



Office of the City Manager

EMPLOYEE RELATIONS

May 15, 2013

John Mukhar
President
Association of Engineers and Architects, IFPTE, Local 21 (AEA)
c/o Environmental Services Department
700 Los Esteros Road
San Jose, CA 95134

Michael Seville
Interim Senior Business Representative
IFPTE, Local 21
4 North Second Street, Suite 430
San Jose, CA 95113

RE: Retiree Healthcare Modified Proposal

Dear John and Michael:

Due to the concerns raised regarding the modified retiree healthcare proposal we gave on April 22, 2013, and the fast-approaching deadline to set the contribution rates for Fiscal Year 2013-2014, we are further amending our existing proposal to exclude the Kaiser Permanente 3000 Deductible healthcare plan.

The remainder of the enclosed proposal offers the same provisions as the April 22, 2013, modified proposal, which includes making new employees ineligible for the retiree healthcare benefit and the four-tier rates for medical and dental benefits. We are continuing to propose a one-year extension of the transition to the full Annual Required Contribution through an incremental increase of 0.75% for the City and employees. The City will also pay the new employee's portion of the unfunded liability that they would have otherwise paid had they been eligible for the benefit in Fiscal Year 2013-2014.

Our goal remains to quickly reach an agreement before the beginning of the Fiscal Year. Additionally, we would like to continue discussing the cost-saving potential of a new lower cost healthcare plan in our on-going retiree healthcare sessions.

We look forward to discussing this proposal with you.

Sincerely,

Alex Gurza
Deputy City Manager

Enclosure

CITY PROPOSAL – RETIREE HEALTHCARE

Proposed Language:

ARTICLE 12 RETIREE HEALTHCARE FUNDING AND BENEFITS

- 12.1 The City and the Employee Organization have agreed to transition from the current partial pre-funding of retiree medical and dental healthcare benefits (referred to as the “policy method”) to pre-funding of the full Annual Required Contribution (ARC) for the retiree healthcare plan (“Plan”). The transition shall ~~be accomplished by phasing into fully funding the ARC over a period of five (5) years beginning~~began on June 28, 2009. The Plan’s initial unfunded retiree healthcare liability shall be fully amortized over a thirty year period so that it shall be paid by June 30, 2039 (closed amortization). Amortization of changes in the unfunded retiree healthcare liability other than the initial retiree healthcare liability (e.g. gains, losses, changes in actuarial assumptions, etc.) shall be determined by the Plan’s actuary. The City and Plan members (active employees) shall contribute to funding the ARC in the ratio currently provided under Section 3.28.3850 ~~(C) (1) and (3)~~ of the San Jose Municipal Code. Specifically, contributions for retiree medical benefits shall be made by the City and members in the ratio of one-to-one. Contributions for retiree dental benefits shall be made by the City and members in the ratio of eight-to-three. When determining the contribution rates for the Plan, the Plan actuary shall continue to use the Entry Age Normal (EAN) actuarial cost method and a discount rate consistent with the pre-funding policy for the Plan as outlined in this Article.
- 12.2 The City and the Employee Organization further agree that the Municipal Code and/or applicable plan documents shall be amended to the extent necessary in accordance with ~~the above~~this agreement and that the Employee Organization will support such amendments.
- 12.3 It is understood that in reaching this agreement, the parties have been informed by cost estimates prepared by the Federated City Employees’ Retirement System Board’s actuary and that the actual contribution rates to reach full pre-funding of retiree healthcare will differ. The phase-in to the ARC shall be ~~divided into five steps (using a straight line method), each to be effective on the first pay period of the City’s fiscal year in each succeeding year, the first increment which was~~ first increment of the phase-in shall be effective on June 28, 2009. It is understood that because of changes resulting from future actuarial valuations, the amount of each ~~increase~~the ARC may vary upward or downward. The City and Employee Organization agree that the Plan member cash contribution rate shall not have an incremental increase of more than .75% of pensionable pay in each fiscal year and the City cash contribution rate shall not have an incremental increase of more than .75% of pensionable pay in each fiscal year. For example, if the members’ contribution rate is 4% of

pensionable pay, the subsequent fiscal year's contribution rate for retiree healthcare cannot exceed 4.75% of pensionable pay. Notwithstanding the limitations on the incremental increases, by the ~~end~~first payperiod of the five year phase-in Fiscal Year 2014-2015, the City and plan members shall be contributing the full Annual Required Contribution in the ratio currently provided under Section 3.28.3850 (C) (1) and (3) of the San Jose Municipal Code.

- 12.4 ~~The City will has established a qualified 115 trust ("Trust") before June 27, 2010. Employee contributions will begin going into the Trust in time to avoid any potential of reaching the IRS limits on the existing medical benefits account or whenever the City receives advice of Tax Counsel or ruling from the IRS that the contributions can be treated as pre-tax, whichever occurs first. Until such time as a Trust is established, the City and employee contributions under this agreement shall be made into the existing Medical Benefits Account for as long the contributions can be made into the Medical Benefits Account in accordance with IRS limitations. If the Trust is not established prior to reaching the IRS limitation, the parties agree to meet and discuss alternative funding vehicles.~~
- 12.5 It is the objective of the parties that the Trust created pursuant to this agreement shall become the sole funding vehicle for Federated retiree healthcare benefits, subject to any legal restrictions under the current plan, or other applicable law.
- 12.6 Employees hired into full-time benefited positions on or after the first payperiod following the effective date of the ordinance implementing this provision ("Effective Date") will not participate in or be eligible for the defined benefit retiree healthcare program. For Fiscal Year 2013-2014, the City will pay the unfunded liability contribution that these employees would have otherwise paid had they gone into the retiree healthcare defined benefit program.

3.1 Full Understanding, Modification and Waiver

- 3.1.1 This Agreement sets forth the full and entire understanding of the parties regarding the matters set forth herein, and any and all prior or existing Memoranda of Understanding, understandings and agreements, whether formal or informal, are hereby superseded and terminated in their entirety.
- 3.1.2 Existing benefits within the scope of representation provided by ordinance or resolution of the City Council or as provided in the San Jose Municipal Code shall be continued without change during the term of this Agreement and be provided in accordance with the terms of the Agreement.
- 3.1.3 It is the intent of the parties that ordinances, resolutions, rules and regulations enacted pursuant to this Memorandum of Agreement be administered and observed in good faith.

3.1.4 Although nothing in this Agreement shall preclude the parties from mutually agreeing to meet and confer on any subject within the scope of representation during the term of this Agreement, it is understood and agreed that neither party may require the other party to meet and confer on any subject matter covered herein or with respect to any other matter within the scope of representation during the term of this Agreement.

3.1.5 Reopener

3.1.5.1 Total Compensation. In the event that the City reaches a settlement with any other employee unit covering the time period of this Agreement that has an ongoing total compensation reduction of less than ten percent (10%), in any form or manner, this agreement will reopen on the subject of total compensation and the parties will meet and confer to determine how the difference between a 10% ongoing total compensation reduction and the lesser amount agreed to with any other employee unit will be provided.

This provision will also apply in the event the City reaches a settlement which does not include the roll back of any general wage increase (not including any step and/or merit increases), as authorized by the City Council on November 25, 2010, received by any employee unit in Fiscal Year 2010-2011.

This provision will not apply to any changes made to any employee unit which occurs as the result of an interest arbitration award that is the result of contested issues resolved only via a full evidentiary hearing and substantive briefing.

3.1.5.2 Vacation Sellback. In the event the City reaches a settlement with any other employee unit eligible to sell back accrued vacation hours that does not eliminate the Vacation Sellback program effective the beginning of the first pay period of payroll calendar year 2013, absent other equivalent concessions received from such employee unit in lieu of eliminating Vacation Sellback, this agreement will reopen on the subject of Vacation Sellback and the parties will meet and confer to determine the provisions of the Vacation Sellback program for payroll calendar year 2013.

3.1.5.3 Disability Leave Supplement (DLS). In the event the City reaches a settlement with any other employee unit, excluding any employees covered by Labor Code Section 4850, that does not eliminate DLS effective June 24, 2012, this agreement will reopen on the subject of DLS and the parties will meet and confer to

determine the provisions of the DLS program for the time period between June 24, 2012, and the term of this agreement.

3.2 Healthcare Cost Mitigation

3.2.1 Notwithstanding any other provision of this Agreement, the parties agree to meet and confer over retiree healthcare benefits and funding upon request of either party. This may include but is not limited to alternatives to reduce the cost of retiree healthcare benefits and options for current employees that comply with IRS regulations.

3.2.2 Negotiations between the City and Employee Organization shall commence within 14 days upon notice of either party. The City and Employee Organization shall negotiate in good faith in an effort to reach a mutual agreement. Applicable impasse dispute resolution procedures shall apply.

11.1 Health Insurance

11.1.1 The City will provide health coverage for eligible full-time employees and their dependents in accordance with one of the available plans. Effective January 1, 2014, all available plans will have a 4-tier rate structure (Employee, Employee plus spouse/domestic partner, Employee plus Child(ren) and Family). The premiums will be adjusted effective the first payperiod in payroll calendar year 2014, which starts December 22, 2013.

~~11.1.2 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 price plan.~~

11.1.2 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 1500 Deductible HMO Benefit Plan 3800 will be available to employees represented by AEA in addition to the existing plan options.

11.2 Dental Insurance

11.2.1 The City will provide dental coverage for eligible full-time employees and their dependents. As of the date of this Agreement the plans include an indemnity plan and a DHMO plan. These plans are described in the City of San Jose Employee Benefits Handbook and in pamphlets available in the Human Resources Department. Effective January 1, 2014, all available plans will have a 4-tier rate structure (Employee, Employee plus spouse/domestic partner, Employee plus Child(ren) and Family). The premiums will be adjusted effective the first payperiod in payroll calendar year 2014, which starts December 22, 2013.