

SUMMARY-RETIREE HEALTH TENTATIVE AGREEMENT

The information in this summary is intended to provide employees with an accurate summary of the Retiree Health benefits set forth in the Tentative Agreement. It is not a legal document or a substitute for the Tentative Agreement. The language used in this summary is not intended to create a contract between the City of San Diego and any employee or employee organization. Accordingly, if any information in this summary conflicts with the Tentative Agreement, the City Charter or the Municipal Code, the Tentative Agreement, Charter and Municipal Code must prevail.

The Tentative Agreement impacts the Retiree Health benefit of those hired before July 1, 2005 – the group referred to as “Health Eligible Retirees.” It also allows for the parties to establish a vehicle for those hired after July 1, 2005 to begin deferring income into an account to cover qualified medical expenses upon retirement. Consistent with San Diego Municipal Code section 24.1405(d) a City employee Member who elects to participate in DROP will qualify as a Health Eligible Retiree and be eligible to receive Post Retirement Health Benefits when the Member leaves DROP and retires. **The Tentative Agreement does not impact employees who retired from the City on or before June 30, 2009.**

Transition Period from Current Benefit to New Benefit Options

The new benefit options set forth in the Tentative Agreement will not become effective until April 1, 2012, provided the new Retiree Health plan is approved by employees in a Charter section 143.1 vote, which will be scheduled for September 2011. Here are the STEPS to establish the new Retiree Health plan:

- (1) Tentative Agreement signed (Completed)
- (2) Labor organization ratification votes (Completed)
- (3) Ordinance amending SDMC to conform to the agreement regarding those who retire between July 1, 2009 and July 1, 2011, and between July 1, 2011, and April 1, 2012
- (4) Creation of 15-year MOU
- (5) Education regarding new benefit options to occur
- (6) Charter section 143.1 vote of all active Retirement System Members
- (7) Irrevocable benefit elections to be made by affected employees before February 1, 2012;
- (8) Implementation of new Retiree Health plan on April 1, 2012;
- (9) Employee contributions (where applicable) to begin for payroll period on or near April 1, 2012.

15-Year MOU With Right to Modify

The new Retiree Health benefit will be memorialized in a 15-year MOU. The City has the power to propose amendments to the Retiree Health benefits after July 1, 2014 under certain conditions, including a 2/3rds vote (i.e. six votes) of the City Council both to propose and to impose any change.

Tentative Agreement Terms

MEA, Firefighters, DCAA, Teamsters, and Unclassified/Unrepresented: Retiring Before April 1, 2012

- (1) Employees who retired after July 1, 2009 and before July 1, 2011: will receive a Defined Benefit up to \$8,883.24 with a suspended escalator (this is the National Health Expenditures escalator up to a maximum of 10% annually) for their Retiree Health insurance. The suspended escalator will resume on the \$8,883.24/year Defined Benefit on July 1, 2011 ; and,
- (2) Employees who retire on or after July 1, 2011 and before April 1, 2012: will receive a Defined Benefit up to \$8,883.24 with a suspended escalator (this is the National Health Expenditures escalator up to a maximum of 10% annually) for their Retiree Health insurance. The suspended escalator will resume on the \$8,883.24/year Defined Benefit on July 1, 2012;
- (3) Employees who retire on or after April 1, 2012, will have one of the three benefits described below depending on each employee's eligibility and irrevocable option selected by February 1, 2012.

AFSCME, Local 127 and SDPOA: Retiring Before April 1, 2012

- (1) Employees who retired on or after July 1, 2009 but before April 1, 2012, will continue to receive up to \$8,883.24/year Defined Benefit Retiree Health allowance for their health insurance with no escalator.
- (2) Employees who retire on or after April 1, 2012 will have one of the three benefits described below depending on each employee's eligibility and irrevocable option selected by February 1, 2012. Local 127 and SDPOA-represented employees who select Option A must make payments covering at least one full year before being eligible for the Option A Retiree Health benefit.

Options A, B and C: Retiring On or After April 1, 2012

- (1) Option A: Defined Benefit
 - An annual benefit allowance up to \$8,883.24 with a 2% annual escalator. The terms and conditions related to this annual health allowance will otherwise remain the same as they are for the current benefit; this allowance may only be used for the retiree's health insurance cost during his or her lifetime and may not be used by his/her spouse or dependents before or after the retiree's death.

- Limited Eligibility: Option A is available only to employees who will meet the age and service credit requirements to retire before April 1, 2012, or who will have twenty-five years of creditable service before April 1, 2012. Employees who are eligible for Option A may also select Option B or C instead.
- Mandatory Employee Contribution: \$98 per month for General Member employees (\$45.23/pay period); \$103 per month for Safety Member employees (\$47.54/pay period) only during the course of his/her employment. Contributions will be deducted on a pre-tax basis beginning in the first full pay period after April 1, 2012, and may not be refunded regardless of the employee's change in circumstances.
- If an employee leaves City employment before reaching retirement eligibility, he or she will receive Option C. The employee's prior employee contributions will not be refunded.

(2) Option B: Defined Benefit

- An annual \$5,500 Defined Benefit Retiree Health allowance with no annual escalator. The terms and conditions related to this annual health allowance will otherwise remain the same as they are for the current benefit. This allowance may only be used for the retiree's cost of health insurance during his or her lifetime and may not be used by his or her spouse or dependents before or after the retiree's death.
- Mandatory Employee Contribution: \$49 per month for General (\$22.61/pay period); \$52 per month for Safety (\$24/pay period) only during the course of his/her employment. Contributions will be deducted on a pre-tax basis beginning in the pay period closest to April 1, 2012, and may not be refunded regardless of the employee's change in circumstances.
- If an employee leaves City employment before reaching retirement eligibility, he or she will receive Option C. The employee's prior employee contributions will not be refunded.

(3) Option C: Defined Contribution

- When an employee becomes eligible for a service retirement, the City will contribute to his or her Retiree Health account an amount that is projected to yield \$8,500 per year for the employee's projected lifetime. This projection will be based on the employee's life expectancy at the time of retirement eligibility in accordance with the general mortality tables for men and women, and will assume that a 6% rate of return will be earned on this lump sum once deposited into the employee's Retiree Health trust fund account (to be established). An employee need not retire when this lump sum

contribution is made; he or she may continue to work while the amount of money in remains in his or her individual account.

- Under the IRS rules applicable to tax-favored health reimbursement accounts, distributions from a retiree's account may only be made to pay or reimburse the retiree for qualified medical expenses incurred by the retiree, his or her spouse (as defined under federal law), or his or her tax dependents. Upon the retiree's death, any remaining funds may only be distributed to the retiree's surviving spouse or dependents to reimburse substantiated qualified medical expenses incurred by the retiree, his or her spouse, or his or her dependents. Qualified medical expenses include direct payment or reimbursement of premiums for health insurance, long-term care insurance, charges or co-pays for prescription medications, and certain other medical expenses not covered by health insurance. If the retiree dies without a surviving spouse or eligible dependents, or the retiree's spouse or other dependents have all died; any funds remaining in the retiree's account will be reallocated back to the trust.
- There is no mandatory employee contribution. Each bargaining group/unit will continue to meet and confer with the City regarding employee contributions which may be added to enhance this benefit beyond the projected \$8,500 annual benefit which the City will fund.

Employees Hired After July 1, 2005

Labor organizations and the City will meet and confer to establish a program for these employees to make contributions to a Retiree Health benefit trust. These funds may earn investment income. Any such program will allow employees to make claims for qualified medical expenses for the employee after retirement, and the employee's spouse and tax dependents.