct impact to the cost of retiree healthcare. Contributions for retiree medical benefits are made by the City and active employees in the ratio of one-to-one (50/50 split). Contributions for retiree dental benefits are made by the City and active employees in the ratio of eight-to-three.

The Fiscal Year 2012-2013 retiree healthcare portion of the contribution rates for the City's two retirement plans are as follows:

Current Retiree Healthcare Funding		
	Employee Contribution	City Contribution
Federated	7.26%	7.91%
Police	8.26%	8.96%
Fire	6.11%	6.62%

Note: Does not include pension contribution rates.

For many years, the City and active employees were partially pre-funding retiree healthcare, and only some funds were set aside to pay for future healthcare liabilities, but at a level far less than full pre-funding. As a result, the retiree healthcare plans are significantly underfunded and have a significant unfunded liability. As of June 30, 2011, the unfunded liability and funding ratio for the two plans are listed below:

Retiree Healthcare Unfunded Liability and Funding Ratio		
	Unfunded Actuarial Liability	**Funding Ratio**
Federated	$800.505 Million	14.00%
Police and Fire	$596.764 Million	9.20%
Total	$1.397 Billion	

The City and active employees are currently phasing into paying for the total Annual Required Contribution (ARC) over a period of five years. This has resulted in an incremental increase in the contributions for retiree healthcare each year. However, after the fifth year, the Board's actuary for the Federated City Employees' Retirement System has projected that the contributions required to pay the Annual Required Contribution (ARC) will nearly double for the City and employees, as shown in the chart below. As noted in the 2013-2017 General Fund Forecast, one of the main drivers for the 2013-2014 General Fund shortfall of $22.5 million is the increased cost (approximately $11 million) of the City's annual required contribution for retiree healthcare for employees in the Federated City Employees' Retirement System. Please note that the Administration has requested the projected retiree healthcare contributions for Police and Fire; however, they have not yet been completed.

Projected Phase-In Contribution Rates for Retiree Healthcare Only (Federated)			
Fiscal Year	**Employee**	**City**	**Total**
2008-2009	4.65%	5.25%	9.90%
2009-2010	5.07%	5.70%	10.77%
2010-2011	5.76%	6.41%	12.17%
2011-2012	6.51%	7.16%	13.67%
2012-2013	7.26%	7.91%	15.17%
2013-2014	15.50%	16.84%	32.34%

Source: Cheiron Actuarial Valuation as of June 30, 2011

Effective January 1, 2013, the lowest-cost plan that will be available to retirees will be the high deductible plan. Retirees and survivors will have an opportunity to make changes to their elections for coverage during the normal Annual Open Enrollment conducted by Retirement Services in November 2012, prior to the changes going into effect.

With the addition of the High Deductible Plan, the Plan will continue to pay 100% of the lowest priced plan. A retiree or survivor who enrolls in this plan would not have to pay any portion of the premium. A retiree or survivor may elect the $25 co-pay plan; however, the member would be responsible for the difference between the cost of the $25 co-pay plan and the high deductible plan. The 2013 healthcare rates have not been determined. If the 2012 healthcare rates continued for calendar year 2013, the following chart illustrates the cost to a retiree who elects to enroll in the $25 co-pay plan.

	Retiree Costs – Post High Deductible Implementation
Non-Medicare Lowest Priced Plan (LPP) (High Deductible)	$0
Non-Medicare $25 Co-pay	$129.96/mo (single) $323.62/mo (family)
Medicare Supplement Lowest Priced Plan (LPP)	$0[1]

[1] Retirees enrolled in Medicare Part B contribute $99.00 - $319.70/month and $0 - $66.40/month for Medicare Part D, depending on the amount of the monthly pension. These rates are for 2012 and subject to change for 2013.

When a retiree becomes age 65, the member is required to enroll in Medicare Part A and B. The Federated City Employees' Retirement System and the Police and Fire Department Retirement Plan provide Medicare recipients with several options for a Medicare supplemental insurance plan. The total cost of the Medicare supplemental plans vary based on the plan selected by the retiree. There are several Medicare supplemental options available to retirees and the premium is paid 100% by the Plan. As a result, the retiree or survivor may have no premium cost sharing, since the total cost of the Medicare supplemental plan is often less than the non-Medicare plans. The retiree will continue to be responsible for paying any premiums mandated by Medicare Part B and D.

EVALUATION AND FOLLOW-UP

None.

PUBLIC OUTREACH/INTEREST

☑ **Criteria 1:** Requires Council action on the use of public funds equal to $1 million or greater. **(Required: Website Posting)**

☐ **Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**

☐ **Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This item meets Criterion 1. This memorandum will be posted on the City's website for the May 1, 2012, Council Agenda.

COORDINATION

This memorandum was coordinated with the City Manager's Budget Office and the City Attorney's Office.

COST IMPLICATIONS

2nd Tier Pension Benefit

The City's actuary, Bartel and Associates, estimated the normal cost of the pension retirement benefit formula for new employees to be approximately 13.8% of payroll, using the 7.5% earnings assumption. As the costs of the 2nd tier pension benefit are split 50/50 between the City and employees, the City's share of this is 6.9%. The pension retirement benefit formula for new employees is estimated to be 15.9% of payroll, using the 6.75% earnings assumption (7.95% for the City.) (Please refer to the attached Letter from John Bartel dated April 6, 2012.) However, the contribution rates are set by the Boards, based on an actuarial analysis prepared by the Boards' actuary. The Federated City Employees' Retirement System currently uses a 7.5% earnings assumption.

Healthcare – Lowest Cost Plan

The addition of the high deductible plan would result in a new plan that would be available to employees represented by CAMP. For those employees that elect to enroll in the new Kaiser plan, the employee will experience a reduction in premium contributions in 2013. The City would continue to pay 85% of the total premium for the lowest priced Non-Deductible HMO plan, which is currently the $25 co-pay plan.

The high deductible plan would be available for all members and survivors in the Federated City Employees' Retirement System and Police and Fire Department Retirement Plan. The Plans will pay 100% of the lowest priced plan, which will be the high deductible plan in calendar year 2013. Since this plan is less expensive than the $25 co-pay plan, it will reduce the cost of retiree healthcare. Since the cost for retiree healthcare are shared equally between the City and employees, both the City and active employees will benefit from the positive impact to the contribution rates in the future.

CEQA

CEQA: Not a Project, File No. PP10-069(b), Personnel Related Decisions.

Debra Figone
City Manager

For questions please contact Alex Gurza, Deputy City Manager, at (408) 535-8150.

Attachments

HEALTHCARE

See attached

RETIREMENT BENEFITS FOR NEW EMPLOYEES

See attached

MEDICARE PART A AND B

See attached

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 CAMP in addition to the existing plan options.

KAISER PERMANENTE®

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 *EOC*	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
Emergency Health Coverage	**You Pay**
Emergency Department visits	30% Coinsurance after Deductible
Ambulance Services	**You Pay**
Ambulance Services	$150 per trip after Deductible

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.

BARTEL ASSOCIATES, LLC

April 6, 2012

Debra Figone
City Manager
City of San Jose
200 East Santa Clara Street
San Jose, CA 95113

Re: Federated City Employees' Retirement System - Tier 2 Normal Cost Estimate

Dear Ms. Figone:

This letter provides an estimated total Normal Cost rate for the proposed Tier 2 benefit as compared to the pension benefit for current Federated employees. This letter does not take into account any possible City contributions to a defined contribution plan.

Summary of Proposed Benefit Changes

The following table summarizes the proposed Federated Tier 2 benefit as compared to the current pension benefit, showing the proposed Tier 2 benefit with a 2.0% accrual rate:

	Current Plan	**Proposed Tier 2**
■ Accrual Rate	■ 2.5% per year	■ 2.0% per year
■ Max Benefit	■ 75%	■ 65%
■ Eligibility	■ 55&5, or ■ 30 years	■ 65&5 ■ 55&5 with actuarial reduction
■ Final Average Earnings (FAE)	■ Highest 1 year (FAE1)	■ Highest 3 year (FAE3)
■ COLA	■ 3% fixed	■ CPI, max 1.5%
■ Survivor Form	■ 50% J&S	■ Single Life
■ Disability	■ Duty – 40%-75% FAE1 ■ Non-Duty – 20%-75% FAE1	■ Duty – 50% FAE3 ■ Non-Duty – 20%-50% FAE3
■ Cost Sharing	■ Normal Cost: • City – 73% • EE – 27% ■ Unfunded Liability: • City – 100% • EE – 0%	■ Normal Cost: • City – 50% • EE – 50% ■ Unfunded Liability: • City – 50% • EE – 50%

Results

Following is a comparison of the estimated total Normal Cost as a percent of payroll (NC %) for the proposed Tier 2 benefit as compared to the pension benefit for current Federated employees. The results are shown using the June 30, 2011 valuation discount rate assumption of 7.5% and an alternative lower discount rate assumption of 6.75%.

	Current Plan (All Federated Employees)		Proposed Tier 2 (Based on Demographics of Hires within Last 5 Years)	
■ Discount Rate	7.5%	6.75%	7.5%	6.75%
■ Total NC %:				
• Benefits	20.55%	24.68%	13.1%	15.2%
• Admin Expenses	0.70%	0.70%	0.7%	0.7%
• SRBR	2.57%	2.57%[1]	0.0%	0.0%
• Total	23.82%	27.95%	13.8%	15.9%

Assumptions

The results are based on the Federated City Employees' Retirement System June 30, 2011 Actuarial Valuation, including actuarial methods and assumptions and valuation census data provided by the City, with the exception of rates of retirement which were adjusted to reflect expected later retirement ages under the Tier 2 benefit. As indicated in the table above, the current plan Normal Cost rates are based on all Federated participants included in the valuation, and the estimated Tier 2 Normal Cost rates are based on the demographics of the Federated participants included in the valuation who were hired within the last five years.

Actuarial Certification

As an Associate of the Society of Actuaries, a Fellow of the Conference of Consulting Actuaries and a member of the American Academy of Actuaries, I certify these results are consistent with generally accepted actuarial principles and practices. We based our results on the June 30, 2011 Actuarial Valuation of the Federated City Employees' Retirement System and the valuation census data provided by the City.

Please call me (650-377-1601) with any questions about this information.

Sincerely,

John E. Bartel
President

c: Alex Gurza, City of San Jose
Jennifer Schembri, City of San Jose

[1] SRBR will likely increase as % of pay.

COUNCIL AGENDA: 05/01/12
ITEM:

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Debra Figone

SUBJECT: SEE BELOW

DATE: April 17, 2012

SUBJECT: APPROVAL OF IMPLEMENTATION OF TERMS CONTAINED IN THE CITY'S LAST, BEST, AND FINAL OFFER TO THE INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS, LOCAL NO. 332 (IBEW)

COUNCIL DISTRICT: N/A
SNI AREA: N/A

RECOMMENDATION

Adoption of a resolution approving the implementation of terms contained in the City's Last, Best, and Final Offer dated April 16, 2012, to the International Brotherhood of Electrical Workers, Local No. 332 (IBEW).

OUTCOME

Adoption of the resolution and authorization to implement terms contained in the City's Last, Best, and Final Offer dated April 16, 2012, for employees represented by the International Brotherhood of Electrical Workers, Local No. 332 (IBEW).

BACKGROUND

The City and the International Brotherhood of Electrical Workers, Local No. 332 (IBEW) had a Memorandum of Agreement (MOA) which was to expire on or about June 30, 2011. The City and IBEW commenced negotiations on a successor MOA in January 2011. However, the parties were unable to reach an agreement on a successor MOA and, on or about May 31, 2011, the City imposed the terms contained in the City's Last, Best, and Final Offer (Alternative A), including, among other things, an ongoing reduction in total compensation achieved through a combination of reduced base pay and healthcare changes. It should be noted that the implementation of terms did not result in a memorandum of understanding.

On or about June 13, 2011, the City met with IBEW and other bargaining units to discuss retirement reform negotiations. The City subsequently provided IBEW a draft framework for conducting retirement negotiations concurrently with negotiations over a proposed ballot measure, including a mutual commitment to complete negotiations by an immutable deadline of October 31, 2011.

However, the parties were unable to reach an agreement on the framework for conducting concurrent negotiations on retirement reform and a potential ballot measure.

On or about July 6, 2011, the City met with IBEW, along with the Association of Building, Mechanical and Electrical Inspectors (ABMEI), the Confidential Employees' Organization, AFSCME Local No. 101 (CEO), and the Municipal Employees' Federation, AFSCME Local No. 101 (MEF). During this meeting, IBEW, ABMEI, CEO, and MEF notified the City of its intent to jointly negotiate retirement reform issues. The invitation to jointly negotiate retirement reform was also extended to the International Union of Operating Engineers, Local No. 3 (OE#3). On or about July 21, 2011, the City notified IBEW of its interest to commence negotiations on retirement reform. The City also agreed to engage in joint negotiations with IBEW, ABMEI, CEO, MEF and OE#3 on retirement reform.

The City and IBEW met approximately eleven (11) times between June 13, 2011, and November 15, 2011. During these negotiations, the City and IBEW exchanged proposals on retirement reform, including, but not limited to pension benefits for new employees, retiree healthcare for new employees, enrollment in Medicare Part A and B, and healthcare plan design and cost sharing. The City and IBEW were unable to reach an agreement and, on November 17, 2011, the parties reached impasse and subsequently engaged in the mediation process on November 22, 2011. Unfortunately, despite these efforts, the parties were unable to reach an agreement. On December 6, 2011, the City Council provided direction to staff to ask the bargaining units to re-engage in mediation on all retirement issues. IBEW agreed to re-engage in the mediation process and participated in additional mediation with the City on December 21, 2011, January 4, January 6, January 13, January 30 and February 13, 2012. Despite these efforts, the parties again were unable to reach an agreement.

On April 16, 2012, the City provided IBEW with a Last, Best, and Final Offer, including proposals on pension benefits for new employees, enrollment in Medicare Part A and B, and healthcare plan design and cost sharing. The City requested that IBEW provide its response by April 20, 2012. If an agreement is reached with IBEW, a Supplemental Memorandum will be issued.

Pursuant to the Meyers-Milias-Brown Act under California Government Code Section 3505.4, if, after meeting and conferring in good faith, an impasse has been reached between the public agency and the recognized employee organization, and impasse procedures, where applicable, have been exhausted, a public agency that is not required to proceed to interest arbitration may implement its last, best, and final offer, but shall not implement a memorandum of understanding.

IBEW has been notified that this item will be placed on the Council Agenda for implementation of terms contained in the City's Last, Best, and Final Offer for employees represented by IBEW, a complete copy of which is attached.

ANALYSIS

The following is a summary of the terms contained in the City's Last, Best, and Final Offer that would be implemented for employees represented by IBEW:

Pension Benefits for New Employees (Tier 2)

Employees hired on or after July 1, 2012, shall be eligible for the following pension benefits. (This includes employees who leave or have left City service and are subsequently rehired or reinstated after July 1, 2012.)

Pension formula
2.0% per year of service, subject to a maximum of 65% of final compensation.

Final compensation
Average annual earned pay of the highest three consecutive years of service. Final compensation shall be base pay only.

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

Retirement Service Credit
Employees shall receive retirement service credit for regular time worked (including paid leave, but not overtime). 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 shall be eligible to retire at age 65 with at least five years of retirement service credit.

Employees can retire at a minimum of age 55 with at least five years of retirement service credit; however, the member's benefit shall be reduced so it does not exceed the actuarial value of full retirement at age 65.

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 shall be prorated based on the number of months retired.

Disability Retirements
Service Connected
Plan members 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 eligible for a non-service connected disability retirement benefit shall receive 2.0% times every year of 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.

Survivorship Benefits

Death Before Retirement

If the 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.

Election Death Benefit 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.

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.

Rights

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

Medicare Part A and B Enrollment (Current and New Plan Members)

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. If a plan member fails to meet the requirements within six (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.

Healthcare (Current and New Employees)

Effective January 1, 2013, Kaiser Permanente Deductible HMO Benefit Plan 3800 shall be available to employees, in addition to the existing plan options.

Effective December 23, 2012, the City shall pay eighty-five percent (85%) of cost of the lowest priced Non-Deductible HMO plan for the employee or the employee and dependent coverage and the employee shall pay fifteen percent (15%) of the premium for the lowest priced Non-Deductible HMO plan. (See discussion of lowest cost plan below.)

Discussion of Healthcare - Lowest Cost Plan

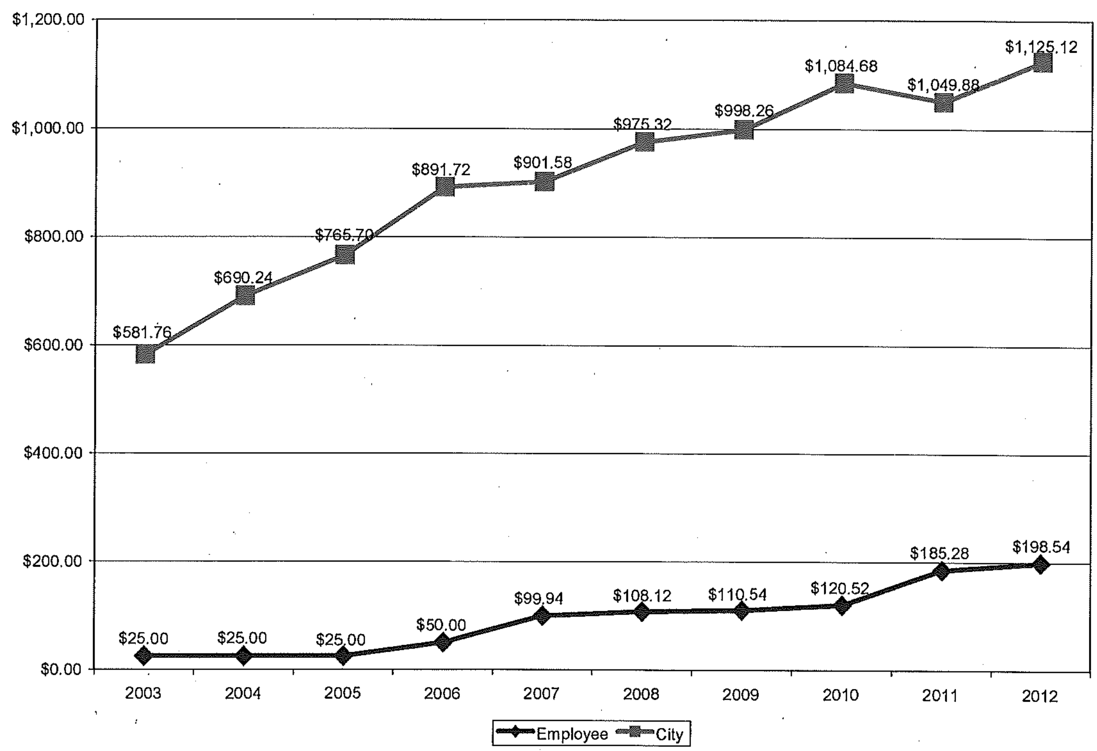
The City currently offers a choice of four health insurance plans for employees that include Kaiser, Blue Shield HMO, Blue Shield PPO and Blue Shield POS. The City pays 85% of the lowest priced plan for single or family coverage and employees pay 15% of the lowest priced plan. The Kaiser $25 co-pay plan is the lowest priced plan for 2012. The 2012 total monthly premium for the lowest priced plan for the City and employees are listed below.

Monthly Premium for Current Lowest Priced Healthcare Plan Kaiser ($25 co-pay plan)		
	Single	Family
Employee Contribution	$79.72	$198.54
City	$451.86	$1,125.12
Total	**$531.58**	**$1,323.66**

An employee who selects a plan other than the lowest priced plan pays any additional amount required for the premium beyond the cost of the lowest priced plan.

Annually, the City contributes, for active employees $5,422.32 for single coverage and $13,501.44 for family coverage. Since 2003, the total monthly premiums have increased by 118% as illustrated below. Healthcare costs are anticipated to continue to increase.

Monthly Lowest Cost Healthcare Plan (2003-2012)



Active Employees

The addition of the Kaiser Permanente Deductible HMO Benefit Plan 3800 (High Deductible Plan) would have no impact on the cost sharing for healthcare premiums for active employees. This plan is an HMO with annual deductibles and/or additional higher copayments or coinsurance that must be met for some services. It is important to note that some services are still 100% covered and the deductible does not need to be met, including, but not limited to, routine physical maintenance exams, urgent care consultations and exams and most immunizations (including vaccines). The City would continue to pay 85% of the cost of the lowest priced Non-Deductible HMO plan for the employee and dependent coverage and the employee would continue to pay fifteen percent (15%) of the premium for the lowest priced Non-Deductible HMO plan, which is currently the $25 co-pay plan. Effective January 1, 2013, a current employee may elect to enroll in the new Kaiser high deductible plan and would have a lower or no cost sharing for the premiums associated with this plan.

Retirees

The San Jose Municipal Code contains the level and eligibility for retiree healthcare benefits as part of the retirement plans. Generally, employees are eligible for retiree medical insurance coverage if at the time of retirement they have at least fifteen (15) years of retirement service credit. Even employees with 15 years of service in the Federated City Employees' Retirement System and 20 years of service in the Police and Fire Department Retirement Plan who leave City service prior to retirement (also known as deferred vesting) can qualify for lifetime retiree medical insurance upon retirement.

For eligible retirees, the benefit provides for 100% of the premium cost for the lowest priced plan available to active employees for either single or family coverage. (This is a higher level of benefit than active employees receive because retirees do not pay any premium for the lowest priced healthcare benefit plan.) Since the current benefit is tied to the cost of the premium rather than a fixed-dollar amount, the long-term cost of providing this benefit is integrally tied to the rising cost of healthcare.

As illustrated above, healthcare costs have risen significantly in the last ten years. This has a direct impact to the cost of retiree healthcare. Contributions for retiree medical benefits are made by the City and active employees in the ratio of one-to-one (50/50 split). Contributions for retiree dental benefits are made by the City and active employees in the ratio of eight-to-three.

The Fiscal Year 2012-2013 retiree healthcare portion of the contribution rates for the City's two retirement plans are as follows:

Current Retiree Healthcare Funding		
	Employee Contribution	City Contribution
Federated	7.26%	7.91%
Police	8.26%	8.96%
Fire	6.11%	6.62%

Note: Does not include pension contribution rates.

For many years, the City and active employees were partially pre-funding retiree healthcare, and only some funds were set aside to pay for future healthcare liabilities, but at a level far less than full pre-funding. As a result, the retiree healthcare plans are significantly underfunded and have a significant unfunded liability. As of June 30, 2011, the unfunded liability and funding ratio for the two plans are listed below:

Retiree Healthcare Unfunded Liability and Funding Ratio		
	Unfunded Actuarial Liability	**Funding Ratio**
Federated	$800.505 Million	14.00%
Police and Fire	$596.764 Million	9.20%
Total	$1.397 Billion	

The City and active employees are currently phasing into paying for the total Annual Required Contribution (ARC) over a period of five years. This has resulted in an incremental increase in the contributions for retiree healthcare each year. However, after the fifth year, the Board's actuary for the Federated City Employees' Retirement System has projected that the contributions required to pay the Annual Required Contribution (ARC) will nearly double for the City and employees, as shown in the chart below. As noted in the 2013-2017 General Fund Forecast, one of the main drivers for the 2013-2014 General Fund shortfall of $22.5 million is the increased cost (approximately $11 million) of the City's annual required contribution for retiree healthcare for employees in the Federated City Employees' Retirement System. Please note that the Administration has requested the projected retiree healthcare contributions for Police and Fire; however, they have not yet been completed.

Projected Phase-In Contribution Rates for Retiree Healthcare Only (Federated)			
Fiscal Year	**Employee**	**City**	**Total**
2008-2009	4.65%	5.25%	9.90%
2009-2010	5.07%	5.70%	10.77%
2010-2011	5.76%	6.41%	12.17%
2011-2012	6.51%	7.16%	13.67%
2012-2013	7.26%	7.91%	15.17%
2013-2014	15.50%	16.84%	32.34%

Source: Cheiron Actuarial Valuation as of June 30, 2011

Effective January 1, 2013, the lowest-cost plan that will be available to retirees will be the high deductible plan. Retirees and survivors will have an opportunity to make changes to their elections for coverage during the normal Annual Open Enrollment conducted by Retirement Services in November 2012, prior to the changes going into effect.

With the addition of the High Deductible Plan, the Plan will continue to pay 100% of the lowest priced plan. A retiree or survivor who enrolls in this plan would not have to pay any portion of the premium. A retiree or survivor may elect the $25 co-pay plan; however, the member would be responsible for the difference between the cost of the $25 co-pay plan and the high deductible plan. The 2013 healthcare rates have not been determined. If the 2012 healthcare rates continued for

calendar year 2013, the following chart illustrates the cost to a retiree who elects to enroll in the $25 co-pay plan.

	Retiree Costs – Post High Deductible Implementation
Non-Medicare Lowest Priced Plan (LPP) (High Deductible)	$0
Non-Medicare $25 Co-pay	$129.96/mo (single) $323.62/mo (family)
Medicare Supplement Lowest Priced Plan (LPP)	$0[1]

When a retiree becomes age 65, the member is required to enroll in Medicare Part A and B. The Federated City Employees' Retirement System and the Police and Fire Department Retirement Plan provide Medicare recipients with several options for a Medicare supplemental insurance plan. The total cost of the Medicare supplemental plans vary based on the plan selected by the retiree. There are several Medicare supplemental options available to retirees and the premium is paid 100% by the retirement system. As a result, the retiree or survivor may have no premium cost sharing, since the total cost of the Medicare supplemental plan is often less than the non-Medicare plans. The retiree will continue to be responsible for paying any premiums mandated by Medicare Part B and D.

EVALUATION AND FOLLOW-UP

None.

PUBLIC OUTREACH/INTEREST

☑ **Criteria 1:** Requires Council action on the use of public funds equal to $1 million or greater. **(Required: Website Posting)**

☐ **Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**

☐ **Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This item meets Criterion 1. This memorandum will be posted on the City's website for the May 1, 2012, Council Agenda.

[1] Retirees enrolled in Medicare Part B contribute $99.00 - $319.70/month and $0 - $66.40/month for Medicare Part D, depending on the amount of the monthly pension. These rates are for 2012 and subject to change for 2013.

COORDINATION

This memorandum was coordinated with the City Manager's Budget Office and the City Attorney's Office.

COST IMPLICATIONS

2nd Tier Pension Benefit

The City's actuary, Bartel and Associates, estimated the normal cost of the pension retirement benefit formula for new employees to be approximately 13.8% of payroll, using the 7.5% earnings assumption. As the costs of the 2nd tier pension benefit are split 50/50 between the City and employees, the City's share of this is 6.9%. The pension retirement benefit formula for new employees is estimated to be 15.9% of payroll, using the 6.75% earnings assumption (7.95% for the City.) (Please refer to the attached Letter from John Bartel dated April 6, 2012.) However, the contribution rates are set by the Boards, based on an actuarial analysis prepared by the Boards' actuary. The Federated City Employees' Retirement System currently uses a 7.5% earnings assumption.

Healthcare – Lowest Cost Plan

The addition of the high deductible plan would result in a new plan that would be available to employees represented by IBEW. For those employees that elect to enroll in the new Kaiser plan, the employee will experience a reduction in premium contributions in 2013. The City would continue to pay 85% of the total premium for the lowest priced Non-Deductible HMO plan, which is currently the $25 co-pay plan.

The high deductible plan would be available for all members and survivors in the Federated City Employees' Retirement System and Police and Fire Department Retirement Plan. The Plans will pay 100% of the lowest priced plan, which will be the high deductible plan in calendar year 2013. Since this plan is less expensive than the $25 co-pay plan, it will reduce the cost of retiree healthcare. Since the cost for retiree healthcare are shared equally between the City and employees, both the City and active employees will benefit from the positive impact to the contribution rates in the future.

CEQA

CEQA: Not a Project, File No. PP10-069(b), Personnel Related Decisions.

Debra Figone
City Manager

For questions please contact Alex Gurza, Deputy City Manager, at (408) 535-8150.

Attachments

HEALTHCARE

See attached

RETIREMENT BENEFITS FOR NEW EMPLOYEES

See attached

MEDICARE PART A AND B

See attached

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 IBEW in addition to the existing plan options.

KAISER PERMANENTE

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 *EOC*	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
Emergency Health Coverage	**You Pay**
Emergency Department visits	30% Coinsurance after Deductible
Ambulance Services	**You Pay**
Ambulance Services	$150 per trip after Deductible

continues

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.

BARTEL ASSOCIATES, LLC

April 6, 2012

Debra Figone
City Manager
City of San Jose
200 East Santa Clara Street
San Jose, CA 95113

Re: Federated City Employees' Retirement System - Tier 2 Normal Cost Estimate

Dear Ms. Figone:

This letter provides an estimated total Normal Cost rate for the proposed Tier 2 benefit as compared to the pension benefit for current Federated employees. This letter does not take into account any possible City contributions to a defined contribution plan.

Summary of Proposed Benefit Changes

The following table summarizes the proposed Federated Tier 2 benefit as compared to the current pension benefit, showing the proposed Tier 2 benefit with a 2.0% accrual rate:

	Current Plan	**Proposed Tier 2**
■ Accrual Rate	■ 2.5% per year	■ 2.0% per year
■ Max Benefit	■ 75%	■ 65%
■ Eligibility	■ 55&5, or ■ 30 years	■ 65&5 ■ 55&5 with actuarial reduction
■ Final Average Earnings (FAE)	■ Highest 1 year (FAE1)	■ Highest 3 year (FAE3)
■ COLA	■ 3% fixed	■ CPI, max 1.5%
■ Survivor Form	■ 50% J&S	■ Single Life
■ Disability	■ Duty – 40%-75% FAE1 ■ Non-Duty – 20%-75% FAE1	■ Duty – 50% FAE3 ■ Non-Duty – 20%-50% FAE3
■ Cost Sharing	■ Normal Cost: • City – 73% • EE – 27% ■ Unfunded Liability: • City – 100% • EE – 0%	■ Normal Cost: • City – 50% • EE – 50% ■ Unfunded Liability: • City – 50% • EE – 50%

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main: 650/377-1600 • *fax:* 650/345-8057 • *web:* www.bartel-associates.com

B/A

Results

Following is a comparison of the estimated total Normal Cost as a percent of payroll (NC %) for the proposed Tier 2 benefit as compared to the pension benefit for current Federated employees. The results are shown using the June 30, 2011 valuation discount rate assumption of 7.5% and an alternative lower discount rate assumption of 6.75%.

	Current Plan (All Federated Employees)		Proposed Tier 2 (Based on Demographics of Hires within Last 5 Years)	
■ Discount Rate	7.5%	6.75%	7.5%	6.75%
■ Total NC %:				
• Benefits	20.55%	24.68%	13.1%	15.2%
• Admin Expenses	0.70%	0.70%	0.7%	0.7%
• SRBR	2.57%	2.57%[1]	0.0%	0.0%
• Total	23.82%	27.95%	13.8%	15.9%

Assumptions

The results are based on the Federated City Employees' Retirement System June 30, 2011 Actuarial Valuation, including actuarial methods and assumptions and valuation census data provided by the City, with the exception of rates of retirement which were adjusted to reflect expected later retirement ages under the Tier 2 benefit. As indicated in the table above, the current plan Normal Cost rates are based on all Federated participants included in the valuation, and the estimated Tier 2 Normal Cost rates are based on the demographics of the Federated participants included in the valuation who were hired within the last five years.

Actuarial Certification

As an Associate of the Society of Actuaries, a Fellow of the Conference of Consulting Actuaries and a member of the American Academy of Actuaries, I certify these results are consistent with generally accepted actuarial principles and practices. We based our results on the June 30, 2011 Actuarial Valuation of the Federated City Employees' Retirement System and the valuation census data provided by the City.

Please call me (650-377-1601) with any questions about this information.

Sincerely,

John E. Bartel
President

c: Alex Gurza, City of San Jose
Jennifer Schembri, City of San Jose

1 SRBR will likely increase as % of pay.

COUNCIL AGENDA: 05/01/12
ITEM:

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Debra Figone

SUBJECT: SEE BELOW

DATE: April 17, 2012

SUBJECT: APPROVAL OF IMPLEMENTATION OF TERMS CONTAINED IN THE CITY'S LAST, BEST, AND FINAL OFFER TO THE INTERNATIONAL UNION OF OPERATING ENGINEERS, LOCAL NO. 3 (OE#3)

COUNCIL DISTRICT: N/A
SNI AREA: N/A

RECOMMENDATION

Adoption of a resolution approving the implementation of terms contained in the City's Last, Best, and Final Offer dated April 16, 2012, to the International Union of Operating Engineers, Local No. 3 (OE#3).

OUTCOME

Adoption of the resolution and authorization to implement terms contained in the City's Last, Best, and Final Offer dated April 16, 2012, for employees represented by the International Union of Operating Engineers, Local No. 3 (OE#3).

BACKGROUND

The City and the International Union of Operating Engineers, Local No. 3 (OE#3) had a Memorandum of Agreement (MOA) which was to expire on or about June 30, 2011. The City and OE#3 commenced negotiations on a successor MOA with OE#3 in February 2011. On or about May 18, 2011, the parties had reached a mediated tentative agreement on a successor MOA but, on or about May 23, 2011, the City was notified that the OE#3 membership voted down the mediated tentative agreement. The parties were thus unable to reach an agreement on a successor MOA and, on or about May 31, 2011, the City imposed the terms contained in the City's Last, Best, and Final Offer (Alternative A), including, among other things, an ongoing reduction in total compensation achieved through a combination of reduced base pay and healthcare changes. It should be noted that the implementation of terms did not result in a memorandum of understanding.

On or about June 13, 2011, the City met with OE#3 and other bargaining units to discuss retirement reform negotiations. The City subsequently provided OE#3 a draft framework for conducting retirement negotiations concurrently with negotiations over a proposed ballot measure, including a mutual commitment to complete negotiations by an immutable deadline of October 31, 2011. However, the parties were unable to reach an agreement on the framework for conducting concurrent negotiations on retirement reform and a potential ballot measure.

On or about July 6, 2011, the City met with the Association of Building, Mechanical and Electrical Inspectors (ABMEI), the Confidential Employees' Organization, AFSCME Local No. 101 (CEO), the International Brotherhood of Electrical Workers, Local No. 332 (IBEW), and the Municipal Employees' Federation, AFSCME Local No. 101 (MEF). During this meeting, ABMEI, CEO, IBEW, and MEF notified the City of its intent to jointly negotiate retirement reform issues. The invitation to jointly negotiate retirement reform was also extended to OE#3. On or about July 21, 2011, the City notified OE#3 of its interest to commence negotiations on retirement reform. The City also agreed to engage in joint negotiations with OE#3, ABMEI, CEO, IBEW and MEF on retirement reform.

The City and OE#3 met approximately ten (10) times between June 13, 2011, and November 15, 2011. During these negotiations, the City and OE#3 exchanged proposals on retirement reform, including, but not limited to pension benefits for new employees, retiree healthcare for new employees, enrollment in Medicare Part A and B, and healthcare plan design and cost sharing. The City and OE#3 were unable to reach an agreement and, on November 17, 2011, the parties reached impasse and subsequently engaged in the mediation process on November 22, 2011. Unfortunately, despite these efforts, the parties were unable to reach an agreement. On December 6, 2011, the City Council provided direction to staff to ask the bargaining units to re-engage in mediation on all retirement issues. OE#3 agreed to re-engage in the mediation process and participated in additional mediation with the City on December 21, 2011, January 4, January 6, January 13, January 30 and February 13, 2012. Despite these efforts, the parties again were unable to reach an agreement

On April 16, 2012, the City provided OE#3 with a Last, Best, and Final Offer, including proposals on pension benefits for new employees, enrollment in Medicare Part A and B, and healthcare plan design and cost sharing. The City requested that OE#3 provide its response by April 20, 2012. If an agreement is reached with OE#3, a Supplemental Memorandum will be issued.

Pursuant to the Meyers-Milias-Brown Act under California Government Code Section 3505.4, if, after meeting and conferring in good faith, an impasse has been reached between the public agency and the recognized employee organization, and impasse procedures, where applicable, have been exhausted, a public agency that is not required to proceed to interest arbitration may implement its last, best, and final offer, but shall not implement a memorandum of understanding.

OE#3 has been notified that this item will be placed on the Council Agenda for implementation of terms contained in the City's Last, Best, and Final Offer for employees represented by OE#3, a complete copy of which is attached.

ANALYSIS

The following is a summary of the terms contained in the City's Last, Best, and Final Offer that would be implemented for employees represented by OE#3:

Pension Benefits for New Employees (Tier 2)

Employees hired on or after July 1, 2012, shall be eligible for the following pension benefits. (This includes employees who leave or have left City service and are subsequently rehired or reinstated after July 1, 2012.)

Pension formula
2.0% per year of service, subject to a maximum of 65% of final compensation.

Final compensation
Average annual earned pay of the highest three consecutive years of service. Final compensation shall be base pay only.

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

Retirement Service Credit
Employees shall receive retirement service credit for regular time worked (including paid leave, but not overtime). 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 shall be eligible to retire at age 65 with at least five years of retirement service credit.

Employees can retire at a minimum of age 55 with at least five years of retirement service credit; however, the member's benefit shall be reduced so it does not exceed the actuarial value of full retirement at age 65.

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 shall be prorated based on the number of months retired.

Disability Retirements
Service Connected
Plan members 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 eligible for a non-service connected disability retirement benefit shall receive 2.0% times every year of 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.

Survivorship Benefits

Death Before Retirement

If the 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.

Election Death Benefit 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.

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.

Rights

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

Medicare Part A and B Enrollment (Current and New Plan Members)

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. If a plan member fails to meet the requirements within six (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.

Healthcare (Current and New Employees)

Effective January 1, 2013, Kaiser Permanente Deductible HMO Benefit Plan 3800 shall be available to employees, in addition to the existing plan options.

Effective December 23, 2012, the City shall pay eighty-five percent (85%) of cost of the lowest priced Non-Deductible HMO plan for the employee or the employee and dependent coverage and the employee shall pay fifteen percent (15%) of the premium for the lowest priced Non-Deductible HMO plan. (See discussion of lowest cost plan below.)

Discussion of Healthcare - Lowest Cost Plan

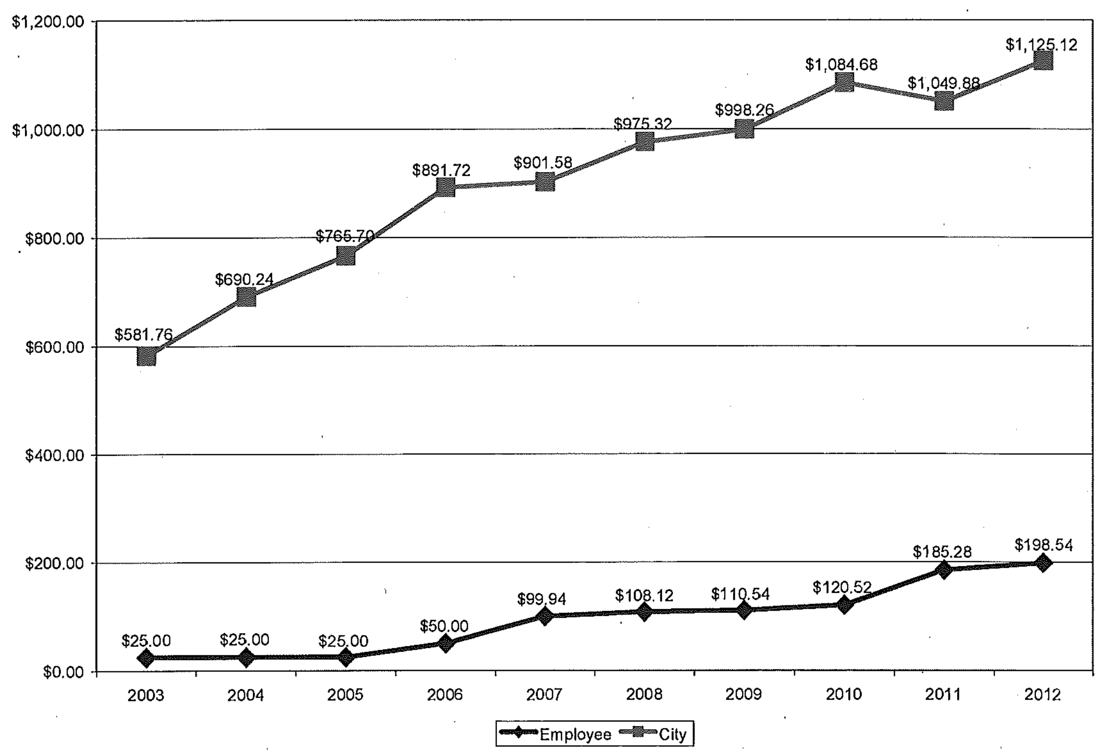
The City currently offers a choice of four health insurance plans for employees that include Kaiser, Blue Shield HMO, Blue Shield PPO and Blue Shield POS. The City pays 85% of the lowest priced plan for single or family coverage and employees pay 15% of the lowest priced plan. The Kaiser $25 co-pay plan is the lowest priced plan for 2012. The 2012 total monthly premium for the lowest priced plan for the City and employees are listed below.

Monthly Premium for Current Lowest Priced Healthcare Plan Kaiser ($25 co-pay plan)		
	Single	Family
Employee Contribution	$79.72	$198.54
City	$451.86	$1,125.12
Total	**$531.58**	**$1,323.66**

An employee who selects a plan other than the lowest priced plan pays any additional amount required for the premium beyond the cost of the lowest priced plan.

Annually, the City contributes, for active employees $5,422.32 for single coverage and $13,501.44 for family coverage. Since 2003, the total monthly premiums have increased by 118% as illustrated below. Healthcare costs are anticipated to continue to increase.

Monthly Lowest Cost Healthcare Plan (2003 – 2012)



Active Employees

The addition of the Kaiser Permanente Deductible HMO Benefit Plan 3800 (High Deductible Plan) would have no impact on the cost sharing for healthcare premiums for active employees. This plan is an HMO with annual deductibles and/or additional higher copayments or coinsurance that must be met for some services. It is important to note that some services are still 100% covered and the deductible does not need to be met, including, but not limited to, routine physical maintenance exams, urgent care consultations and exams and most immunizations (including vaccines). The City would continue to pay 85% of the cost of the lowest priced Non-Deductible HMO plan for the employee and dependent coverage and the employee would continue to pay fifteen percent (15%) of the premium for the lowest priced Non-Deductible HMO plan, which is currently the $25 co-pay plan. Effective January 1, 2013, a current employee may elect to enroll in the new Kaiser high deductible plan and would have a lower or no cost sharing for the premiums associated with this plan.

Retirees

The San Jose Municipal Code contains the level and eligibility for retiree healthcare benefits as part of the retirement plans. Generally, employees are eligible for retiree medical insurance coverage if at the time of retirement they have at least fifteen (15) years of retirement service credit. Even employees with 15 years of service in the Federated City Employees' Retirement System and 20 years of service in the Police and Fire Department Retirement Plan who leave City service prior to retirement (also known as deferred vesting) can qualify for lifetime retiree medical insurance upon retirement.

For eligible retirees, the benefit provides for 100% of the premium cost for the lowest priced plan available to active employees for either single or family coverage. (This is a higher level of benefit than active employees receive because retirees do not pay any premium for the lowest priced healthcare benefit plan.) Since the current benefit is tied to the cost of the premium rather than a fixed-dollar amount, the long-term cost of providing this benefit is integrally tied to the rising cost of healthcare.

As illustrated above, healthcare costs have risen significantly in the last ten years. This has a direct impact to the cost of retiree healthcare. Contributions for retiree medical benefits are made by the City and active employees in the ratio of one-to-one (50/50 split). Contributions for retiree dental benefits are made by the City and active employees in the ratio of eight-to-three.

The Fiscal Year 2012-2013 retiree healthcare portion of the contribution rates for the City's two retirement plans are as follows:

Current Retiree Healthcare Funding		
	Employee Contribution	City Contribution
Federated	7.26%	7.91%
Police	8.26%	8.96%
Fire	6.11%	6.62%

Note: Does not include pension contribution rates.

For many years, the City and active employees were partially pre-funding retiree healthcare, and only some funds were set aside to pay for future healthcare liabilities, but at a level far less than full pre-funding. As a result, the retiree healthcare plans are significantly underfunded and have a significant unfunded liability. As of June 30, 2011, the unfunded liability and funding ratio for the two plans are listed below:

Retiree Healthcare Unfunded Liability and Funding Ratio		
	Unfunded Actuarial Liability	**Funding Ratio**
Federated	$800.505 Million	14.00%
Police and Fire	$596.764 Million	9.20%
Total	$1.397 Billion	

The City and active employees are currently phasing into paying for the total Annual Required Contribution (ARC) over a period of five years. This has resulted in an incremental increase in the contributions for retiree healthcare each year. However, after the fifth year, the Board's actuary for the Federated City Employees' Retirement System has projected that the contributions required to pay the Annual Required Contribution (ARC) will nearly double for the City and employees, as shown in the chart below. As noted in the 2013-2017 General Fund Forecast, one of the main drivers for the 2013-2014 General Fund shortfall of $22.5 million is the increased cost (approximately $11 million) of the City's annual required contribution for retiree healthcare for employees in the Federated City Employees' Retirement System. Please note that the Administration has requested the projected retiree healthcare contributions for Police and Fire; however, they have not yet been completed.

Projected Phase-In Contribution Rates for Retiree Healthcare Only (Federated)			
Fiscal Year	**Employee**	**City**	**Total**
2008-2009	4.65%	5.25%	9.90%
2009-2010	5.07%	5.70%	10.77%
2010-2011	5.76%	6.41%	12.17%
2011-2012	6.51%	7.16%	13.67%
2012-2013	7.26%	7.91%	15.17%
2013-2014	15.50%	16.84%	32.34%

Source: Cheiron Actuarial Valuation as of June 30, 2011

Effective January 1, 2013, the lowest-cost plan that will be available to retirees will be the high deductible plan. Retirees and survivors will have an opportunity to make changes to their elections for coverage during the normal Annual Open Enrollment conducted by Retirement Services in November 2012, prior to the changes going into effect.

With the addition of the High Deductible Plan, the Plan will continue to pay 100% of the lowest priced plan. A retiree or survivor who enrolls in this plan would not have to pay any portion of the premium. A retiree or survivor may elect the $25 co-pay plan; however, the member would be responsible for the difference between the cost of the $25 co-pay plan and the high deductible plan. The 2013 healthcare rates have not been determined. If the 2012 healthcare rates continued for

calendar year 2013, the following chart illustrates the cost to a retiree who elects to enroll in the $25 co-pay plan.

	Retiree Costs – Post High Deductible Implementation
Non-Medicare Lowest Priced Plan (LPP) (High Deductible)	$0
Non-Medicare $25 Co-pay	$129.96/mo (single) $323.62/mo (family)
Medicare Supplement Lowest Priced Plan (LPP)	$0[1]

When a retiree becomes age 65, the member is required to enroll in Medicare Part A and B. The Federated City Employees' Retirement System and the Police and Fire Department Retirement Plan provide Medicare recipients with several options for a Medicare supplemental insurance plan. The total cost of the Medicare supplemental plans vary based on the plan selected by the retiree. There are several Medicare supplemental options available to retirees and the premium is paid 100% by the retirement system. As a result, the retiree or survivor may have no premium cost sharing, since the total cost of the Medicare supplemental plan is often less than the non-Medicare plans. The retiree will continue to be responsible for paying any premiums mandated by Medicare Part B and D.

EVALUATION AND FOLLOW-UP

None.

PUBLIC OUTREACH/INTEREST

☑ **Criteria 1:** Requires Council action on the use of public funds equal to $1 million or greater. **(Required: Website Posting)**

☐ **Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**

☐ **Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This item meets Criterion 1. This memorandum will be posted on the City's website for the May 1, 2012, Council Agenda.

[1] Retirees enrolled in Medicare Part B contribute $99.00 - $319.70/month and $0 - $66.40/month for Medicare Part D, depending on the amount of the monthly pension. These rates are for 2012 and subject to change for 2013.

COORDINATION

This memorandum was coordinated with the City Manager's Budget Office and the City Attorney's Office.

COST IMPLICATIONS

2nd Tier Pension Benefit

The City's actuary, Bartel and Associates, estimated the normal cost of the pension retirement benefit formula for new employees to be approximately 13.8% of payroll, using the 7.5% earnings assumption. As the costs of the 2nd tier pension benefit are split 50/50 between the City and employees, the City's share of this is 6.9%. The pension retirement benefit formula for new employees is estimated to be 15.9% of payroll, using the 6.75% earnings assumption (7.95% for the City.) (Please refer to the attached Letter from John Bartel dated April 6, 2012.) However, the contribution rates are set by the Boards, based on an actuarial analysis prepared by the Boards' actuary. The Federated City Employees' Retirement System currently uses a 7.5% earnings assumption.

Healthcare – Lowest Cost Plan

The addition of the high deductible plan would result in a new plan that would be available to employees represented by OE#3. For those employees that elect to enroll in the new Kaiser plan, the employee will experience a reduction in premium contributions in 2013. The City would continue to pay 85% of the total premium for the lowest priced Non-Deductible HMO plan, which is currently the $25 co-pay plan.

The high deductible plan would be available for all members and survivors in the Federated City Employees' Retirement System and Police and Fire Department Retirement Plan. The Plans will pay 100% of the lowest priced plan, which will be the high deductible plan in calendar year 2013. Since this plan is less expensive than the $25 co-pay plan, it will reduce the cost of retiree healthcare. Since the cost for retiree healthcare are shared equally between the City and employees, both the City and active employees will benefit from the positive impact to the contribution rates in the future.

CEQA

CEQA: Not a Project, File No. PP10-069(b), Personnel Related Decisions.

Debra Figone
City Manager

For questions please contact Alex Gurza, Deputy City Manager, at (408) 535-8150.

Attachments

HEALTHCARE

See attached

RETIREMENT BENEFITS FOR NEW EMPLOYEES

See attached

MEDICARE PART A AND B

See attached

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.

KAISER PERMANENTE

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 *EOC*	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
Emergency Health Coverage	**You Pay**
Emergency Department visits	30% Coinsurance after Deductible
Ambulance Services	**You Pay**
Ambulance Services	$150 per trip after Deductible

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.

BARTEL ASSOCIATES, LLC

April 6, 2012

Debra Figone
City Manager
City of San Jose
200 East Santa Clara Street
San Jose, CA 95113

Re: Federated City Employees' Retirement System - Tier 2 Normal Cost Estimate

Dear Ms. Figone:

This letter provides an estimated total Normal Cost rate for the proposed Tier 2 benefit as compared to the pension benefit for current Federated employees. This letter does not take into account any possible City contributions to a defined contribution plan.

Summary of Proposed Benefit Changes

The following table summarizes the proposed Federated Tier 2 benefit as compared to the current pension benefit, showing the proposed Tier 2 benefit with a 2.0% accrual rate:

	Current Plan	**Proposed Tier 2**
■ Accrual Rate	■ 2.5% per year	■ 2.0% per year
■ Max Benefit	■ 75%	■ 65%
■ Eligibility	■ 55&5, or ■ 30 years	■ 65&5 ■ 55&5 with actuarial reduction
■ Final Average Earnings (FAE)	■ Highest 1 year (FAE1)	■ Highest 3 year (FAE3)
■ COLA	■ 3% fixed	■ CPI, max 1.5%
■ Survivor Form	■ 50% J&S	■ Single Life
■ Disability	■ Duty – 40%-75% FAE1 ■ Non-Duty – 20%-75% FAE1	■ Duty – 50% FAE3 ■ Non-Duty – 20%-50% FAE3
■ Cost Sharing	■ Normal Cost: • City – 73% • EE – 27% ■ Unfunded Liability: • City – 100% • EE – 0%	■ Normal Cost: • City – 50% • EE – 50% ■ Unfunded Liability: • City – 50% • EE – 50%

B/A

Results

Following is a comparison of the estimated total Normal Cost as a percent of payroll (NC %) for the proposed Tier 2 benefit as compared to the pension benefit for current Federated employees. The results are shown using the June 30, 2011 valuation discount rate assumption of 7.5% and an alternative lower discount rate assumption of 6.75%.

	Current Plan (All Federated Employees)		**Proposed Tier 2 (Based on Demographics of Hires within Last 5 Years)**	
■ Discount Rate	7.5%	6.75%	7.5%	6.75%
■ Total NC %:				
• Benefits	20.55%	24.68%	13.1%	15.2%
• Admin Expenses	0.70%	0.70%	0.7%	0.7%
• SRBR	2.57%	2.57%[1]	0.0%	0.0%
• Total	23.82%	27.95%	13.8%	15.9%

Assumptions

The results are based on the Federated City Employees' Retirement System June 30, 2011 Actuarial Valuation, including actuarial methods and assumptions and valuation census data provided by the City, with the exception of rates of retirement which were adjusted to reflect expected later retirement ages under the Tier 2 benefit. As indicated in the table above, the current plan Normal Cost rates are based on all Federated participants included in the valuation, and the estimated Tier 2 Normal Cost rates are based on the demographics of the Federated participants included in the valuation who were hired within the last five years.

Actuarial Certification

As an Associate of the Society of Actuaries, a Fellow of the Conference of Consulting Actuaries and a member of the American Academy of Actuaries, I certify these results are consistent with generally accepted actuarial principles and practices. We based our results on the June 30, 2011 Actuarial Valuation of the Federated City Employees' Retirement System and the valuation census data provided by the City.

Please call me (650-377-1601) with any questions about this information.

Sincerely,

John E. Bartel
President

c: Alex Gurza, City of San Jose
Jennifer Schembri, City of San Jose

[1] SRBR will likely increase as % of pay.

COUNCIL AGENDA: 05/01/12
ITEM:

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Debra Figone

SUBJECT: SEE BELOW

DATE: April 17, 2012

SUBJECT: **APPROVAL OF IMPLEMENTATION OF TERMS CONTAINED IN THE CITY'S LAST, BEST, AND FINAL OFFER TO THE MUNICIPAL EMPLOYEES' FEDERATION, AFSCME LOCAL NO. 101 (MEF)**

COUNCIL DISTRICT: N/A
SNI AREA: N/A

RECOMMENDATION

Adoption of a resolution approving the implementation of terms contained in the City's Last, Best, and Final Offer dated April 16, 2012, to the Municipal Employees' Federation, AFSCME Local No. 101 (MEF).

OUTCOME

Adoption of the resolution and authorization to implement terms contained in the City's Last, Best, and Final Offer dated April 16, 2012, for employees represented by the Municipal Employees' Federation, AFSCME Local No. 101 (MEF).

BACKGROUND

The City and the Municipal Employees' Federation, AFSCME Local No. 101 (MEF) had a Memorandum of Agreement (MOA) which was to expire on or about June 30, 2011. The City and MEF commenced negotiations on a successor MOA with CEO in January 2011. However, the parties were unable to reach an agreement on a successor MOA and, on or about May 31, 2011, the City imposed the terms contained in the City's Last, Best, and Final Offer (Alternative A), including, among other things, an ongoing reduction in total compensation achieved through a combination of reduced base pay and healthcare changes. It should be noted that the implementation of terms did not result in a memorandum of understanding.

On or about June 13, 2011, the City met with MEF and other bargaining units to discuss retirement reform negotiations. The City subsequently provided MEF a draft framework for conducting retirement negotiations concurrently with negotiations over a proposed ballot measure, including a mutual commitment to complete negotiations by an immutable deadline of October 31, 2011.

However, the parties were unable to reach an agreement on the framework for conducting concurrent negotiations on retirement reform and a potential ballot measure.

On or about July 6, 2011, the City met with MEF, along with the Association of Building, Mechanical and Electrical Inspectors (ABMEI), the Confidential Employees' Organization, AFSCME Local No. 101 (CEO), and the International Brotherhood of Electrical Workers, Local No. 332 (IBEW). During this meeting, MEF, ABMEI, CEO, and IBEW notified the City of its intent to jointly negotiate retirement reform issues. The invitation to jointly negotiate retirement reform was also extended to the International Union of Operating Engineers, Local No. 3 (OE#3). On or about July 21, 2011, the City notified MEF of its interest to commence negotiations on retirement reform. The City also agreed to engage in joint negotiations with MEF, ABMEI, CEO, IBEW and OE#3 on retirement reform.

The City and MEF met approximately eleven (11) times between June 13, 2011, and November 15, 2011. During these negotiations, the City and MEF exchanged proposals on retirement reform, including, but not limited to pension benefits for new employees, retiree healthcare for new employees, enrollment in Medicare Part A and B, and healthcare plan design and cost sharing. The City and MEF were unable to reach an agreement and, on November 17, 2011, the parties reached impasse and subsequently engaged in the mediation process on November 22, 2011. Unfortunately, despite these efforts, the parties were unable to reach an agreement. On December 6, 2011, the City Council provided direction to staff to ask the bargaining units to re-engage in mediation on all retirement issues. MEF agreed to re-engage in the mediation process and participated in additional mediation with the City on December 21, 2011, January 4, January 6, January 13, January 30 and February 13, 2012. Despite these efforts, the parties again were unable to reach an agreement.

On April 16, 2012, the City provided MEF with a Last, Best, and Final Offer, including proposals on pension benefits for new employees, enrollment in Medicare Part A and B, and healthcare plan design and cost sharing. The City requested that MEF provide its response by April 20, 2012. If an agreement is reached with MEF, a Supplemental Memorandum will be issued.

Pursuant to the Meyers-Milias-Brown Act under California Government Code Section 3505.4, if, after meeting and conferring in good faith, an impasse has been reached between the public agency and the recognized employee organization, and impasse procedures, where applicable, have been exhausted, a public agency that is not required to proceed to interest arbitration may implement its last, best, and final offer, but shall not implement a memorandum of understanding.

MEF has been notified that this item will be placed on the Council Agenda for implementation of terms contained in the City's Last, Best, and Final Offer for employees represented by MEF, a complete copy of which is attached.

ANALYSIS

The following is a summary of the terms contained in the City's Last, Best, and Final Offer that would be implemented for employees represented by MEF:

Pension Benefits for New Employees (Tier 2)

Employees hired on or after July 1, 2012, shall be eligible for the following pension benefits. (This includes employees who leave or have left City service and are subsequently rehired or reinstated after July 1, 2012.)

Pension formula
2.0% per year of service, subject to a maximum of 65% of final compensation.

Final compensation
Average annual earned pay of the highest three consecutive years of service. Final compensation shall be base pay only.

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

Retirement Service Credit
Employees shall receive retirement service credit for regular time worked (including paid leave, but not overtime). 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 shall be eligible to retire at age 65 with at least five years of retirement service credit.

Employees can retire at a minimum of age 55 with at least five years of retirement service credit; however, the member's benefit shall be reduced so it does not exceed the actuarial value of full retirement at age 65.

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 shall be prorated based on the number of months retired.

Disability Retirements
Service Connected
Plan members 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 eligible for a non-service connected disability retirement benefit shall receive 2.0% times every year of 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.

Survivorship Benefits

Death Before Retirement

If the 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.

Election Death Benefit 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.

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.

Rights

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

Medicare Part A and B Enrollment (Current and New Plan Members)

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. If a plan member fails to meet the requirements within six (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.

Healthcare (Current and New Employees)

Effective January 1, 2013, Kaiser Permanente Deductible HMO Benefit Plan 3800 shall be available to employees, in addition to the existing plan options.

Effective December 23, 2012, the City shall pay eighty-five percent (85%) of cost of the lowest priced Non-Deductible HMO plan for the employee or the employee and dependent coverage and the employee shall pay fifteen percent (15%) of the premium for the lowest priced Non-Deductible HMO plan. (See discussion of lowest cost plan below.)

Discussion of Healthcare - Lowest Cost Plan

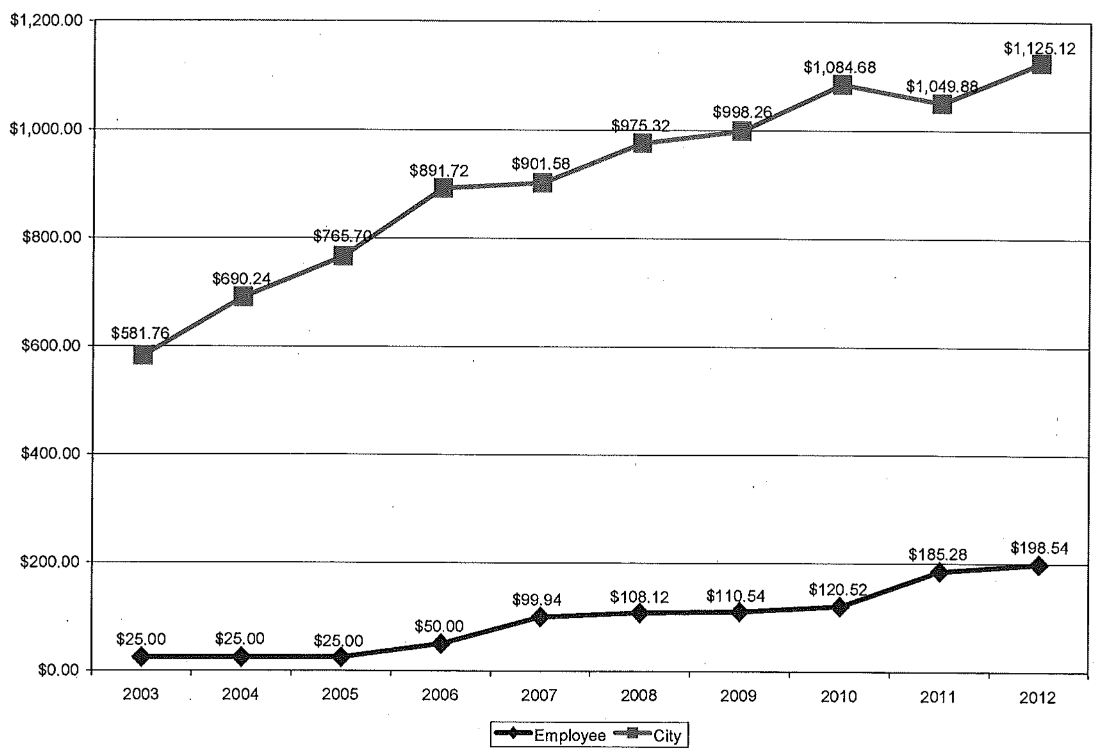
The City currently offers a choice of four health insurance plans for employees that include Kaiser, Blue Shield HMO, Blue Shield PPO and Blue Shield POS. The City pays 85% of the lowest priced plan for single or family coverage and employees pay 15% of the lowest priced plan. The Kaiser $25 co-pay plan is the lowest priced plan for 2012. The 2012 total monthly premium for the lowest priced plan for the City and employees are listed below.

Monthly Premium for Current Lowest Priced Healthcare Plan Kaiser ($25 co-pay plan)		
	Single	Family
Employee Contribution	$79.72	$198.54
City	$451.86	$1,125.12
Total	**$531.58**	**$1,323.66**

An employee who selects a plan other than the lowest priced plan pays any additional amount required for the premium beyond the cost of the lowest priced plan.

Annually, the City contributes, for active employees $5,422.32 for single coverage and $13,501.44 for family coverage. Since 2003, the total monthly premiums have increased by 118% as illustrated below. Healthcare costs are anticipated to continue to increase for calendar year 2013.

Monthly Lowest Cost Healthcare Plan
(2003 – 2012)



Active Employees

The addition of the Kaiser Permanente Deductible HMO Benefit Plan 3800 (High Deductible Plan) would have no impact on the cost sharing for healthcare premiums for active employees. This plan is an HMO with annual deductibles and/or additional higher copayments or coinsurance that must be met for some services. It is important to note that some services are still 100% covered and the deductible does not need to be met, including, but not limited to, routine physical maintenance exams, urgent care consultations and exams and most immunizations (including vaccines). The City would continue to pay 85% of the cost of the lowest priced Non-Deductible HMO plan for the employee and dependent coverage and the employee would continue to pay fifteen percent (15%) of the premium for the lowest priced Non-Deductible HMO plan, which is currently the $25 co-pay plan. Effective January 1, 2013, a current employee may elect to enroll in the new Kaiser high deductible plan and would have a lower or no cost sharing for the premiums associated with this plan.

Retirees

The San Jose Municipal Code contains the level and eligibility for retiree healthcare benefits as part of the retirement plans. Generally, employees are eligible for retiree medical insurance coverage if at the time of retirement they have at least fifteen (15) years of retirement service credit. Even employees with 15 years of service in the Federated City Employees' Retirement System and 20 years of service in the Police and Fire Department Retirement Plan who leave City service prior to retirement (also known as deferred vesting) can qualify for lifetime retiree medical insurance upon retirement.

For eligible retirees, the benefit provides for 100% of the premium cost for the lowest priced plan available to active employees for either single or family coverage. (This is a higher level of benefit than active employees receive because retirees do not pay any premium for the lowest priced healthcare benefit plan.) Since the current benefit is tied to the cost of the premium rather than a fixed-dollar amount, the long-term cost of providing this benefit is integrally tied to the rising cost of healthcare.

As illustrated above, healthcare costs have risen significantly in the last ten years. This has a direct impact to the cost of retiree healthcare. Contributions for retiree medical benefits are made by the City and active employees in the ratio of one-to-one (50/50 split). Contributions for retiree dental benefits are made by the City and active employees in the ratio of eight-to-three.

The Fiscal Year 2012-2013 retiree healthcare portion of the contribution rates for the City's two retirement plans are as follows:

Current Retiree Healthcare Funding		
	Employee Contribution	City Contribution
Federated	7.26%	7.91%
Police	8.26%	8.96%
Fire	6.11%	6.62%

Note: Does not include pension contribution rates.

For many years, the City and active employees were partially pre-funding retiree healthcare, and only some funds were set aside to pay for future healthcare liabilities, but at a level far less than full pre-funding. As a result, the retiree healthcare plans are significantly underfunded and have a significant unfunded liability. As of June 30, 2011, the unfunded liability and funding ratio for the two plans are listed below:

Retiree Healthcare Unfunded Liability and Funding Ratio		
	Unfunded Actuarial Liability	**Funding Ratio**
Federated	$800.505 Million	14.00%
Police and Fire	$596.764 Million	9.20%
Total	$1.397 Billion	

The City and active employees are currently phasing into paying for the total Annual Required Contribution (ARC) over a period of five years. This has resulted in an incremental increase in the contributions for retiree healthcare each year. However, after the fifth year, the Board's actuary for the Federated City Employees' Retirement System has projected that the contributions required to pay the Annual Required Contribution (ARC) will nearly double for the City and employees, as shown in the chart below. As noted in the 2013-2017 General Fund Forecast, one of the main drivers for the 2013-2014 General Fund shortfall of $22.5 million is the increased cost (approximately $11 million) of the City's annual required contribution for retiree healthcare for employees in the Federated City Employees' Retirement System. Please note that the Administration has requested the projected retiree healthcare contributions for Police and Fire; however, they have not yet been completed.

Projected Phase-In Contribution Rates for Retiree Healthcare Only (Federated)			
Fiscal Year	**Employee**	**City**	**Total**
2008-2009	4.65%	5.25%	9.90%
2009-2010	5.07%	5.70%	10.77%
2010-2011	5.76%	6.41%	12.17%
2011-2012	6.51%	7.16%	13.67%
2012-2013	7.26%	7.91%	15.17%
2013-2014	15.50%	16.84%	32.34%

Source: Cheiron Actuarial Valuation as of June 30, 2011

Effective January 1, 2013, the lowest-cost plan that will be available to retirees will be the high deductible plan. Retirees and survivors will have an opportunity to make changes to their elections for coverage during the normal Annual Open Enrollment conducted by Retirement Services in November 2012, prior to the changes going into effect.

With the addition of the High Deductible Plan, the Plan will continue to pay 100% of the lowest priced plan. A retiree or survivor who enrolls in this plan would not have to pay any portion of the premium. A retiree or survivor may elect the $25 co-pay plan; however, the member would be responsible for the difference between the cost of the $25 co-pay plan and the high deductible plan. The 2013 healthcare rates have not been determined. If the 2012 healthcare rates continued for

calendar year 2013, the following chart illustrates the cost to a retiree who elects to enroll in the $25 co-pay plan.

	Retiree Costs – Post High Deductible Implementation
Non-Medicare Lowest Priced Plan (LPP) (High Deductible)	$0
Non-Medicare $25 Co-pay	$129.96/mo (single) $323.62/mo (family)
Medicare Supplement Lowest Priced Plan (LPP)	$0[1]

When a retiree becomes age 65, the member is required to enroll in Medicare Part A and B. The Federated City Employees' Retirement System and the Police and Fire Department Retirement Plan provide Medicare recipients with several options for a Medicare supplemental insurance plan. The total cost of the Medicare supplemental plans vary based on the plan selected by the retiree. There are several Medicare supplemental options available to retirees and the premium is paid 100% by the retirement system. As a result, the retiree or survivor may have no premium cost sharing, since the total cost of the Medicare supplemental plan is often less than the non-Medicare plans. The retiree will continue to be responsible for paying any premiums mandated by Medicare Part B and D.

EVALUATION AND FOLLOW-UP

None.

PUBLIC OUTREACH/INTEREST

☑ **Criteria 1:** Requires Council action on the use of public funds equal to $1 million or greater. **(Required: Website Posting)**

☐ **Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**

☐ **Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This item meets Criterion 1. This memorandum will be posted on the City's website for the May 1, 2012, Council Agenda.

[1] Retirees enrolled in Medicare Part B contribute $99.00 - $319.70/month and $0 - $66.40/month for Medicare Part D, depending on the amount of the monthly pension. These rates are for 2012 and subject to change for 2013.

COORDINATION

This memorandum was coordinated with the City Manager's Budget Office and the City Attorney's Office.

COST IMPLICATIONS

2nd Tier Pension Benefit

The City's actuary, Bartel and Associates, estimated the normal cost of the pension retirement benefit formula for new employees to be approximately 13.8% of payroll, using the 7.5% earnings assumption. As the costs of the 2nd tier pension benefit are split 50/50 between the City and employees, the City's share of this is 6.9%. The pension retirement benefit formula for new employees is estimated to be 15.9% of payroll, using the 6.75% earnings assumption (7.95% for the City.) (Please refer to the attached Letter from John Bartel dated April 6, 2012.) However, the contribution rates are set by the Boards, based on an actuarial analysis prepared by the Boards' actuary. The Federated City Employees' Retirement System currently uses a 7.5% earnings assumption.

Healthcare – Lowest Cost Plan

The addition of the high deductible plan would result in a new plan that would be available to employees represented by MEF. For those employees that elect to enroll in the new Kaiser plan, the employee will experience a reduction in premium contributions in 2013. The City would continue to pay 85% of the total premium for the lowest priced Non-Deductible HMO plan, which is currently the $25 co-pay plan.

The high deductible plan would be available for all members and survivors in the Federated City Employees' Retirement System and Police and Fire Department Retirement Plan. The Plans will pay 100% of the lowest priced plan, which will be the high deductible plan in calendar year 2013. Since this plan is less expensive than the $25 co-pay plan, it will reduce the cost of retiree healthcare. Since the cost for retiree healthcare are shared equally between the City and employees, both the City and active employees will benefit from the positive impact to the contribution rates in the future.

CEQA

CEQA: Not a Project, File No. PP10-069(b), Personnel Related Decisions.

Debra Figone
City Manager

For questions please contact Alex Gurza, Deputy City Manager, at (408) 535-8150.

Attachments

HEALTHCARE

See attached

RETIREMENT BENEFITS FOR NEW EMPLOYEES

See attached

MEDICARE PART A AND B

See attached

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 MEF in addition to the existing plan options.

KAISER PERMANENTE

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 *EOC*	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
Emergency Health Coverage	**You Pay**
Emergency Department visits	30% Coinsurance after Deductible
Ambulance Services	**You Pay**
Ambulance Services	$150 per trip after Deductible

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.

BARTEL ASSOCIATES, LLC

April 6, 2012

Debra Figone
City Manager
City of San Jose
200 East Santa Clara Street
San Jose, CA 95113

Re: Federated City Employees' Retirement System - Tier 2 Normal Cost Estimate

Dear Ms. Figone:

This letter provides an estimated total Normal Cost rate for the proposed Tier 2 benefit as compared to the pension benefit for current Federated employees. This letter does not take into account any possible City contributions to a defined contribution plan.

Summary of Proposed Benefit Changes

The following table summarizes the proposed Federated Tier 2 benefit as compared to the current pension benefit, showing the proposed Tier 2 benefit with a 2.0% accrual rate:

	Current Plan	**Proposed Tier 2**
■ Accrual Rate	■ 2.5% per year	■ 2.0% per year
■ Max Benefit	■ 75%	■ 65%
■ Eligibility	■ 55&5, or ■ 30 years	■ 65&5 ■ 55&5 with actuarial reduction
■ Final Average Earnings (FAE)	■ Highest 1 year (FAE1)	■ Highest 3 year (FAE3)
■ COLA	■ 3% fixed	■ CPI, max 1.5%
■ Survivor Form	■ 50% J&S	■ Single Life
■ Disability	■ Duty – 40%-75% FAE1 ■ Non-Duty – 20%-75% FAE1	■ Duty – 50% FAE3 ■ Non-Duty – 20%-50% FAE3
■ Cost Sharing	■ Normal Cost: • City – 73% • EE – 27% ■ Unfunded Liability: • City – 100% • EE – 0%	■ Normal Cost: • City – 50% • EE – 50% ■ Unfunded Liability: • City – 50% • EE – 50%

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B/I

Results

Following is a comparison of the estimated total Normal Cost as a percent of payroll (NC %) for the proposed Tier 2 benefit as compared to the pension benefit for current Federated employees. The results are shown using the June 30, 2011 valuation discount rate assumption of 7.5% and an alternative lower discount rate assumption of 6.75%.

	Current Plan (All Federated Employees)		**Proposed Tier 2 (Based on Demographics of Hires within Last 5 Years)**	
▪ Discount Rate	7.5%	6.75%	7.5%	6.75%
▪ Total NC %:				
• Benefits	20.55%	24.68%	13.1%	15.2%
• Admin Expenses	0.70%	0.70%	0.7%	0.7%
• SRBR	2.57%	2.57%[1]	0.0%	0.0%
• Total	23.82%	27.95%	13.8%	15.9%

Assumptions

The results are based on the Federated City Employees' Retirement System June 30, 2011 Actuarial Valuation, including actuarial methods and assumptions and valuation census data provided by the City, with the exception of rates of retirement which were adjusted to reflect expected later retirement ages under the Tier 2 benefit. As indicated in the table above, the current plan Normal Cost rates are based on all Federated participants included in the valuation, and the estimated Tier 2 Normal Cost rates are based on the demographics of the Federated participants included in the valuation who were hired within the last five years.

Actuarial Certification

As an Associate of the Society of Actuaries, a Fellow of the Conference of Consulting Actuaries and a member of the American Academy of Actuaries, I certify these results are consistent with generally accepted actuarial principles and practices. We based our results on the June 30, 2011 Actuarial Valuation of the Federated City Employees' Retirement System and the valuation census data provided by the City.

Please call me (650-377-1601) with any questions about this information.

Sincerely,

John E. Bartel
President

c: Alex Gurza, City of San Jose
Jennifer Schembri, City of San Jose

1 SRBR will likely increase as % of pay.

COUNCIL AGENDA: 05/01/12
ITEM:

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Debra Figone

SUBJECT: SEE BELOW

DATE: April 17, 2012

SUBJECT: APPROVAL OF IMPLEMENTATION OF TERMS CONTAINED IN THE CITY'S LAST, BEST, AND FINAL OFFER TO THE CONFIDENTIAL EMPLOYEES' ORGANIZATION, AFSCME LOCAL NO. 101 (CEO)

COUNCIL DISTRICT: N/A
SNI AREA: N/A

RECOMMENDATION

Adoption of a resolution approving the implementation of terms contained in the City's Last, Best, and Final Offer dated April 16, 2012, to the Confidential Employees' Organization, AFSCME Local No. 101 (CEO).

OUTCOME

Adoption of the resolution and authorization to implement terms contained in the City's Last, Best, and Final Offer dated April 16, 2012, for employees represented by the Confidential Employees' Organization, AFSCME Local No. 101 (CEO).

BACKGROUND

The City and the Confidential Employees' Organization, AFSCME Local No. 101 (CEO) had a Memorandum of Agreement (MOA) which was to expire on or about September 17, 2011. The City and CEO commenced negotiations on a successor MOA with MEF in January 2011. However, the parties were unable to reach an agreement on a successor MOA and, on or about May 31, 2011, the City imposed the terms contained in the City's Last, Best, and Final Offer (Alternative A), including, among other things, an ongoing reduction in total compensation achieved through a combination of reduced base pay and healthcare changes. It should be noted that the implementation of terms did not result in a memorandum of understanding.

On or about June 13, 2011, the City met with CEO and other bargaining units to discuss retirement reform negotiations. The City subsequently provided CEO a draft framework for conducting retirement negotiations concurrently with negotiations over a proposed ballot measure, including a mutual commitment to complete negotiations by an immutable deadline of October 31, 2011.

However, the parties were unable to reach an agreement on the framework for conducting concurrent negotiations on retirement reform and a potential ballot measure.

On or about July 6, 2011, the City met with CEO, along with the Association of Building, Mechanical and Electrical Inspectors (ABMEI), the International Brotherhood of Electrical Workers, Local No. 332 (IBEW), and the Municipal Employees' Federation, AFSCME Local No. 101 (MEF). During this meeting, CEO, ABMEI, IBEW, and MEF notified the City of its intent to jointly negotiate retirement reform issues. The invitation to jointly negotiate retirement reform was also extended to the International Union of Operating Engineers, Local No. 3 (OE#3). On or about July 21, 2011, the City notified CEO of its interest to commence negotiations on retirement reform. The City also agreed to engage in joint negotiations with IBEW, ABMEI, CEO, MEF and OE#3 on retirement reform.

The City and CEO met approximately eleven (11) times between June 13, 2011, and November 15, 2011. During these negotiations, the City and CEO exchanged proposals on retirement reform, including, but not limited to pension benefits for new employees, retiree healthcare for new employees, enrollment in Medicare Part A and B, and healthcare plan design and cost sharing. The City and CEO were unable to reach an agreement and, on November 17, 2011, the parties reached impasse and subsequently engaged in the mediation process on November 22, 2011. Unfortunately, despite these efforts, the parties were unable to reach an agreement. On December 6, 2011, the City Council provided direction to staff to ask the bargaining units to re-engage in mediation on all retirement issues. CEO agreed to re-engage in the mediation process and participated in additional mediation with the City on December 21, 2011, January 4, January 6, January 13, January 30 and February 13, 2012. Despite these efforts, the parties again were unable to reach an agreement.

On April 16, 2012, the City provided CEO with a Last, Best, and Final Offer, including proposals on pension benefits for new employees, enrollment in Medicare Part A and B, and healthcare plan design and cost sharing. The City requested that CEO provide its response by April 20, 2012. If an agreement is reached with CEO, a Supplemental Memorandum will be issued.

Pursuant to the Meyers-Milias-Brown Act under California Government Code Section 3505.4, if, after meeting and conferring in good faith, an impasse has been reached between the public agency and the recognized employee organization, and impasse procedures, where applicable, have been exhausted, a public agency that is not required to proceed to interest arbitration may implement its last, best, and final offer, but shall not implement a memorandum of understanding.

CEO has been notified that this item will be placed on the Council Agenda for implementation of terms contained in the City's Last, Best, and Final Offer for employees represented by CEO, a complete copy of which is attached.

ANALYSIS

The following is a summary of the terms contained in the City's Last, Best, and Final Offer that would be implemented for employees represented by CEO:

Pension Benefits for New Employees (Tier 2)

Employees hired on or after July 1, 2012, shall be eligible for the following pension benefits. (This includes employees who leave or have left City service and are subsequently rehired or reinstated after July 1, 2012.)

Pension formula
2.0% per year of service, subject to a maximum of 65% of final compensation.

Final compensation
Average annual earned pay of the highest three consecutive years of service. Final compensation shall be base pay only.

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

Retirement Service Credit
Employees shall receive retirement service credit for regular time worked (including paid leave, but not overtime). 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 shall be eligible to retire at age 65 with at least five years of retirement service credit.

Employees can retire at a minimum of age 55 with at least five years of retirement service credit; however, the member's benefit shall be reduced so it does not exceed the actuarial value of full retirement at age 65.

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 shall be prorated based on the number of months retired.

Disability Retirements
Service Connected
Plan members 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 eligible for a non-service connected disability retirement benefit shall receive 2.0% times every year of 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.

Survivorship Benefits

Death Before Retirement

If the 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.

Election Death Benefit 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.

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.

Rights

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

Medicare Part A and B Enrollment (Current and New Plan Members)

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. If a plan member fails to meet the requirements within six (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.

Healthcare (Current and New Employees)

Effective January 1, 2013, Kaiser Permanente Deductible HMO Benefit Plan 3800 shall be available to employees, in addition to the existing plan options.

Effective December 23, 2012, the City shall pay eighty-five percent (85%) of cost of the lowest priced Non-Deductible HMO plan for the employee or the employee and dependent coverage and the employee shall pay fifteen percent (15%) of the premium for the lowest priced Non-Deductible HMO plan. (See discussion of lowest cost plan below.)

Discussion of Healthcare - Lowest Cost Plan

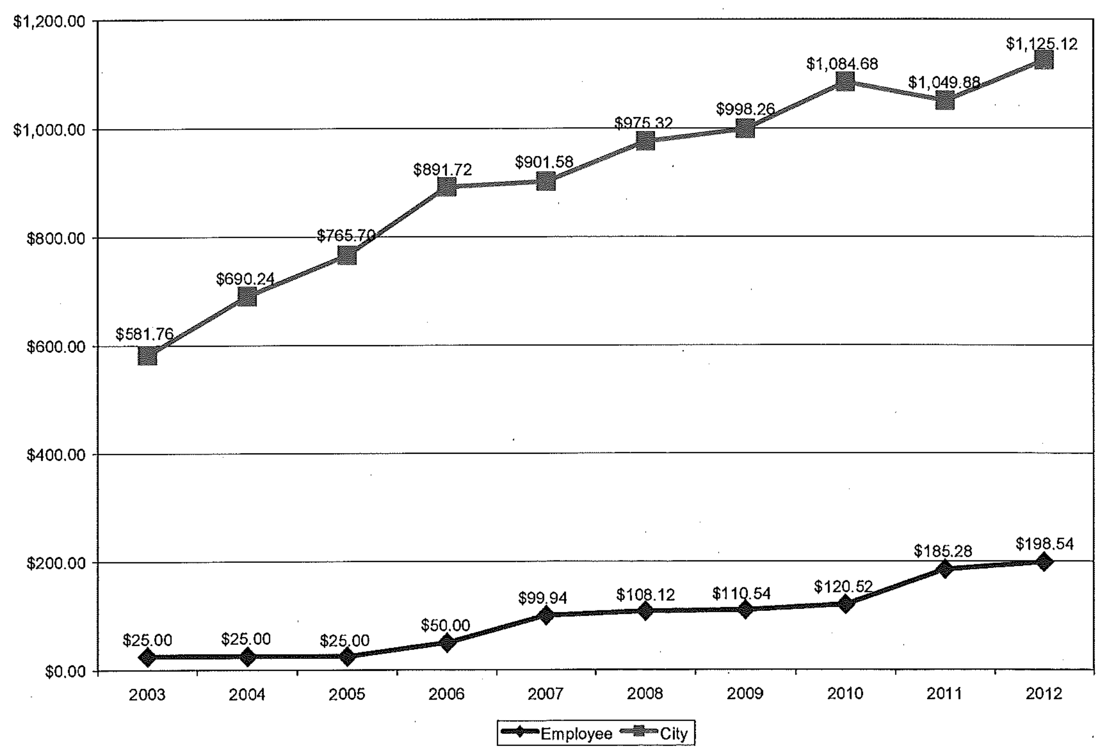
The City currently offers a choice of four health insurance plans for employees that include Kaiser, Blue Shield HMO, Blue Shield PPO and Blue Shield POS. The City pays 85% of the lowest priced plan for single or family coverage and employees pay 15% of the lowest priced plan. The Kaiser $25 co-pay plan is the lowest priced plan for 2012. The 2012 total monthly premium for the lowest priced plan for the City and employees are listed below.

Monthly Premium for Current Lowest Priced Healthcare Plan Kaiser ($25 co-pay plan)		
	Single	Family
Employee Contribution	$79.72	$198.54
City	$451.86	$1,125.12
Total	**$531.58**	**$1,323.66**

An employee who selects a plan other than the lowest priced plan pays any additional amount required for the premium beyond the cost of the lowest priced plan.

Annually, the City contributes, for active employees $5,422.32 for single coverage and $13,501.44 for family coverage. Since 2003, the total monthly premiums have increased by 118% as illustrated below. Healthcare costs are anticipated to continue to increase.

Monthly Lowest Costh Healthcare Plan (2003 – 2012)



Active Employees

The addition of the Kaiser Permanente Deductible HMO Benefit Plan 3800 (High Deductible Plan) would have no impact on the cost sharing for healthcare premiums for active employees. This plan is an HMO with annual deductibles and/or additional higher copayments or coinsurance that must be met for some services. It is important to note that some services are still 100% covered and the deductible does not need to be met, including, but not limited to, routine physical maintenance exams, urgent care consultations and exams and most immunizations (including vaccines). The City would continue to pay 85% of the cost of the lowest priced Non-Deductible HMO plan for the employee and dependent coverage and the employee would continue to pay fifteen percent (15%) of the premium for the lowest priced Non-Deductible HMO plan, which is currently the $25 co-pay plan. Effective January 1, 2013, a current employee may elect to enroll in the new Kaiser high deductible plan and would have a lower or no cost sharing for the premiums associated with this plan.

Retirees

The San Jose Municipal Code contains the level and eligibility for retiree healthcare benefits as part of the retirement plans. Generally, employees are eligible for retiree medical insurance coverage if at the time of retirement they have at least fifteen (15) years of retirement service credit. Even employees with 15 years of service in the Federated City Employees' Retirement System and 20 years of service in the Police and Fire Department Retirement Plan who leave City service prior to retirement (also known as deferred vesting) can qualify for lifetime retiree medical insurance upon retirement.

For eligible retirees, the benefit provides for 100% of the premium cost for the lowest priced plan available to active employees for either single or family coverage. (This is a higher level of benefit than active employees receive because retirees do not pay any premium for the lowest priced healthcare benefit plan.) Since the current benefit is tied to the cost of the premium rather than a fixed-dollar amount, the long-term cost of providing this benefit is integrally tied to the rising cost of healthcare.

As illustrated above, healthcare costs have risen significantly in the last ten years. This has a direct impact to the cost of retiree healthcare. Contributions for retiree medical benefits are made by the City and active employees in the ratio of one-to-one (50/50 split). Contributions for retiree dental benefits are made by the City and active employees in the ratio of eight-to-three.

The Fiscal Year 2012-2013 retiree healthcare portion of the contribution rates for the City's two retirement plans are as follows:

Current Retiree Healthcare Funding		
	Employee Contribution	City Contribution
Federated	7.26%	7.91%
Police	8.26%	8.96%
Fire	6.11%	6.62%

Note: Does not include pension contribution rates.

For many years, the City and active employees were partially pre-funding retiree healthcare, and only some funds were set aside to pay for future healthcare liabilities, but at a level far less than full pre-funding. As a result, the retiree healthcare plans are significantly underfunded and have a significant unfunded liability. As of June 30, 2011, the unfunded liability and funding ratio for the two plans are listed below:

Retiree Healthcare Unfunded Liability and Funding Ratio		
	Unfunded Actuarial Liability	**Funding Ratio**
Federated	$800.505 Million	14.00%
Police and Fire	$596.764 Million	9.20%
Total	$1.397 Billion	

The City and active employees are currently phasing into paying for the total Annual Required Contribution (ARC) over a period of five years. This has resulted in an incremental increase in the contributions for retiree healthcare each year. However, after the fifth year, the Board's actuary for the Federated City Employees' Retirement System has projected that the contributions required to pay the Annual Required Contribution (ARC) will nearly double for the City and employees, as shown in the chart below. As noted in the 2013-2017 General Fund Forecast, one of the main drivers for the 2013-2014 General Fund shortfall of $22.5 million is the increased cost (approximately $11 million) of the City's annual required contribution for retiree healthcare for employees in the Federated City Employees' Retirement System. Please note that the Administration has requested the projected retiree healthcare contributions for Police and Fire; however, they have not yet been completed.

Projected Phase-In Contribution Rates for Retiree Healthcare Only (Federated)			
Fiscal Year	**Employee**	**City**	**Total**
2008-2009	4.65%	5.25%	9.90%
2009-2010	5.07%	5.70%	10.77%
2010-2011	5.76%	6.41%	12.17%
2011-2012	6.51%	7.16%	13.67%
2012-2013	7.26%	7.91%	15.17%
2013-2014	15.50%	16.84%	32.34%

Source: Cheiron Actuarial Valuation as of June 30, 2011

Effective January 1, 2013, the lowest-cost plan that will be available to retirees will be the high deductible plan. Retirees and survivors will have an opportunity to make changes to their elections for coverage during the normal Annual Open Enrollment conducted by Retirement Services in November 2012, prior to the changes going into effect.

With the addition of the High Deductible Plan, the Plan will continue to pay 100% of the lowest priced plan. A retiree or survivor who enrolls in this plan would not have to pay any portion of the premium. A retiree or survivor may elect the $25 co-pay plan; however, the member would be responsible for the difference between the cost of the $25 co-pay plan and the high deductible plan. The 2013 healthcare rates have not been determined. If the 2012 healthcare rates continued for

calendar year 2013, the following chart illustrates the cost to a retiree who elects to enroll in the $25 co-pay plan.

	Retiree Costs – Post High Deductible Implementation
Non-Medicare Lowest Priced Plan (LPP) (High Deductible)	$0
Non-Medicare $25 Co-pay	$129.96/mo (single) $323.62/mo (family)
Medicare Supplement Lowest Priced Plan (LPP)	$0[1]

When a retiree becomes age 65, the member is required to enroll in Medicare Part A and B. The Federated City Employees' Retirement System and the Police and Fire Department Retirement Plan provide Medicare recipients with several options for a Medicare supplemental insurance plan. The total cost of the Medicare supplemental plans vary based on the plan selected by the retiree. There are several Medicare supplemental options available to retirees and the premium is paid 100% by the retirement system. As a result, the retiree or survivor may have no premium cost sharing, since the total cost of the Medicare supplemental plan is often less than the non-Medicare plans. The retiree will continue to be responsible for paying any premiums mandated by Medicare Part B and D.

EVALUATION AND FOLLOW-UP

None.

PUBLIC OUTREACH/INTEREST

☑ **Criteria 1:** Requires Council action on the use of public funds equal to $1 million or greater. **(Required: Website Posting)**

☐ **Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**

☐ **Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This item meets Criterion 1. This memorandum will be posted on the City's website for the May 1, 2012, Council Agenda.

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[1] Retirees enrolled in Medicare Part B contribute $99.00 - $319.70/month and $0 - $66.40/month for Medicare Part D, depending on the amount of the monthly pension. These rates are for 2012 and subject to change for 2013.

COORDINATION

This memorandum was coordinated with the City Manager's Budget Office and the City Attorney's Office.

COST IMPLICATIONS

2nd Tier Pension Benefit

The City's actuary, Bartel and Associates, estimated the normal cost of the pension retirement benefit formula for new employees to be approximately 13.8% of payroll, using the 7.5% earnings assumption. As the costs of the 2nd tier pension benefit are split 50/50 between the City and employees, the City's share of this is 6.9%. The pension retirement benefit formula for new employees is estimated to be 15.9% of payroll, using the 6.75% earnings assumption (7.95% for the City.) (Please refer to the attached Letter from John Bartel dated April 6, 2012.) However, the contribution rates are set by the Boards, based on an actuarial analysis prepared by the Boards' actuary. The Federated City Employees' Retirement System currently uses a 7.5% earnings assumption.

Healthcare – Lowest Cost Plan

The addition of the high deductible plan would result in a new plan that would be available to employees represented by CEO. For those employees that elect to enroll in the new Kaiser plan, the employee will experience a reduction in premium contributions in 2013. The City would continue to pay 85% of the total premium for the lowest priced Non-Deductible HMO plan, which is currently the $25 co-pay plan.

The high deductible plan would be available for all members and survivors in the Federated City Employees' Retirement System and Police and Fire Department Retirement Plan. The Plans will pay 100% of the lowest priced plan, which will be the high deductible plan in calendar year 2013. Since this plan is less expensive than the $25 co-pay plan, it will reduce the cost of retiree healthcare. Since the cost for retiree healthcare are shared equally between the City and employees, both the City and active employees will benefit from the positive impact to the contribution rates in the future.

CEQA

CEQA: Not a Project, File No. PP10-069(b), Personnel Related Decisions.

Debra Figone
City Manager

For questions please contact Alex Gurza, Deputy City Manager, at (408) 535-8150.

Attachments

HEALTHCARE

See attached

RETIREMENT BENEFITS FOR NEW EMPLOYEES

See attached

MEDICARE PART A AND B

See attached

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 CEO in addition to the existing plan options.

KAISER PERMANENTE

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 *EOC*	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
Emergency Health Coverage	**You Pay**
Emergency Department visits	30% Coinsurance after Deductible
Ambulance Services	**You Pay**
Ambulance Services	$150 per trip after Deductible

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.

BARTEL ASSOCIATES, LLC

April 6, 2012

Debra Figone
City Manager
City of San Jose
200 East Santa Clara Street
San Jose, CA 95113

Re: Federated City Employees' Retirement System - Tier 2 Normal Cost Estimate

Dear Ms. Figone:

This letter provides an estimated total Normal Cost rate for the proposed Tier 2 benefit as compared to the pension benefit for current Federated employees. This letter does not take into account any possible City contributions to a defined contribution plan.

Summary of Proposed Benefit Changes

The following table summarizes the proposed Federated Tier 2 benefit as compared to the current pension benefit, showing the proposed Tier 2 benefit with a 2.0% accrual rate:

	Current Plan	**Proposed Tier 2**
■ Accrual Rate	■ 2.5% per year	■ 2.0% per year
■ Max Benefit	■ 75%	■ 65%
■ Eligibility	■ 55&5, or ■ 30 years	■ 65&5 ■ 55&5 with actuarial reduction
■ Final Average Earnings (FAE)	■ Highest 1 year (FAE1)	■ Highest 3 year (FAE3)
■ COLA	■ 3% fixed	■ CPI, max 1.5%
■ Survivor Form	■ 50% J&S	■ Single Life
■ Disability	■ Duty – 40%-75% FAE1 ■ Non-Duty – 20%-75% FAE1	■ Duty – 50% FAE3 ■ Non-Duty – 20%-50% FAE3
■ Cost Sharing	■ Normal Cost: • City – 73% • EE – 27% ■ Unfunded Liability: • City – 100% • EE – 0%	■ Normal Cost: • City – 50% • EE – 50% ■ Unfunded Liability: • City – 50% • EE – 50%

411 Borel Avenue, Suite 101 • San Mateo, California 94402
main: 650/377-1600 • *fax:* 650/345-8057 • *web:* www.bartel-associates.com

Results

Following is a comparison of the estimated total Normal Cost as a percent of payroll (NC %) for the proposed Tier 2 benefit as compared to the pension benefit for current Federated employees. The results are shown using the June 30, 2011 valuation discount rate assumption of 7.5% and an alternative lower discount rate assumption of 6.75%.

	Current Plan (All Federated Employees)		**Proposed Tier 2 (Based on Demographics of Hires within Last 5 Years)**	
■ Discount Rate	7.5%	6.75%	7.5%	6.75%
■ Total NC %:				
• Benefits	20.55%	24.68%	13.1%	15.2%
• Admin Expenses	0.70%	0.70%	0.7%	0.7%
• SRBR	2.57%	2.57%[1]	0.0%	0.0%
• Total	23.82%	27.95%	13.8%	15.9%

Assumptions

The results are based on the Federated City Employees' Retirement System June 30, 2011 Actuarial Valuation, including actuarial methods and assumptions and valuation census data provided by the City, with the exception of rates of retirement which were adjusted to reflect expected later retirement ages under the Tier 2 benefit. As indicated in the table above, the current plan Normal Cost rates are based on all Federated participants included in the valuation, and the estimated Tier 2 Normal Cost rates are based on the demographics of the Federated participants included in the valuation who were hired within the last five years.

Actuarial Certification

As an Associate of the Society of Actuaries, a Fellow of the Conference of Consulting Actuaries and a member of the American Academy of Actuaries, I certify these results are consistent with generally accepted actuarial principles and practices. We based our results on the June 30, 2011 Actuarial Valuation of the Federated City Employees' Retirement System and the valuation census data provided by the City.

Please call me (650-377-1601) with any questions about this information.

Sincerely,

John E. Bartel
President

c: Alex Gurza, City of San Jose
Jennifer Schembri, City of San Jose

[1] SRBR will likely increase as % of pay.

COUNCIL AGENDA: 05/01/12
ITEM:

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Debra Figone

SUBJECT: SEE BELOW

DATE: April 17, 2012

SUBJECT: BENEFIT CHANGES FOR EXECUTIVE MANAGEMENT AND PROFESSIONAL EMPLOYEES IN UNIT 99 AND OTHER UNREPRESENTED EMPLOYEES (Units 81/82)

COUNCIL DISTRICT: N/A
SNI AREA: N/A

RECOMMENDATION

Adoption of a resolution approving benefit changes for executive management and professional employees in Unit 99 and other unrepresented employees (Units 81/82).

OUTCOME

Adoption of the resolution and authorization to approve benefit changes for executive management and professional employees in Unit 99 and other unrepresented employees (Units 81/82).

BACKGROUND

Executive Management and Professional Employees (Unit 99) consists of approximately 222 FTEs, including Senior Staff, Executive Staff, senior managers under the City Manager's Appointing Authority, Council Office staff, and professional or management employees under the appointing authority of the City Attorney, City Auditor, and Independent Police Auditor. In addition, there are employees in Unit 99 who work in the City Clerk's Office. Unit 82 consists of approximately 5 FTE's, including part-time unbenefitted employees, such as Lifeguards and Student Interns.

The recommended benefit changes for Executive Management (Unit 99) and unrepresented employees are consistent with changes recommended in the Last, Best and Final Offers for all non-sworn employees on the issue of retirement reform, including pension benefits for new employees, enrollment in Medicare Part A and B, and healthcare plan design and cost sharing.

Changes in benefits for the five Council Appointees (City Manager, City Attorney, City Clerk, City Auditor and Independent Police Auditor) are usually determined by separate Council action.

ANALYSIS

The following is a summary of the benefit changes for executive management and professional employees in Unit 99 and other unrepresented employees that are recommended to be implemented upon approval by the City Council. It is important to note that the City will be exploring an opt-in retirement program for new City employees that would provide new employees who are hired directly into Unit 99, the option to elect a defined contribution plan, in-lieu of a defined benefit program. If this is pursued further, it will be brought forward separately for Council action.

Pension Benefits for New Employees (Tier 2)

Employees hired on or after July 1, 2012, shall be eligible for the following pension benefits. (This includes employees who leave or have left City service and are subsequently rehired or reinstated after July 1, 2012.)

<u>Pension formula</u>
2.0% per year of service, subject to a maximum of 65% of final compensation.

<u>Final compensation</u>
Average annual earned pay of the highest three consecutive years of service. Final compensation shall be base pay only.

<u>Minimum service</u>
Employees shall be eligible for a service retirement after earning five (5) years of retirement service credit and meeting the age requirement.

<u>Retirement Service Credit</u>
Employees shall receive retirement service credit for regular time worked (including paid leave, but not overtime). 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).

<u>Age</u>
Employees shall be eligible to retire at age 65 with at least five years of retirement service credit.

Employees can retire at a minimum of age 55 with at least five years of retirement service credit; however, the member's benefit shall be reduced so it does not exceed the actuarial value of full retirement at age 65.

<u>Cost of Living Adjustment (COLA)</u>
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 shall be prorated based on the number of months retired.

Disability Retirements

Service Connected

Plan members 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 eligible for a non-service connected disability retirement benefit shall receive 2.0% times every year of 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.

Survivorship Benefits

Death Before Retirement

If the 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.

Election Death Benefit 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.

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.

Rights

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

Medicare Part A and B Enrollment (Current and New Plan Members)

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. If a plan member fails to meet the requirements within six (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.

Healthcare (Current and New Employees)

Effective January 1, 2013, Kaiser Permanente Deductible HMO Benefit Plan 3800 shall be available to employees, in addition to the existing plan options. (Please refer to the attached Kaiser Permanente Deductible HMO Benefit Plan 3800.)

Effective December 23, 2012, the City shall pay eighty-five percent (85%) of cost of the lowest priced Non-Deductible HMO plan for the employee or the employee and dependent coverage and the employee shall pay fifteen percent (15%) of the premium for the lowest priced Non-Deductible HMO plan. (See discussion of lowest cost plan below.)

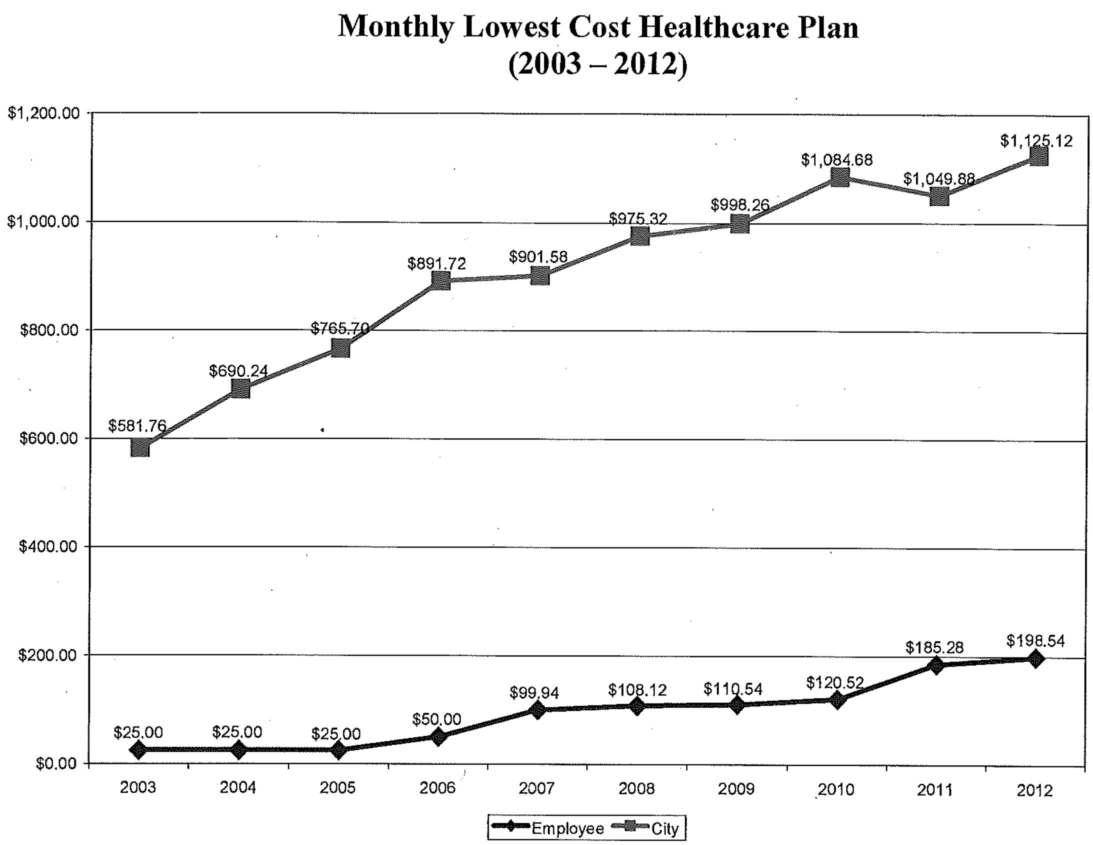
Discussion of Healthcare - Lowest Cost Plan

The City currently offers a choice of four health insurance plans for employees that include Kaiser, Blue Shield HMO, Blue Shield PPO and Blue Shield POS. The City pays 85% of the lowest priced plan for single or family coverage and employees pay 15% of the lowest priced plan. The Kaiser $25 co-pay plan is the lowest priced plan for 2012. The 2012 total monthly premium for the lowest priced plan for the City and employees are listed below.

Monthly Premium for Current Lowest Priced Healthcare Plan Kaiser ($25 co-pay plan)		
	Single	Family
Employee Contribution	$79.72	$198.54
City	$451.86	$1,125.12
Total	**$531.58**	**$1,323.66**

An employee who selects a plan other than the lowest priced plan pays any additional amount required for the premium beyond the cost of the lowest priced plan.

Annually, the City contributes, for active employees $5,422.32 for single coverage and $13,501.44 for family coverage. Since 2003, the total monthly premiums have increased by 118% as illustrated below. Healthcare costs are anticipated to continue to increase.



Active Employees

The addition of the Kaiser Permanente Deductible HMO Benefit Plan 3800 (High Deductible Plan) would have no impact on the cost sharing for healthcare premiums for active employees. This plan is an HMO with annual deductibles and/or additional higher copayments or coinsurance that must be met for some services. It is important to note that some services are still 100% covered and the deductible does not need to be met, including, but not limited to, routine physical maintenance exams, urgent care consultations and exams and most immunizations (including vaccines). The City would continue to pay 85% of the cost of the lowest priced Non-Deductible HMO plan for the employee and dependent coverage and the employee would continue to pay fifteen percent (15%) of the premium for the lowest priced Non-Deductible HMO plan, which is currently the $25 co-pay plan. Effective January 1, 2013, a current employee may elect to enroll in the new Kaiser high deductible plan and would have a lower or no cost sharing for the premiums associated with this plan.

Retirees

The San Jose Municipal Code contains the level and eligibility for retiree healthcare benefits as part of the retirement plans. Generally, employees are eligible for retiree medical insurance coverage if at the time of retirement they have at least fifteen (15) years of retirement service credit. Even employees with 15 years of service in the Federated City Employees' Retirement System and 20 years of service in the Police and Fire Department Retirement Plan who leave City

service prior to retirement (also known as deferred vesting) can qualify for lifetime retiree medical insurance upon retirement.
For eligible retirees, the benefit provides for 100% of the premium cost for the lowest priced plan available to active employees for either single or family coverage. (This is a higher level of benefit than active employees receive because retirees do not pay any premium for the lowest priced healthcare benefit plan.) Since the current benefit is tied to the cost of the premium rather than a fixed-dollar amount, the long-term cost of providing this benefit is integrally tied to the rising cost of healthcare.

As illustrated above, healthcare costs have risen significantly in the last ten years. This has a direct impact to the cost of retiree healthcare. Contributions for retiree medical benefits are made by the City and active employees in the ratio of one-to-one (50/50 split). Contributions for retiree dental benefits are made by the City and active employees in the ratio of eight-to-three.

The Fiscal Year 2012-2013 retiree healthcare portion of the contribution rates for the City's two retirement plans are as follows:

Current Retiree Healthcare Funding		
	Employee Contribution	City Contribution
Federated	7.26%	7.91%
Police	8.26%	8.96%
Fire	6.11%	6.62%

Note: Does not include pension contribution rates.

For many years, the City and active employees were partially pre-funding retiree healthcare, and only some funds were set aside to pay for future healthcare liabilities, but at a level far less than full pre-funding. As a result, the retiree healthcare plans are significantly underfunded and have a significant unfunded liability. As of June 30, 2011, the unfunded liability and funding ratio for the two plans are listed below:

Retiree Healthcare Unfunded Liability and Funding Ratio		
	Unfunded Actuarial Liability	**Funding Ratio**
Federated	$800.505 Million	14.00%
Police and Fire	$596.764 Million	9.20%
Total	$1.397 Billion	

The City and active employees are currently phasing in to paying the total Annual Required Contribution (ARC) over a period of five years. This has resulted in an incremental increase in the contributions for retiree healthcare each year. However, after the fifth year, the Board's actuary for the Federated City Employees' Retirement System has projected that the contributions required to pay the Annual Required Contribution (ARC) will nearly double for the City and employees, as shown in the chart below. As noted in the 2013-2017 General Fund Forecast, one of the main drivers for the 2013-2014 General Fund shortfall of $22.5 million is the increased cost (approximately $11 million) of the City's annual required contribution for retiree healthcare for employees in the Federated City Employees' Retirement System. Please note that the

Administration has requested the projected retiree healthcare contributions for Police and Fire; however, they have not yet been completed.

Projected Phase-In Contribution Rates for Retiree Healthcare Only (Federated)			
Fiscal Year	**Employee**	**City**	**Total**
2008-2009	4.65%	5.25%	9.90%
2009-2010	5.07%	5.70%	10.77%
2010-2011	5.76%	6.41%	12.17%
2011-2012	6.51%	7.16%	13.67%
2012-2013	7.26%	7.91%	15.17%
2013-2014	15.50%	16.84%	32.34%

Source: Cheiron Actuarial Valuation as of June 30, 2011

Effective January 1, 2013, the lowest-cost plan that will be available to retirees will be the high deductible plan. Retirees and survivors will have an opportunity to make changes to their elections for coverage during the normal Annual Open Enrollment conducted by Retirement Services in November 2012, prior to the changes going into effect.

With the addition of the High Deductible Plan, the Plan will continue to pay 100% of the lowest priced plan. A retiree or survivor who enrolls in this plan would not have to pay any portion of the premium. A retiree or survivor may elect the $25 co-pay plan; however, the member would be responsible for the difference between the cost of the $25 co-pay plan and the high deductible plan. The 2013 healthcare rates have not been determined. If the 2012 healthcare rates continued for calendar year 2013, the following chart illustrates the cost to a retiree who elects to enroll in the $25 co-pay plan.

	Retiree Costs – Post High Deductible Implementation
Non-Medicare Lowest Priced Plan (LPP) (High Deductible)	$0
Non-Medicare $25 Co-pay	$129.96/mo (single) $323.62/mo (family)
Medicare Supplement Lowest Priced Plan (LPP)	$0[1]

When a retiree becomes age 65, the member is required to enroll in Medicare Part A and B. The Federated City Employees' Retirement System and the Police and Fire Department Retirement Plan provide Medicare recipients with several options for a Medicare supplemental insurance plan. The total cost of the Medicare supplemental plans vary based on the plan selected by the retiree. There are several Medicare supplemental options available to retirees and the premium is paid 100% by the retirement system. As a result, the retiree or survivor may have no premium

[1] Retirees enrolled in Medicare Part B contribute $99.00 - $319.70/month and $0 - $66.40/month for Medicare Part D, depending on the amount of the monthly pension. These rates are for 2012 and subject to change for 2013.

cost sharing, since the total cost of the Medicare supplemental plan is often less than the non-Medicare plans. The retiree will continue to be responsible for paying any premiums mandated by Medicare Part B and D.

EVALUATION AND FOLLOW-UP

None.

PUBLIC OUTREACH/INTEREST

☑ **Criteria 1:** Requires Council action on the use of public funds equal to $1 million or greater. **(Required: Website Posting)**

☐ **Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**

☐ **Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This item meets Criterion 1. This memorandum will be posted on the City's website for the May 1, 2012, Council Agenda.

COORDINATION

This memorandum was coordinated with the City Manager's Budget Office and the City Attorney's Office. In addition, the recommendations will be coordinated with the Council Appointees and discussed with the members of the Unit 99 Forum.

COST IMPLICATIONS

2nd Tier Pension Benefit

The City's actuary, Bartel and Associates, estimated the normal cost of the pension retirement benefit formula for new employees to be approximately 13.8% of payroll, using the 7.5% earnings assumption. As the costs of the 2nd tier pension benefit are split 50/50 between the City and employees, the City's share of this is 6.9%. The pension retirement benefit formula for new employees is estimated to be 15.9% of payroll, using the 6.75% earnings assumption (7.95% for the City.) (Please refer to the attached Letter from John Bartel dated April 6, 2012.) However, the contribution rates are set by the Boards, based on an actuarial analysis prepared by the

Boards' actuary. The Federated City Employees' Retirement System currently uses a 7.5% earnings assumption.

Healthcare – Lowest Cost Plan

The addition of the high deductible plan would result in a new plan that would be available to employees in Unit 99. For those employees that elect to enroll in the new Kaiser plan, the employee will experience a reduction in premium contributions in 2013. The City would continue to pay 85% of the total premium for the lowest priced Non-Deductible HMO plan, which is currently the $25 co-pay plan.

The high deductible plan would be available for all members and survivors in the Federated City Employees' Retirement System and Police and Fire Department Retirement Plan. The Plans will pay 100% of the lowest priced plan, which will be the high deductible plan in calendar year 2013. Since this plan is less expensive than the $25 co-pay plan, it will reduce the cost of retiree healthcare. Since the cost for retiree healthcare are shared equally between the City and employees, both the City and active employees will benefit from the positive impact to the contribution rates in the future.

CEQA

Not a Project, File No. PP10-069 (b), Personnel Related Decisions.

Debra Figone
City Manager

For questions please contact Alex Gurza, Deputy City Manager, at (408) 535-8150.

Attachments

KAISER PERMANENTE

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 *EOC*	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
Emergency Health Coverage	**You Pay**
Emergency Department visits	30% Coinsurance after Deductible
Ambulance Services	**You Pay**
Ambulance Services	$150 per trip after Deductible

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

BARTEL ASSOCIATES, LLC

April 6, 2012

Debra Figone
City Manager
City of San Jose
200 East Santa Clara Street
San Jose, CA 95113

Re: Federated City Employees' Retirement System - Tier 2 Normal Cost Estimate

Dear Ms. Figone:

This letter provides an estimated total Normal Cost rate for the proposed Tier 2 benefit as compared to the pension benefit for current Federated employees. This letter does not take into account any possible City contributions to a defined contribution plan.

Summary of Proposed Benefit Changes

The following table summarizes the proposed Federated Tier 2 benefit as compared to the current pension benefit, showing the proposed Tier 2 benefit with a 2.0% accrual rate:

	Current Plan	**Proposed Tier 2**
■ Accrual Rate	■ 2.5% per year	■ 2.0% per year
■ Max Benefit	■ 75%	■ 65%
■ Eligibility	■ 55&5, or ■ 30 years	■ 65&5 ■ 55&5 with actuarial reduction
■ Final Average Earnings (FAE)	■ Highest 1 year (FAE1)	■ Highest 3 year (FAE3)
■ COLA	■ 3% fixed	■ CPI, max 1.5%
■ Survivor Form	■ 50% J&S	■ Single Life
■ Disability	■ Duty – 40%-75% FAE1 ■ Non-Duty – 20%-75% FAE1	■ Duty – 50% FAE3 ■ Non-Duty – 20%-50% FAE3
■ Cost Sharing	■ Normal Cost: • City – 73% • EE – 27% ■ Unfunded Liability: • City – 100% • EE – 0%	■ Normal Cost: • City – 50% • EE – 50% ■ Unfunded Liability: • City – 50% • EE – 50%

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main: 650/377-1600 • *fax:* 650/345-8057 • *web:* www.bartel-associates.com

Results

Following is a comparison of the estimated total Normal Cost as a percent of payroll (NC %) for the proposed Tier 2 benefit as compared to the pension benefit for current Federated employees. The results are shown using the June 30, 2011 valuation discount rate assumption of 7.5% and an alternative lower discount rate assumption of 6.75%.

	Current Plan (All Federated Employees)		**Proposed Tier 2 (Based on Demographics of Hires within Last 5 Years)**	
■ Discount Rate	7.5%	6.75%	7.5%	6.75%
■ Total NC %:				
• Benefits	20.55%	24.68%	13.1%	15.2%
• Admin Expenses	0.70%	0.70%	0.7%	0.7%
• SRBR	2.57%	2.57%[1]	0.0%	0.0%
• Total	23.82%	27.95%	13.8%	15.9%

Assumptions

The results are based on the Federated City Employees' Retirement System June 30, 2011 Actuarial Valuation, including actuarial methods and assumptions and valuation census data provided by the City, with the exception of rates of retirement which were adjusted to reflect expected later retirement ages under the Tier 2 benefit. As indicated in the table above, the current plan Normal Cost rates are based on all Federated participants included in the valuation, and the estimated Tier 2 Normal Cost rates are based on the demographics of the Federated participants included in the valuation who were hired within the last five years.

Actuarial Certification

As an Associate of the Society of Actuaries, a Fellow of the Conference of Consulting Actuaries and a member of the American Academy of Actuaries, I certify these results are consistent with generally accepted actuarial principles and practices. We based our results on the June 30, 2011 Actuarial Valuation of the Federated City Employees' Retirement System and the valuation census data provided by the City.

Please call me (650-377-1601) with any questions about this information.

Sincerely,

John E. Bartel
President

c: Alex Gurza, City of San Jose
Jennifer Schembri, City of San Jose

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1 SRBR will likely increase as % of pay.

COUNCIL AGENDA: 05-01-12
ITEM:

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Leslye Corsiglia

SUBJECT: SEE BELOW

DATE: April 9, 2012

Approved

Date 4-16-12

SUBJECT: FINAL PUBLIC HEARING AND APPROVAL OF THE 2012-2013 CONSOLIDATED ANNUAL ACTION PLAN

RECOMMENDATION

It is recommended that the City Council:

1. Hold a final public hearing regarding the approval of the City's 2012-2013 Consolidated Annual Action Plan (ConPlan) and take public comment;
2. Adopt the 2012-2013 Consolidated Annual Action Plan, including the FY 2012-2013 funding recommendations for the Community Development Block Grant (CDBG) Program, the HOME Investment Partnership Program (HOME), the Housing Opportunities for People with HIV/AIDS (HOPWA) Program, and the Emergency Shelter Grant (ESG) Program.
3. Adopt a resolution authorizing the Director of Housing to negotiate and execute all non-capital agreements and contracts not requiring CEQA review and to negotiate all capital project agreements and contracts, including any amendments or modifications, for the expenditure of CDBG, ESG, HOME and HOPWA funds on behalf of the City.
4. Authorize the Housing Department to submit the 2012-2013 Consolidated Annual Action Plan to the U.S. Department of Housing and Urban Development (HUD).

OUTCOME

The Mayor and City Council's approval of the 2012-2013 Consolidated Annual Action Plan will enable the City to finalize and submit to HUD these federally-mandated documents by the May 15, 2012, deadline. By approving the Annual Action Plan, the City will be eligible to receive and distribute approximately $12,000,000 in entitlement funds in FY 2012-2013.

BACKGROUND

In 2010, the City adopted a Five-Year Consolidated Plan for the period FY 2010-2015. The Consolidated Plan assesses the City's current housing market; analyzes demographic, ethnic, and socio-economic conditions; and identifies populations within the City who have the greatest community and housing needs, including seniors, families, persons who are homeless or at risk of homelessness, and persons with disabilities. It also defines the City's priority needs, strategies, and objectives for reducing the most prevalent barriers to housing and services in our community. For each year of the Five-Year Consolidated Plan, the jurisdiction must submit an Annual Action Plan outlining the jurisdiction's one-year plan for achieving the goals outlined in the Five-Year Plan.

The City of San José participated in a countywide collaboration to develop this cycle's Five-Year Consolidated Plan. From a broader set of shared regional objectives developed through the collaboration, the City subsequently refined and prioritized six major goals to meet both regional and local priorities:

1) Assist in the creation and preservation of affordable housing for lower-income and special needs households;
2) Support activities to end homelessness;
3) Support activities that assist with basic needs, eliminating blight, and/or strengthening neighborhoods;
4) Expand economic opportunities for low-income households;
5) Promote fair housing choice; and,
6) Promote environmental sustainability.

Because the amount of CDBG funding available for projects is smaller than in previous years, no funding is being recommended in this Annual Action Plan for economic development activities.

In order to meet these goals, the City provides federal funding to local agencies and community-based organizations that work in these priority areas. The Annual Action Plan contains a list of most of the agencies that are recommended for federal funding in FY 2012-2013 and an outline of the process used to develop these recommendations. The one exception is for school readiness/third-grade literacy services in the three Place-Based Strategy neighborhoods (Mayfair, Santee and Five Wounds/Brookwood Terrace) for the RFP process will not be completed by the time that the Plan is to be approved by the Council. Recommendations on the agency or agencies to provide these services will be made to the Council prior to the end of June.

On April 3, 2012, the Council conducted its first public hearing on the draft 2012-2013 Consolidated Annual Action Plan.

ANALYSIS

This Memorandum requests the Council to approve the Annual Action plan as presented. As of the date this Memorandum was submitted, no public comments had been received on the draft Plan other than the three speakers at the Council's April 3rd public hearing.

The total amount of CDBG, HOME, HOPWA and ESG entitlement grants available to the City in FY 2012-13 is $11,968,975. This represents a 19% decrease from what was made available to San José in the current fiscal year, with the individual programs experiencing varying differentials from one year to the next:

- HOME – 41% decrease
- CDBG – 14% decrease
- HOPWA – No change
- ESG – 22% increase

EVALUATION AND FOLLOW-UP

Since the public comment period for the 2012-2013 Consolidated Annual Action Plan closes on April 30, 2012, which is after the submission deadline for this memorandum, a summary of all public comments, the City's responses, and any recommended amendments to the draft Plan will be distributed to the Council in the form of a Supplemental Memorandum prior to the May 1, 2012 meeting in which the Council will consider approval of the final Plan documents. In the fall of 2013, the City will use the Consolidated Annual Performance and Evaluation Report (CAPER) to report on its progress in achieving the goals identified in this 2012-2013 Consolidated Annual Action Plan.

PUBLIC OUTREACH/INTEREST

☑ **Criteria 1**: Requires Council action on the use of public funds equal to $1 million or greater. **(Required: Website Posting)**

☐ **Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**

☐ **Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

Federal regulations stipulate that jurisdictions hold at least two public hearings to receive public comment for the Consolidated Plan's Annual Action Plan. The City of San José routinely holds more public hearings than required by the federal government. This year, the City planned a total of three public hearings on the 2012-2013 Plan. The City sent individual announcements of these public hearings to over 400 organizations and individuals concerned about affordable housing and community development issues, as well as placing an announcement in the San Jose Mercury News. These notices were also translated into Spanish, Vietnamese, and Chinese and published in the La Oferta, Thoi Bao and China Press newspapers.

The City's three planned public hearings are as follows:

1. San José City Council meeting – April 3, 2012
2. Housing and Community Development Advisory Commission (HCDC) meeting – April 12, 2012
3. San José City Council meeting – May 1, 2012

All public comments provided to the City either verbally or in writing will be included in the appendices of the documents when submitted to HUD.

COORDINATION

Preparation of this report has been coordinated with the City Attorney's Office.

FISCAL/POLICY ALIGNMENT

The timely submittal of the Consolidated Annual Action Plan to HUD enables the City to become eligible to receive and distribute approximately $12,000,000 in entitlement funds for FY 2012-13

COST SUMMARY/IMPLICATIONS

With an approved Consolidated Annual Action Plan, the City will be eligible to receive housing and community development funds--including CDBG, HOME, HOPWA and ESG funds--from the federal government in the amount of approximately $12,000,000 for FY 12-13.

CEQA

Not a Project, File No.PP10-069(a) Annual Report. Specific development projects that are funded as a result of the Consolidated Annual Action Plan are subject to project-specific CEQA clearance.

/s/
LESLYE CORSIGLIA
Director of Housing

For questions please contact Leslye Corsiglia, Director of Housing at (408) 535-3851.