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Morales, Sonia

From: Pena, Roberto
Sent: Wednesday, July 24, 2013 3:18 PM
To: Morales, Sonia
Subject: FW: Police Tier 2 Implementation Date Memo

From: Bill Hallmark [mailto:bhallmark@cheiron.us]
Sent: Tuesday, July 23, 2013 3:56 PM
To: Pena, Roberto
Cc: Kaldor, Sean; Busse, Donna; HLeiderman@ReedSmith.com; Gurza, Alex; Schembri, Jennifer; Gene Kalwarski
Subject: RE: Police Tier 2 Implementation Date Memo

Roberto:

We understand the concerns expressed about using a temporary contribution rate based on the estimates provided by the City's actuary. Our concern was simply that preparing a contribution rate on time for the August 1 Board meeting given our late start would be problematic. Once approved by the Board, we will develop a contribution rate as quickly as possible for approval at the September Board meeting. In the interim, we understand a temporary contribution rate needs to be established. We also understand that the City has fully prepaid its contribution for the 2013-14 fiscal year. This contribution anticipated that all new entrants would be Tier 1.

City Contribution to Tier 2
Since the costs of Tier 2 are supposed to be split evenly between the City and members, but the City has already prepaid its contribution into Tier 1, we suggest that effective June 30, 2014, an amount be transferred from the City's account in Tier 1 to Tier 2 equal to the accumulated Tier 2 member contributions plus earnings. This procedure is the same as we applied for the Federated Tier 2 in its first year and ensures that the City and member accounts in Tier 2 will be equal at the end of the year.

Member Contributions to Tier 2
We suggest charging the same rate as Police members are currently charged for Tier 1, 11.65% of pay. This rate represents 3/11 of the current Tier 1 normal cost (plus a small UAL piece of 0.12%). Tier 2 members are supposed to pay 50% of the normal cost (There is no UAL.). For 11.65% to be the right long-term rate, the Tier 2 normal cost rate would need to be 45% lower than the Tier 1 normal cost rate. Given the change in benefit formula, eligibility age for unreduced retirement benefits, lower COLA and other changes to Tier 2, we believe it would be reasonable to charge 11.65% as an interim rate.

If you have any questions, please let us know.

Thanks,
Bill

Bill Hallmark
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PF 8-1-13

-----Original Message-----
From: Pena, Roberto [mailto:roberto.pena@sanjoseca.gov]
Sent: Monday, July 22, 2013 1:21 PM
To: Bill Hallmark
Cc: Kaldor, Sean; Busse, Donna; HLeiderman@ReedSmith.com; Gurza, Alex; Schembri, Jennifer
Subject: FW: Police Tier 2 Implementation Date Memo

Bill,

Given the concerns by our Board Chair and Fiduciary Counsel of "accepting" a contribution rate based upon the plan sponsor's actuarial assessment without validation of their assumptions, methodology and code interpretations, I was wondering if you could recommend an alternative for a contribution rate for the Tier 2 benefit, while Cherion completes their calculation for the new contribution rate. As previously indicated in an email from Alex Gurza, using the current Tier 1 contribution rate for new employees is an option, but what about the employer rate.

Please note we would like to bring a solution to this issue for the upcoming August 1st Board meeting. Let me know if you have any questions or comments.

Thank you.

Roberto L. Peña
Director of Retirement Services
City of San Jose
1737 N. First St. - Suite 580
San Jose, CA 95112

-----Original Message-----
From: Kaldor, Sean
Sent: Thursday, July 18, 2013 3:09 PM
To: Pena, Roberto; Gurza, Alex
Cc: Busse, Donna; 'Bill Hallmark'; 'HLeiderman@ReedSmith.com'; Schembri, Jennifer
Subject: RE: Police Tier 2 Implementation Date Memo

Good afternoon,

I've been asked to give some input on this discussion. I want to be careful not to interfere, overstep my authority, or step outside of the Board's direction on this issue.

I greatly appreciate all the thinking to develop a solution. The Board directed Reed Smith to review the ordinance, compile a list of any questions or concerns, and reply to the City's request for input on the draft (now final) ordinance.

These questions and issues were generated from staff, our actuarial consultant and our legal consultant. The letter I've been copied on contains a sizable list for which clarification is requested in order for this Board to administer the benefits. I will let that process continue and the Board will consider the information at its next meeting.

For perspective, there seems to be two overarching issues our Board will face. The first is operational - can we trustees accept the responsibility to administer a plan with these questions unresolved? The second is the contribution rate - based upon this proposal, can we fiduciary trustees accept a contribution rate based upon the plan sponsor's actuarial assessment without thorough validation of the assumptions, methodology, and code interpretations. The board will need to balance the urgency of this request with the legal and financial responsibility they have to the Plan.

I hope this input is of at least some minor assistance in the efforts to develop a solution.

Respectfully,

Sean