



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.)

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.

April 17, 2012

Subject: Approval of Changes to Benefits for Unit 99 and Unrepresented Employees

Page 4 of 9

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.

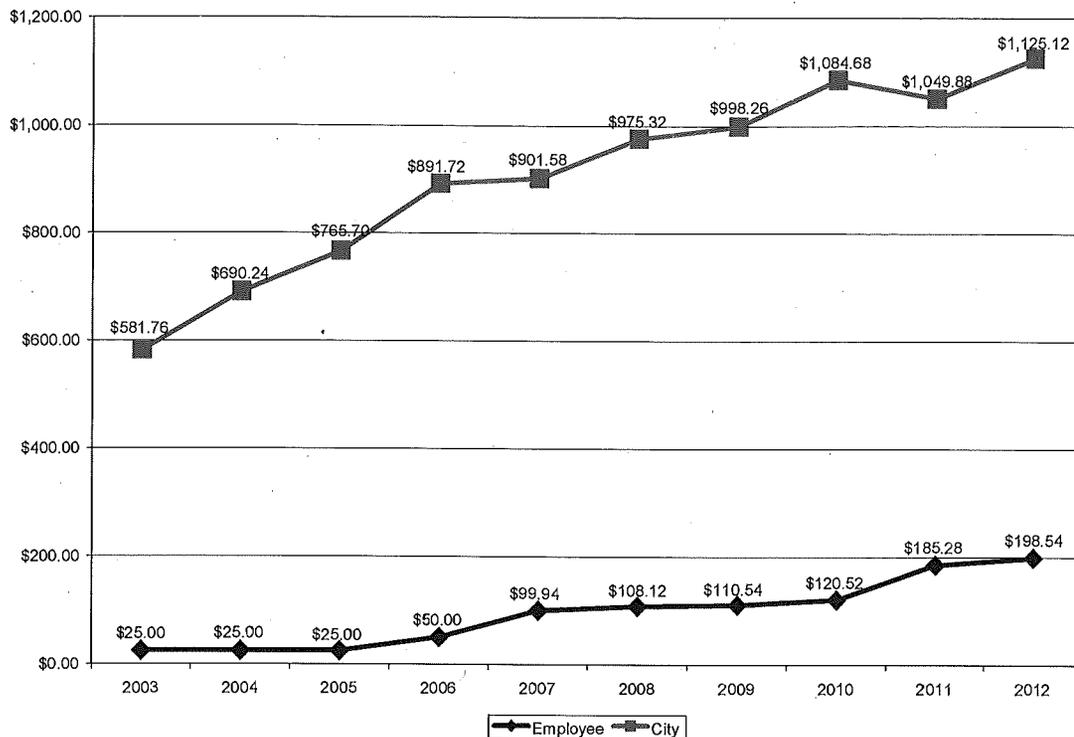
Annually, the City contributes, for active employees \$5,422.32 for single coverage and \$13,501.44 for family coverage. Since 2003, the total monthly premiums have increased by 118% as illustrated below. Healthcare costs are anticipated to continue to increase.

April 17, 2012

Subject: Approval of Changes to Benefits for Unit 99 and Unrepresented Employees

Page 5 of 9

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

April 17, 2012

Subject: Approval of Changes to Benefits for Unit 99 and Unrepresented Employees

Page 6 of 9

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

April 17, 2012

Subject: Approval of Changes to Benefits for Unit 99 and Unrepresented Employees

Page 7 of 9

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.

April 17, 2012

Subject: Approval of Changes to Benefits for Unit 99 and Unrepresented Employees

Page 8 of 9

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

April 17, 2012

Subject: Approval of Changes to Benefits for Unit 99 and Unrepresented Employees

Page 9 of 9

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



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 <i>EOC</i> | 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



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) | |
|------------------|---|--------------------|--|-------|
| | 7.5% | 6.75% | 7.5% | 6.75% |
| ■ Discount Rate | | | | |
| ■ 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.