

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
City of San Jose, California

RESOLUTION No. 8873

**RESOLUTION OF THE BOARD OF ADMINISTRATION OF THE
 FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM AMENDING AND
 RESTATING RESOLUTION NO. 8686 TO ADOPT AND ESTABLISH PENSION
CONTRIBUTION RATES FOR RECLASSIFIED TIER 1 MEMBERS ONLY,
 EFFECTIVE MARCH 24, 2019**

WHEREAS, all Recitals from Resolution 8686 (Tier 1 pension contributions) are incorporated by reference herein; and

WHEREAS, Reclassified Tier 1 members are members who were originally employed under Tier 1 and left the City but did not take a return of contributions and were later rehired under Tier 2 and reclassified as Tier 1 members under Measure F as of June 17, 2017; and

WHEREAS, per the memorandum "Tier 1 Rehire Amortization Costs" dated July 23, 2018, it was agreed that the increase in liability attributable to converting Tier 2 service to Tier 1 service is to be split 50/50 between the City and the Reclassified Tier 1 members; and

WHEREAS, Section 3.28.200(A)(1) states that contributions for prior service benefits for Reclassified Tier 1 Rehires shall be determined in accordance with that section; and

WHEREAS, the healthcare contribution rates for Reclassified Tier 1 members that participate in the Defined Benefit Retiree Healthcare plan can be found in Resolution No. 8688 and is shown below; and

WHEREAS, the information necessary to determine the amounts required under Municipal Code Section 3.28.200(A)(1) has been provided by Cheiron, Inc., the Board's actuary, in a letter dated January 4, 2019, containing recommended contribution rates for Reclassified Tier 1 members for fiscal year 2018-2019; and

WHEREAS, the annual lump sum advance payment for Tier 1 in Resolution No. 8686 includes all Tier 1 members, so the City need not pay any additional amounts for Reclassified Tier 1 members other than what was pre-paid on July 2, 2018, as stated on page 2 of Cheiron's letter dated May 1, 2018 which says "the corresponding City contribution rates are included in the Tier 1 UAL rates for the City," except as required at the end of the fiscal year to "true-up" the City's contributions.

NOW, THEREFORE BE IT RESOLVED:

SECTION I. Effective March 24, 2019, this Board hereby adopts and fixes the following rates of contribution for **Reclassified Tier 1 members**, under Chapter 3.28 of Title 3 of the San Jose Municipal Code:

RECLASSIFIED TIER 1 MEMBER <u>WITH</u> HEALTHCARE – BASE PENSION AND HEALTHCARE	2018-2019 Rate
Normal Rate of Contribution (Current Service)	4.93%
Prior Service Rate of Contribution (UAL)	0.00%
Special Contribution Rate (UAL)	1.72%
Medical and Dental Benefit Rate of Contribution	7.50%
Total RECLASSIFIED TIER 1 <u>WITH</u> HEALTHCARE	14.15%
RECLASSIFIED TIER 1 MEMBER <u>WITHOUT</u> HEALTHCARE – BASE PENSION	
Normal Rate of Contribution (Current Service)	4.93%
Prior Service Rate of Contribution (UAL)	0.00%
Special Contribution Rate (UAL)	1.72%
Total RECLASSIFIED TIER 1 <u>WITHOUT</u> HEALTHCARE	6.65%
CITY – BASE PENSION	
Normal Rate of Contribution (Current Service)	13.45%
Prior Service Contribution (UAL)	40.62%
Total	54.07%

SECTION II. Effective March 24, 2019, this Board adopts and fixes the following rates of Cost of Living contributions for **Reclassified Tier 1 members** under Chapter 3.44 of Title 3 of the Municipal Code:

RECLASSIFIED TIER 1 MEMBER - COLA	2018-2019 Rate
Normal Rate of Contribution (Current Service)	1.88%
Prior Service (UAL)	0.00%
Special Contribution Rate (UAL)	1.28%
Total	3.16%
CITY- COLA	
Normal Rate of Contribution (Current Service)	5.16%
Prior Service (UAL)	39.93%
Total	45.09%

ADOPTED this **21st Day of February 2019**, by the following vote.

AYES :

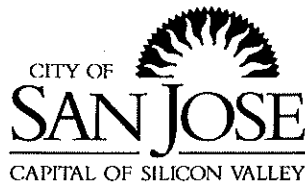
NOES :

ABSENT:

MATT LOESCH, CHAIRPERSON
Board of Administration

ATTEST:

ROBERTO L. PEÑA, SECRETARY
Board of Administration



Memorandum

TO: Police and Fire Department Retirement
Plan Board

FROM: Jennifer Schembri

Federated Retirement Board

SUBJECT: Tier 1 Rehire Amortization Costs

DATE: July 23, 2018

BACKGROUND

The City and the eleven (11) bargaining units have clarified the terms of the Alternative Pension Reform Framework, including the process for the payment of the amortization costs associated with transitioning rehired Tier 1 employees in Tier 2 back into Tier 1 (hereinafter "Tier 1 Rehire Amortization"). In the two attached side letters, the City and the bargaining units have agreed to the amended terms regarding the Tier 1 Rehire amortization costs.

ANALYSIS

The parties agreed in the attached side letters that for Rehired Tier 1 Employees, any costs, including any unfunded liability, associated with transitioning current Tier 2 employees who were former Tier 1 City employees who have since been rehired will be amortized over different individual amortization periods as determined by the Board's actuary, depending on how long the Rehired Tier 1 Employee was in Tier 2 prior to being transitioned back to Tier 1 and split between the employee and the City on a 50/50 basis. The side letters only apply to rehired employees who were rehired before June 16, 2017. Those rehired after that date who did not become part of Tier 2 were put directly back into Tier 1.

Rehired Tier 1 Employees are individually responsible for the costs, including any unfunded liability, of transitioning from Tier 2 to Tier 1, and will sign individual agreements confirming his or her obligations. They will pay the same contribution rate, as determined by the Board's actuary, to pay for the costs, including any unfunded liability, of transitioning from Tier 2 to Tier 1. This contribution rate is in addition to the Tier 1 contributions these employees are required to make as a reinstated Tier 1 employee. The employees will pay this additional contribution rate on different individual amortization periods, depending on how long the Rehired Tier 1 Employee was in Tier 2 prior to being transitioned back to Tier 1.

If a rehired Tier 1 employee leaves City service prior to paying the full cost attributable to such member's transition to Tier 1, including any unfunded liability, the employee is required to pay any remaining balance upon leaving City service. The remaining balance may be paid through an asset transfer from the employee's 457 deferred compensation plan account or through a lump-sum after-tax payment.

Pursuant to these side letter agreements, the City is bringing forward an amendment to the San Jose Municipal Code. The City drafted an ordinance that, if adopted by Council, would amend the Municipal

Code to provide for the repayment of these amortization costs as outlined in the attached side letters. The proposed draft ordinance and Council memo will tentatively be discussed at the August 28, 2018 City Council meeting. If the Council approves the proposed draft ordinance for publication on August 28, 2018, a second reading of the proposed draft ordinance will occur on September 11, 2018. Please note that the ordinance becomes effective thirty (30) days after the second reading.

Pursuant to San Jose Municipal Code sections 3.28.275 and 3.36.485, the City is requesting the Boards review of the draft ordinances during the August 2, 2018 Police and Fire Board meeting and the August 16, 2018 Federated Board meeting. The Boards can provide any comments regarding the proposed ordinances to the City and they can be considered by the Council on August 28, 2018.

Please let us know if you have any questions related to the ordinance.



Jennifer Schembri
Director of Employee Relations

C: Roberto Peña, Director of Retirement Services
Rick Doyle, City Attorney

Attachments

SIDE LETTER AGREEMENT

BETWEEN

THE CITY OF SAN JOSE

AND

THE SAN JOSE POLICE OFFICERS' ASSOCIATION (POA)
THE SAN JOSE FIRE FIGHTERS, IAFF LOCAL 230 (IAFF)

Alternative Pension Reform Settlement Framework (Tier 1 Rehire Amortization)

Background

On or about July 2015, the City of San Jose (City) and the San Jose Police Officers' Association (POA) and the San Jose Fire Fighters, IAFF Local 230 (IAFF) reached agreement on the Alternative Pension Reform Settlement Framework (Framework). As the City has moved to implement the terms of the Framework, the City, the POA, and IAFF have updated certain terms of the Framework, including the amortization costs associated with transitioning Tier 1 employees in Tier 2 back into Tier 1 (hereinafter "Tier 1 Rehire Amortization").

This Side Letter Agreement is to memorialize the amended terms regarding Tier 1 Rehire Amortization that the City, the POA, and IAFF have agreed upon and which shall be incorporated into the San Jose Municipal Code.

Amended Framework Terms (Tier 1 Rehire Amortization)

The parties hereby agree to the following amendments to the terms of the Framework with regards to Tier 1 Rehire Amortization:

Framework		Amended Terms
Issue	Section	
Tier 2 Retirement Benefits	16	<p>"a. Former Tier 1 sworn City employees who have been rehired since the implementation of Tier 2 or rehired after the effective date of a tentative agreement based on this framework will be placed in Tier 1</p> <p>b. Any costs, including any unfunded liability, associated with transitioning current Tier 2 employees who were former Tier 1 sworn City employees who have since been rehired will be amortized as a separate liability over a minimum of 16 years and split between the employee and the City 50/50. This will be calculated as a separate</p>

	<p>unfunded liability and as Tier 1 employees these members are not subject to a ramp up in unfunded liability. <u>For purposes of this section, former Tier 1 employees who are subject to the costs, including any unfunded liability, of transitioning from Tier 2 to Tier 1, shall be referred to as "Rehired Tier 1 Employees."</u></p> <p><u>(i) Rehired Tier 1 Employees shall be individually responsible for the costs, including any unfunded liability, of transitioning from Tier 2 to Tier 1, and shall sign individual binding agreements to this effect.</u></p> <p><u>(ii) Rehired Tier 1 Employees shall:</u></p> <p><u>(1) Pay the same contribution rate, as determined by the Board's actuary, to pay for the costs, including any unfunded liability, of transitioning from Tier 2 to Tier 1. This contribution rate is in addition to the Tier 1 contributions these employees are required to make as a reinstated Tier 1 employee; and</u></p> <p><u>(2) Pay the additional contribution rate referenced above on different individual amortization periods as determined by the Board's actuary, depending on how long the Rehired Tier 1 Employee was in Tier 2 prior to being transitioned back to Tier 1. This means the amortization period for each individual Rehired Tier 1 Employee will be determined by the Board's actuary and may not be the same length of time the Rehired Tier 1 Employee was in Tier 2 member.</u></p> <p><u>(iii) A Rehired Tier 1 Employee who leaves City service prior to paying the full cost attributable to such member's transition to Tier 1, including any unfunded liability associated with the transition from Tier 2 to Tier 1, is liable for and shall be required to pay any remaining balance upon leaving City service. The remaining balance owing and payable by the Rehired Tier 1 Employee shall be determined by the Board's actuary. Upon separation from City service, Rehired Tier 1 Employees must pay their outstanding balance, as determined by the Board's actuary, through an asset transfer from the employee's 457 deferred compensation plan account or through a lump-sum after-tax payment.</u></p> <p>c. Any lateral hire from any other pension system who transfers as a "Classic" employee under PEPRA, regardless of tier, will be placed in Tier 1.</p> <p>d. Any lateral hire from any other pension system who transfers as a "new" employee under PEPRA will be placed in Tier 2."</p>
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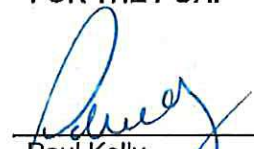
The terms of this Side Letter Agreement shall not be construed to modify or supersede any other section or term of the Framework unless specified herein.

This Side Letter Agreement shall be effective when signed by all parties below.

FOR THE CITY:

 6/14/18
Date
Jennifer Schembri
Director of Employee Relations

FOR THE POA:

 6/11/18
Date
Paul Kelly
President, POA

 6/11/18
Date
Gregg Adam
POA Counsel

FOR IAFF:

 4/18/18
Date
Sean Kaldor
President, IAFF

 6/14/18
Date
Christopher Platten
IAFF Counsel

SIDE LETTER AGREEMENT

BETWEEN

THE CITY OF SAN JOSE

AND

THE ASSOCIATION OF BUILDING, MECHANICAL AND ELECTRICAL INSPECTORS (ABMEI)
THE ASSOCIATION OF ENGINEERS AND ARCHITECTS, IFPTE LOCAL 21 (AEA)
THE ASSOCIATION OF LEGAL PROFESSIONALS (ALP)
THE ASSOCIATION OF MAINTENANCE SUPERVISORY PERSONNEL, IFPTE LOCAL 21 (AMSP)
THE CITY ASSOCIATION OF MANAGEMENT PERSONNEL, IFPTE LOCAL 21 (CAMP)
CONFIDENTIAL EMPLOYEES' ORGANIZATION, AFSCME LOCAL NO 101 (CEO)
THE INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS, LOCAL NO 332 (IBEW)
MUNICIPAL EMPLOYEES' FEDERATION, AFSCME LOCAL NO 101 (MEF)
THE INTERNATIONAL UNION OF OPERATING ENGINEERS, LOCAL NO 3 (OE#3)

Federated Alternative Pension Reform Settlement Framework (Tier 1 Rehire Amortization)

Background

On or about November/December 2015, the City of San Jose (City) and ABMEI, AEA, ALP, AMSP, CAMP, CEO, IBEW, MEF and OE#3 (collectively, Federated Bargaining Units) reached agreement on the Federated Alternative Pension Reform Settlement Framework (Federated Framework). As the City has moved to implement the terms of the Federated Framework, the City and the Federated Bargaining Units have updated certain terms of the Framework, including the amortization costs associated with transitioning Tier 1 employees in Tier 2 back into Tier 1 (hereinafter "Tier 1 Rehire Amortization").

This Side Letter Agreement is to memorialize the amended terms regarding Tier 1 Rehire Amortization that the City and the Federated Bargaining Units have agreed upon and which shall be incorporated into the San Jose Municipal Code.

Amended Framework Terms (Tier 1 Rehire Amortization)

The parties hereby agree to the following amendments to the terms of the Framework with regards to Tier 1 Rehire Amortization:

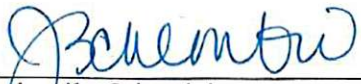
Federated Framework		Amended Terms
Issue	Section	
Tier 2 Retirement Benefits	18	"18. Former Tier 1 Federated City employees who have been rehired since the implementation of Tier 2 or rehired after the effective date of a tentative agreement based on this framework will be placed in Tier 1. a. Any costs, including any unfunded liability, associated with transitioning current Tier 2 employees who were former Tier 1 City employees who have since been rehired will be amortized as a separate liability over a

		<p>minimum of 20 years and split between the employee and the City 50/50. This will be calculated as a separate unfunded liability and as Tier 1 employees these members are not subject to a ramp up in unfunded liability. <u>For purposes of this section, former Tier 1 employees who are subject to the costs, including any unfunded liability, of transitioning from Tier 2 to Tier 1, shall be referred to as "Rehired Tier 1 Employees."</u></p> <p><u>(i) Rehired Tier 1 Employees shall be individually responsible for the costs, including any unfunded liability, of transitioning from Tier 2 to Tier 1, and shall sign individual binding agreements to this effect.</u></p> <p><u>(ii) Rehired Tier 1 Employees shall:</u></p> <p><u>(1) Pay the same contribution rate, as determined by the Board's actuary, to pay for the costs, including any unfunded liability, of transitioning from Tier 2 to Tier 1. This contribution rate is in addition to the Tier 1 contributions these employees are required to make as a reinstated Tier 1 employee; and</u></p> <p><u>(2) Pay the additional contribution rate referenced above on different individual amortization periods as determined by the Board's actuary, depending on how long the Rehired Tier 1 Employee was in Tier 2 prior to being transitioned back to Tier 1. This means the amortization period for each individual Rehired Tier 1 Employee will be determined by the Board's actuary and may not be the same length of time the Rehired Tier 1 Employee was a Tier 2 member.</u></p> <p><u>(iii) A Rehired Tier 1 Employee who leaves City service prior to paying the full cost attributable to such member's transition to Tier 1, including any unfunded liability associated with the transition from Tier 2 to Tier 1, is liable for and shall be required to pay any remaining balance upon leaving City service. The remaining balance owing and payable by the Rehired Tier 1 Employee shall be determined by the Board's actuary. Upon separation from City service, Rehired Tier 1 Employees must pay their outstanding balance, as determined by the Board's actuary, through an asset transfer from the employee's 457 deferred compensation plan account or through a lump-sum after-tax payment.</u></p> <p>b. Any lateral hire from any other pension system who transfers as a "Classic" employee under PEPRA, regardless of tier, will be placed in Tier 1.</p> <p>c. Any lateral hire from any other pension system who transfers as a "new" employee under PEPRA will be placed in Tier 2."</p>
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The terms of this Side Letter Agreement shall not be construed to modify or supersede any other section or term of the Framework unless specified herein.


This Side Letter Agreement shall be effective when signed by all parties below.

FOR THE CITY:

 6/20/18

Jennifer Schembri
Director of Employee Relations
Date

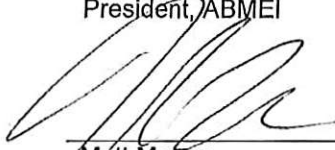
FOR THE UNIONS:

 6/4/18

Peter Fenerin
President, ABMEI
Date

 5/30/18

Brad Fox
President, AEA
Date

 5/29/2018


Matt Mason
Business Representative, IFPTE
Date

 6/6/18


Terra Chaffee
President, ALP
Date

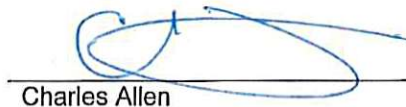
 6/21/18

Steve Contreras
President, AMSP
Date

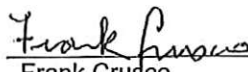
 5/31/18

Olympia Williams
IFPTE Representative, CAMP
Date

 _____
LaVerne Washington
President, CEO
Date

 6-1-18


Charles Allen
Business Representative, AFSCME
Date

 5-29-2018

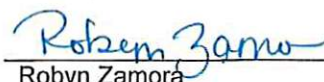
Frank Crusco
Chief Steward, IBEW
Date

 6-4-18

Daniel Romero
Business Representative, IBEW
Date

 6/4/18

Mary Blanco
Business Representative, OE#3
Date

 6/4/18

Robyn Zamora
President, MEF
Date

 6/14/18

Christopher Platten
Legal Counsel
Date

ORDINANCE NO.

AN ORDINANCE OF THE CITY OF SAN JOSE AMENDING VARIOUS SECTIONS OF CHAPTERS 3.28 AND 3.36 OF TITLE 3 OF THE SAN JOSE MUNICIPAL CODE TO IMPLEMENT THE TERMS OF THE ALTERNATIVE PENSION REFORM SETTLEMENT FRAMEWORK AGREEMENT WITH CITY EMPLOYEE BARGAINING GROUPS

WHEREAS, on November 8, 2016, San José voters approved Measure F, which modified provisions of Title 3 of the San José Municipal Code which were previously adopted by Measure B, approved by San José voters on June 5, 2012; and

WHEREAS, in order to implement Measure F, the following changes are required to be made to Title 3; and

WHEREAS, the ordinance will also include modifications to Title 3 to allow re-enrollment after alternative health coverage and flexibility in designation of death benefit;

NOW THEREFORE, BE IT ORDAINED BY THE COUNCIL OF THE CITY OF SAN JOSE:

SECTION 1. Section 3.28.030.28 of Chapter 3.28 of Title 3 of the San José Municipal Code is amended to read as follows:

"3.28.030.28 - "Tier 2 Member."

- A. "Tier 2 member" means any person who is hired, rehired or reinstated by the City on or after September 30, 2012 except for any person who is eligible and elects to participate in a defined contribution plan established under the San José Municipal Code.
- B. Notwithstanding subsection 3.28.030.28.A., the following persons who do not elect to participate in a defined contribution plan established under the San José Municipal Code shall not be considered Tier 2 members under this Plan and their benefits shall be determined under the same terms as those members hired prior to September 30, 2012:
 1. Any person who was a member of this Plan prior to September 30, 2012, and terminated employment with the City and did not take a return of contributions, and returned to employment with the City in a position covered by this Plan on or after September 30, 2012; or
 2. Any person accepting employment on or after September 30, 2012 who is otherwise eligible for this Plan and who was an active member in another California public retirement system, with which this Plan has reciprocity under Part 21, and who has a break in service of less than six (6) months from that covered employment and employment with the City, other than those who meet the definition of a new member as defined by Government Code Section 7522.04(f) as may be amended, or are rehired or reinstated City employees without a work history prior to September 30, 2012; or
 3. Any person who, prior to August 4, 2013, was a Police member of the Police and Fire Department Retirement Plan established under Chapter 3.24 or the 1961

Police and Fire Department Retirement Plan established under Chapter 3.36, and terminated employment with the City without a return of his or her contributions, and later returned to employment with the City in a position covered by this Plan on or after August 4, 2013; or

4. Any person who, prior to January 2, 2015, was a Fire Department member of the Police and Fire Department Retirement Plan established under Chapter 3.24 or the 1961 Police and Fire Department Retirement Plan established under Chapter 3.36, and terminated employment with the City without a return of his or her contributions, and later returned to employment with the City in a position covered by this Plan on or after January 2, 2015.

(Ords. 29120, 29174, 29904.)"

SECTION 2. Section 3.28.200 of Chapter 3.36 of Title 3 of the San José Municipal Code is amended to read as follows:

"3.28.200 - Authority to Adopt Tables, Revise Contribution Rates.

- A. Upon the basis of any or all of such investigations, valuations and determinations, the Board shall adopt such mortality, service and other tables, actuarially assumed annual rate of return, and other actuarial assumptions as it may deem reasonably necessary, and, subject to such limitations as are set forth elsewhere in this Chapter, it shall fix and from time to time make such revisions or changes in the rates of contribution required of members and of the City as it may determine reasonably necessary to provide the benefits provided for by this Retirement Plan and make this System at all times actuarially sound in a manner consistent with Article XVI, Section 17 of the California Constitution (the "1992 California Pension Protection Act"); provided that, as may be otherwise provided elsewhere in this Chapter, the share of the normal cost portion of contributions made to the Plan on behalf of the City and members who are not Tier 2 members shall at all times be shared in the ratio of three to eight (3:8), except as provided for in 3.28.200.A.1 and 3.28.200.A.2 with the City bearing the total cost of any associated actuarially accrued unfunded liability for such members. For Tier 2 members, except as provided in Section 3.28.200.B, the proportionate share of contributions on behalf of the City and Tier 2 members shall at all times be in the ratio of one for the City to one for the Tier 2 members (1:1) (sharing equally), including any unfunded actuarially accrued liability.

1. Notwithstanding the foregoing, the following shall apply to the manner of determining contributions on behalf of the City and members who had been prior members of this Plan and then became Tier 2 members prior to June 16, 2017 but on and after September 30, 2012 remain in the Plan but are no longer considered Tier 2 members as defined under Section 3.28.030.28. The costs, including but not limited to, any unfunded actuarial accrued liability, associated with benefit changes adopted on June 16, 2017 for such members any amounts associated with moving such members from Tier 2 status to non-Tier 2 status, will be amortized as a separate liability over twenty (20) years or other period determined by the Board. Notwithstanding the cost sharing ratio for non-Tier 2 members described in the first paragraph of this Section 3.28.200.A above, the costs described in this Section 3.28.200.A.1 shall at all times be shared in a ratio of one for the City and one for the affected member (1:1) and will be reflected as

soon as practicable as an increase in the monthly contribution rates for these affected members. Members who are reclassified from Tier 2 membership to Tier 1 membership, shall be referred to as Reclassified Tier 1 members for purposes of this Section 2.28.200.A.1. Reclassified Tier 1 members shall:

- i. be individually responsible for the cost, including any unfunded liability, associated with the transition from Tier 2 to Tier 1 membership and must sign a legally binding agreement setting forth the terms and conditions of his or her Tier 1 member status under the Plan; and
- i.ii. in addition to making the contributions required of Tier 1 members, make additional contributions to pay the entire cost, including any unfunded liability, of the transition from Tier 2 to Tier 1 membership. The additional contributions shall be determined by the Board's actuary and may be based, at least in part, on the period of time each Reclassified Tier 1 member spent as a Tier 2 member prior to reclassification. As a result, the amortization schedule for each Reclassified Tier 1 member may vary; and
- ii.iii. any outstanding balance associated with a Reclassified Tier 1 member's liability for the cost of transition from Tier 2 to Tier 1 membership must be satisfied upon separation from City service. Any outstanding balance attributable to such Reclassified Tier 1 member's liability must be paid in accordance with Section 3.28.700.

4.2. Notwithstanding the foregoing, the following shall apply to the manner of determining contributions on behalf of the City and members who accept employment on or after September 30, 2012 who is otherwise eligible for this Plan and who was an active member in another California public retirement system, with which this Plan has reciprocity under Part 21, and who has a break in service of less than six (6) months from that covered employment and employment with the City, other than those who meet the definition of new members as defined by Government Code Section 7522.04(f) as may be amended, but on and after June 16, 2017 remain in the Plan but are no longer considered Tier 2 members under the definition of Tier 2 member under Section 3.28.030.28. Any and all costs, including but not limited to any unfunded actuarial accrued liability, directly or indirectly associated with benefit changes adopted on June 16, 2017 for such members and any and all amounts associated with moving such members from Tier 2 status to non-Tier 2 status, will be amortized as a separate liability over twenty (20) years or such other period determined by the Board. Further, notwithstanding the cost sharing ratio for non-Tier 2 members described in the first paragraph of Section 3.28.200.A above, any and all costs described in this subsection 3.28.200.A.2. shall at all times be shared in the ratio of one for the City and one for the affected non-Tier 2 members (1:1) and will be reflected as soon as practicable in the monthly contribution rates for such members.

- B. Notwithstanding Section 3.28.200.A, the following shall apply to the manner of determining contributions on behalf of the City and members who are Tier 2 members on or after June 16, 2017:

1. The costs, including any unfunded actuarial accrued liability, associated with the Tier 2 benefit changes adopted on June 16, 2017 for members who were Tier 2 members prior to June 16, 2017, will be amortized as a separate liability over twenty (20) years or other period determined by the Board and will be reflected as soon as practicable in contribution rates to be shared equally among the City and all Tier 2 members and such increased rates shall not be subject to the incremental increases in amounts associated with unfunded actuarial accrued liability described in Section 3.28.200.B.2.
2. Other than provided in Section 3.28.200.A, in determining member contribution rates, to the extent an unfunded actuarial accrued liability is determined to exist with respect to the Plan, Tier 2 members will contribute toward the amount of such amortized unfunded actuarial accrued liability by increasing the Tier 2 member contribution rate by one-third of one percent (0.33%) of compensation each year until such time as the cost of the unfunded actuarial accrued liability is being shared equally by the Tier 2 members and the City. Until such time as the Tier 2 members and the City are sharing such cost equally, the City will include in its contribution rate the amount of the amortized unfunded actuarial accrued liability that would otherwise have been paid by the Tier 2 members in such year.

(Prior code § 2904.1056; Ords. 27436, 29904, 30017.)"

SECTION 3. Chapter 3.28 of Title 3 of the San José Municipal Code is amended to add a new Section 3.28.700 to read as follows:

"3.28.700 – Satisfaction of Liability for Reclassification as Tier 1

- A. A member who is a Reclassified Tier 1 member under Section 3.28.200.A.1 and leaves City service prior to paying the full cost of the transition from Tier 2 to Tier 1 membership, as that cost is described in Section 3.28.200.A.1, is liable for and shall be required to pay any remaining balance upon leaving City service or as may otherwise be provided in Subsection 3.28.700.E.
- B. The outstanding balance owing and payable by the Reclassified Tier 1 member shall be determined by the Board's actuary. In the event there is any dispute regarding the amount attributable to such Reclassified Tier 1 member or any other issue related to the liability associated with this reclassification, the board shall determine the issue based on the relevant information presented to the board. Any decision made by the board shall be final and binding.
- C. Subject to any limits on annual contributions imposed by Section 415 of the Internal Revenue Code of 1986, as amended, the Reclassified Tier 1 member must satisfy the outstanding balance of his or her liability under Section 3.28.200.A.1, as determined by the Board's actuary, through either an transfer or rollover from the employee's Code Section 457(b) deferred compensation plan account or through a lump-sum after-tax payment.
- D. In order for a Reclassified Tier 1 member to satisfy his or her outstanding liability, the member must make the payment in the time and manner established by the board, provided however, the entire outstanding liability must be paid concurrent with the

Reclassified Tier 1 member's separation from City service or as may otherwise be provided in Subsection 3.28.700.E.

- E. If a Reclassified Tier 1 member fails to satisfy his or her outstanding liability within sixty days from the later of such Reclassified Tier 1 member's separation from City service or passage of this Section 3.28.700.E by the City Council of the City of San José, the Reclassified Tier 1 member shall be reclassified as a Tier 2 member and only receive benefits attributable to Tier 2 membership under this plan."

SECTION 4. Section 3.36.020.15 of Chapter 3.36 of Title 3 of the San José Municipal Code is amended to read as follows:

"3.36.020.15 - "Tier 2 Member."

"Tier 2 member" means:

- A. Any person who is hired, rehired, or reinstated by the City as an employee of the Police Department in a position covered by this Plan on or after August 4, 2013; or
- B. Any person who is hired, rehired, or reinstated by the City as an employee of the Fire Department in a position covered by this Plan on or after January 2, 2015.
- C. Notwithstanding the foregoing, the following persons shall not be considered Tier 2 members under this Plan and their benefits shall be determined under the same terms as those members hired prior to the dates specified in subsections A. and B. of this Section:
 - 1. Any person who was a member of this Plan as an employee of the Police Department prior to August 4, 2013, and terminated employment with the City without a return of his or her contributions, and returned to employment with the City in a position covered by this Plan on or after August 4, 2013; or
 - 2. Any person who was a member of this Plan as an employee of the Fire Department prior to January 2, 2015, and terminated employment with the City without a return of his or her contributions, and returned to employment with the City in a position covered by this Plan on or after January 2, 2015; or
 - 3. Any person accepting employment in the Police Department or Fire Department of the City on or after January 1, 2013 who is otherwise eligible for this Plan and who was an active member in another California public retirement system with which this Plan has reciprocity under Part 16, and who has a break in service of less than six (6) months from that covered employment and employment with the City, other than those who meet the definition of new members as defined by Government Code Section 7522.04(f) as may be amended; or
 - 2.4. Any person who, prior to September 30, 2012, was a member of the Federated City Employees Retirement System established under Chapter 3.24 or the 1975 Federated City Employees Retirement Plan established under Chapter 3.28 and terminated employment with the City without a return of his or her contributions, and later returned to employment with the City in a

Police Department position covered by this Plan on or after September 30, 2012; or

5. Any person who, prior to September 30, 2012, was a member of the Federated City Employees Retirement System established under Chapter 3.24 or the 1975 Federated City Employees Retirement Plan established under Chapter 3.28 and terminated employment with the City without a return of his or her contributions, and returned to employment with the City in a Fire Department position covered by this Plan on or after September 30, 2012.

(Ords. 29266, 29511, 29879, 30007.)"

SECTION 5. Section 3.36.410.A of Chapter 3.36 of Title 3 of the San José Municipal Code is amended to read as follows:

"3.36.410 - Mortality, Service and Other Tables - Revision of Rates of Contribution.

- A. Upon the basis of any or all of such investigations, evaluations and determinations, the Board shall adopt such mortality, service and other tables as may be necessary, and shall fix and from time to time change the rates of monthly contribution required of members and of the City as may be necessary to make this System at all times actuarially sound in a manner consistent with Article XVI, Section 17 of the California Constitution (the "1992 California Pension Protection Act") and to provide the benefits provided for in this Retirement Plan; provided that, as may be otherwise provided elsewhere in this Chapter, the proportionate share of contributions on behalf of the City and members who are not Tier 2 members shall at all times be in the ratio of three to eight (3:8) except as provided in 3.36.410.A. For Tier 2 members, except as provided in Section 3.36.410.B, the proportionate share of contributions on behalf of the City and Tier 2 members shall at all times be in the ratio of one for the City to one for the Tier 2 members (1:1) (sharing equally), including any unfunded actuarially accrued liability.

1. Notwithstanding the foregoing, the following shall apply to the manner of determining contributions on behalf of the City and members who prior to August 4, 2013 for Police and prior to January 1, 2015 for Fire were non-Tier 2 members of this Plan and then became Tier 2 members prior to March 31, 2017 but on and after March 31, 2017 remain in the Plan but are no longer considered Tier 2 members as defined under Section 3.36.020.15. Any cost, including but not limited to any unfunded actuarial accrued liability, associated with benefit changes adopted on March 31, 2017 for such members and any amounts associated with moving such members from Tier 2 status to non-Tier 2 status, will be amortized as a separate liability over sixteen (16) years or other period determined by the Board. Notwithstanding the cost sharing ratio for non-Tier 2 members described in the first paragraph of Section 3.36.410.A above, the costs described in this subsection 3.36.410.A.1. shall at all times be shared in the ratio of one for the City and one for the affected member (1:1) and will be reflected as soon as practicable in the monthly contribution rates for such members.

Members who are reclassified from Tier 2 membership to Tier 1 membership, shall be referred to as Reclassified Tier 1 members for purposes of this Section 2.28.410.A.1. Reclassified Tier 1 members shall:

- i. be individually responsible for the cost, including any unfunded liability, associated with the transition from Tier 2 to Tier 1 membership and must sign a legally binding agreement setting forth the terms and conditions of his or her Tier 1 member status under the Plan; and
- ii. in addition to making the contributions required of Tier 1 members, make additional contributions to pay the entire cost, including any unfunded liability, of the transition from Tier 2 to Tier 1 membership. The additional contributions shall be determined by the Board's actuary and may be based, at least in part, on the period of time each Reclassified Tier 1 member spent as a Tier 2 member prior to reclassification. As a result, the amortization schedule for each Reclassified Tier 1 member may vary; and
- iii. any outstanding balance associated with a Reclassified Tier 1 member's liability for the cost of transition from Tier 2 to Tier 1 membership must be satisfied upon separation from City service. Any outstanding balance attributable to such Reclassified Tier 1 member's liability must be paid in accordance with Section 3.28.720.

4.2. Notwithstanding the foregoing, the following shall apply to the manner of determining contributions on behalf of the City and members who accept employment in the Police Department or Fire Department of the City on or after January 1, 2013 who is otherwise eligible for this Plan and who was an active member in another California public retirement system, with which this Plan has reciprocity under Part 16, and who has a break in service of less than six (6) months from that covered employment and employment with the City, other than those who meet the definition of new members as defined by Government Code Section 7522.04(f) as may be amended, but on and after March 31, 2017 remain in the Plan but are no longer considered Tier 2 members under the definition of Tier 2 member under Section 3.36.020.15. Any and all costs, including but not limited to any unfunded actuarial accrued liability, directly or indirectly associated with benefit changes adopted on March 31, 2017 for such members and any and all amounts associated with moving such members from Tier 2 status to non-Tier 2 status, will be amortized as a separate liability over sixteen (16) years or other period determined by the Board. Further, notwithstanding the cost sharing ratio for non-Tier 2 members described in the first paragraph of Section 3.36.410.A above, any and all costs described in this subsection 3.36.410.A.2. shall at all times be shared in the ratio of one for the City and one for the affected non-Tier 2 members (1:1) and will be reflected as soon as practicable in the monthly contribution rates for such members.

B. Notwithstanding Section 3.36.410.A, the following shall apply to the manner of determining contributions on behalf of the City and members who are Tier 2 members on or after March 31, 2017:

1. The costs, including any unfunded actuarial accrued liability, associated with the Tier 2 benefit changes adopted on March 31, 2017 for members who were Tier 2 members prior to March 31, 2017 will be amortized as a separate liability over

sixteen (16) years or other period determined by the Board and will be reflected as soon as practicable in contribution rates to be shared equally among the City and all Tier 2 members and such increased rates shall not be subject to the incremental increases in amounts associated with unfunded actuarial accrued liability described in Section 3.36.410.B.2.

2. Other than provided in Section 3.36.410.A, in determining member contribution rates, to the extent an unfunded actuarial accrued liability is determined to exist with respect to the Plan, Tier 2 members will contribute toward the amount of such amortized unfunded actuarial accrued liability by increasing the Tier 2 member contribution rate by one-third of one percent (0.33%) of compensation each year until such time as the cost of the unfunded actuarial accrued liability is being shared equally by the Tier 2 members and the City. Until such time as the Tier 2 members and the City are sharing such cost equally, the City will include in its contribution rate the amount of the amortized unfunded actuarial accrued liability that would otherwise have been paid by the Tier 2 members in such year.

(Prior code § 2903.106; Ords. 29198, 29266, 29879, 30007.) "

SECTION 6. Chapter 3.36 of Title 3 of the San José Municipal Code is amended to add a new Section 3.36.720 to read as follows:

"3.36.720 – Satisfaction of Liability for Reclassification as Tier 1

- A. A member who is a Reclassified Tier 1 member under Section 3.28.410.A.1 and leaves City service prior to paying the full cost of the transition from Tier 2 to Tier 1 membership, as that cost is described in Section 3.28.410.A.1, is liable for and shall be required to pay any remaining balance upon leaving City service or as may otherwise be provided in Subsection 3.36.720.E.
- B. The outstanding balance owing and payable by the Reclassified Tier 1 member shall be determined by the Board's actuary. In the event there is any dispute regarding the amount attributable to such Reclassified Tier 1 member or any other issue related to the liability associated with this reclassification, the board shall determine the issue based on the relevant information presented to the board. Any decision made by the board shall be final and binding.
- C. Subject to any limits on annual contributions imposed by Section 415 of the Internal Revenue Code of 1986, as amended, the Reclassified Tier 1 member must satisfy the outstanding balance of his or her liability under Section 3.28.200.A.1, as determined by the Board's actuary, through either an transfer or rollover from the employee's Code Section 457(b) deferred compensation plan account or through a lump-sum after-tax payment.
- D. In order for a Reclassified Tier 1 member to satisfy his or her outstanding liability, the member must make the payment in the time and manner established by the board, provided however, the entire outstanding liability must be paid concurrent with the Reclassified Tier 1 member's separation from City service or as may otherwise be provided in Subsection 3.36.720.E.

- E. If a Reclassified Tier 1 member fails to satisfy his or her outstanding liability within sixty days from the later of such Reclassified Tier 1 member's separation from City service or the passage of this Section 3.36.720.E by the City Council of the City of San José, the Reclassified Tier 1 member shall be reclassified as a Tier 2 member and only receive benefits attributable to Tier 2 membership under this plan."

PASSED FOR PUBLICATION of title this _____ day of _____, 2017, by the following vote:

AYES:

NOES:

ABSENT:

DISQUALIFIED:

SAM LICCARDO
Mayor

ATTEST:

TONI J. TABER, CMC
City Clerk

Via Electronic Mail

May 1, 2018

Mr. Roberto Peña, Director
City of San José
Department of Retirement Services
1737 North 1st Street, Suite 580
San José, CA 95112

Re: City of San José Federated City Employees' Retirement System and Postemployment Healthcare Plan Contribution Rates and Amounts for FYE 2019

Dear Roberto:

The purpose of this letter is to provide the contribution rates and amounts for the fiscal year ending June 30, 2019. This information is for the use of the Board of Administration in establishing contribution rates and amounts for the fiscal year ending June 30, 2019.

Contributions are structured as a normal cost (representing the benefits attributed to the current year of service) plus a payment on the Unfunded Actuarial Liability (UAL). The normal cost is designed to be a level percentage of pay so the dollar amount varies depending on actual payroll while the payment on the UAL is designed to be a dollar amount that is independent of actual payroll. The actuarial valuation estimates payroll for the fiscal year so that the normal cost percentage of pay can be converted to a dollar amount and the dollar amount of the UAL payment can be converted to a percentage of pay.

Pension Contribution Rates and Amounts

The pension contributions are provided as rates of pay, as dollar amounts paid throughout the year on a payroll-by-payroll basis, and as dollar amounts paid at specific points in time during the year. Based on the Board's policy, the City's Tier 1 contribution is the dollar amount of the UAL payment shown in these tables plus the greater of the dollar amount of normal cost or the normal cost rate multiplied by actual payroll. Furthermore, pre-paid contribution amounts are adjusted for timing using an interest rate of 3.78%.

The following table provides the pension contribution rates for each rate group. Separate rates are provided for the Retirement Fund and the COLA Fund, and for Tier 1 and Tier 2. The City rate is also separated into the normal cost rate and the UAL rate.

Fiscal Year 2018-19 Pension Contribution Rates						
	Tier 1			Tier 2		
	Retirement	COLA	Total	Retirement	COLA	Total
Members	4.93%	1.88%	6.81%	6.97%	1.31%	8.28%
City						
Normal Cost	13.45%	5.16%	18.61%	6.75%	1.18%	7.93%
UAL	<u>40.62%</u>	<u>39.93%</u>	<u>80.55%</u>	<u>0.22%</u>	<u>0.13%</u>	<u>0.35%</u>
Total	54.07%	45.09%	99.16%	6.97%	1.31%	8.28%

We have not included member rates for Tier 1 rehires who were moved from Tier 2 to Tier 1 under Measure F because, at this time, we do not know how these payments are being made. Once there is a resolution on the method of payment, an additional contribution rate will apply to the affected members. The corresponding City contribution rates are included in the Tier 1 UAL rates for the City.

For FYE 2019, we expect payroll to be \$158,776,116 for Tier 1 and \$137,901,838 for Tier 2.

The following table shows the equivalent pension contribution amounts for the City based on the expected payroll assuming contributions are made throughout the year on a payroll-by-payroll basis.

Fiscal Year 2018-19 Estimated City Pension Contribution Amounts Contributions Throughout the Year				
	Retirement		COLA	
			Total	
<u>Tier 1</u>				
Normal Cost	\$	21,355,388	\$	8,192,848
UAL		<u>64,494,859</u>		<u>63,399,303</u>
Total	\$	85,850,247	\$	71,592,151
<u>Tier 2</u>				
Normal Cost	\$	9,308,374	\$	1,627,242
UAL		<u>303,384</u>		<u>179,272</u>
Total	\$	9,611,758	\$	1,806,514
<u>Total</u>				
Normal Cost	\$	30,663,762	\$	9,820,090
UAL		<u>64,798,243</u>		<u>63,578,575</u>
Total	\$	95,462,005	\$	73,398,665

Pension Prepayment Amounts

We understand the City may make its pension contribution for Tier 1 either as of the beginning of the fiscal year or in two equal installments: one at the beginning of the fiscal year and one on or about January 1, 2019. The table below shows the prepayment amounts for these two scenarios. The amounts have been calculated using a discount rate of 3.78% in accordance with the Board's policy.

Fiscal Year 2018-19 Estimated City Pension Contribution Amounts					
Tier 1 Prepayment Alternatives					
	Retirement		COLA		Total
<u>Contribution at the Beginning of the Year</u>					
Normal Cost	\$	20,962,739	\$	8,042,211	\$ 29,004,950
UAL		<u>63,309,028</u>		<u>62,233,616</u>	<u>125,542,644</u>
Total	\$	84,271,767	\$	70,275,827	\$ 154,547,594
<u>Semi-Annual Contribution Amount Paid on July 1 and January 1</u>					
Normal Cost	\$	10,578,621	\$	4,058,415	\$ 14,637,036
UAL		<u>31,948,221</u>		<u>31,405,526</u>	<u>63,353,747</u>
Total	\$	42,526,842	\$	35,463,941	\$ 77,990,783

OPEB Contribution Amounts

With the implementation of Measure F and the VEBA, member contribution rates for those who remain in the OPEB plan are fixed in the Municipal Code at 7.5% of pay. The member contributions exceed the normal cost, so the City contributions are entirely UAL contributions. Consequently, City contributions are only determined as a dollar amount and not as a rate of pay.

We understand the City may make its OPEB contribution either as of the beginning of the fiscal year or in two equal installments: one at the beginning of the fiscal year and one on or about January 1, 2019. The table on the next page shows the contribution if it is paid on January 1, 2019 as well as the prepayment amounts for the scenarios requested by the City. The prepayment amounts have been calculated using a discount rate of 3.78% in accordance with the Board's policy.

Fiscal Year 2018-19 Estimated City OPEB Contribution Amounts Prepayment Alternatives					
	July 1		January 1		Total
Paid Mid-Year	\$	0	\$	21,246,777	\$ 21,246,777
Paid Beginning of Year	\$	20,856,125	\$	0	\$ 20,856,125
Paid Semi-Annually	\$	10,524,819	\$	10,524,819	\$ 21,049,638

The figures in the above exhibits reflect the results of the June 30, 2017 actuarial valuations of the City of San José Federated City Employees' Health Care Plan and the City of San José Federated City Employees' Retirement System. We refer you to the full valuation reports for a description of the data, assumptions, methodology, and plan provisions applicable to these calculations. The special rates for rehired members who are returned to Tier 1 have not been calculated and are not included in this letter.

To the best of our knowledge, this letter has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter. This letter does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

This letter was prepared exclusively for the Board of Administration of the City of San José Federated City Employees' Retirement System for the purpose described herein. Other users of this letter are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any other user.

If you have any questions or would like to discuss these calculations, please call Bill at (703) 893-1456, extension 1113 or Michael at extension 1135.

Sincerely,
Cheiron



William R. Hallmark, ASA, EA, FCA, MAAA
Consulting Actuary



Michael W. Schionning, FSA, MAAA
Principal Consulting Actuary

cc: Donna Busse
Benjie Chua-Foy
Steven Hastings
Jacqui King

