Bargaining Update

I am AEU

February 10, 2014

IMPACT OF AEU'S JANUARY 13, 2014 ECONOMIC PROPOSAL REJECTED BY CSEA ON FEBRUARY 4, 2014

Following the crescendo at the table on January 13, 2014 culminating in CSEA's rejection of each and every AEU economic proposal to date, below is an illustration of how AEU's January 13, 2014 package would have worked in your favor. It is critical that you receive this information against the recent severity of misinformation including CSEA updates. The package resulted in both an increase in pension earnings and immediate salary and further preserved a financial path to full pension restoration while meeting CSEA's fiscal stability concerns thus far stated as the reason why CSEA cannot reach an agreement that gives you anything.

Under the proposal, as demonstrated below, no additional year of work was implicated to gain back financial service credit "losses" since no financial losses resulted. Despite widely calling it "AEU's pension concession proposal," CSEA rejected AEU's last proposal in its entirety on February 4, 2014 as reported to you. We ask: What employer would reject a "pension concession" if there truly was one?

See the context of the January 13, 2014 proposals further stated below.

<u>Example Employee</u>

Hire Date September 2, 1980
Birth Date May 10, 1961
Annual Income: $78,018.66
Employee Wishes To Retire at Age 55

<u>Years of Service:</u>

Sept 2, 1980 to May 30, 2011	32 years @ 2.275%	(See Article 23.1.1.1)
June 1, 2011 to May 30, 2012	1 Year @ 1.59%	(See Article 23.1.1.2)
June 1, 2012 to May 30, 2016	4 Years @ 2%	(See Article 23.1.1.3)

CSEA Economic Proposal/Imposed Terms			AEU Economic Proposal
Wages	Oct 1, 2013	1.75%	Oct 1, 2013 3%
	June 1, 2014	0%	June 1, 2014 2%
	Dec 1, 2014	0%	Dec 1, 2014 2%
H&W	Oct 1, 2013	1.25% Employee Contribution	Oct 1, 2013 No contribution
	Oct 1, 2014	Reopen	Oct 1, 2014 No Contribution
Pension	No Changes to Pension 4 years		June 1, 2014-May 31 2015 2% Factor @ 0%

Difference in the impact of both proposals on salary and pension earnings with same number of years worked:

Salary:

CSEA		AEU	
$78,018.66 x 1.75%=$1,365.31=		$78,018.66 x 3%=$2340.59=	
	$79,383.97		$80,359.22
Longevity	16%	June 1, 2014	2%
	$12,701.28		$1,607.18
	$92,701.28		$81,966.40
		Dec 1, 2014	2%
			$1,639.32
			$83,605.72
		Longevity	16%
			$13,376.91
			$96,982.63

AEU's $96, 982.63 minus CSEA's $92,701.28 = **$4,281.35** salary increase under AEU proposal.

Additional salary from removal of the 1.25% salary employee contribution for health care under AEU proposal:

	$1,158.76 (Not reduced from pay check for H&W)
	$4,281.35
TOTAL SALARY INCREASE	**$5,440.11**

Pension Earnings

Percentage of Annual Earnings Immediately Prior To Retirement:

CSEA		AEU	
32 years @ 2.275 =	72.8%	32 years @ 2.275=	72.8%
1 year @ 1.59% =	1.59%	1 year @ 1.59% =	1.59%
4 years @ 2% =	8%	3 years @ 2% =	6%
TOTAL	82.39%	TOTAL	80.39%

Percentage Applied To Annual Salary (how much this employee gets per year in retirement):

CSEA	AEU
$92,701.29	$96,982.63
82.39%	80.39%
$76,376.58	$77,964.33

Assuming a retirement date at age 55 = **$1,587.75** increase per year in Annual Pension Earnings. The employee also enjoys the additional **$5,440.11** salary. No additional year of work is triggered. The calculations above are for illustrative purposes only.[1]

[1] We advise that you always consult the CSEA Retirement Plan documents, the contract terms in force at the time, and a professional expert when planning for your specific retirement. Because both estimates and assumptions are used to arrive at benefits amounts shown in your Milliman "Explanation of Participant Benefit Statement" for example, the benefit amounts will not always be precise. We underscore here that CSEA has ***rejected*** the AEU economic proposal illustrated above in current collective bargaining. It is included for illustrative purposes of the last AEU package proposal only.

(CSEA's claim that AEU's proposal "alters an employee's planned retirement date by removing a year of service credit in order to pay salary increases" ("Peter-to-Pay-Paul") is not true. (See February 4, 2014 Keith Pace letter to AEU Chief Spokesperson Chris Platten at p.1, 4th paragraph posted on CSEA's Website.) No additional year of work is implicated by AEU's proposal. CSEA's description of a "pension concession" by the one year accrual suspension is a "concession in a vacuum" and misleading.)

How Was AEU's Proposal Possible?

The one year "pension accrual suspension" ("soft freeze" in actuarial language, see *fn* 4) yields a "savings" to CSEA of about $3 million by a decrease in the pension contribution payment for that year. This amount would not need to be paid out of the General Fund effectively removing CSEA's fiscal arguments for its concessionary proposal(s) despite Prop 30 success, then later why it cannot afford anything above the expired contract now ("0,0,0"). The "savings" *is further sufficient to cover full pension restoration.* This conclusion is a result of the hard fought actuarial battle that has now nailed CSEA down on accurate pension costs which *CSEA can no longer credibly deny moving forward.*[2]

This source of funding is above and beyond the anticipated CSEA funding increases from the much talked about new state money to schools; money generated by any elimination of the CSEA dues cap or any potential dues increase, and *the $3.8 million already identified as available* (e.g., over budgeted pension costs of $1.9 million admitted by Keith Pace in his letter dated September 10, 2013 to Chris Platten and Scott Hendries, in addition to another $1.9 million budgeted for "ghost" employees admitted by Jeff Kumataka during Platten cross-examination of the CSEA budget at the table.)

CSEA's "Pension Suspension" Solution

We cannot take credit however for the "creative" approach in our January 13, 2014 proposal because *it was CSEA itself who raised the concept* of the fiscal solution. At the table on January 13, 2014, CSEA stated that it offered a one year "pension suspension" (generating some $6 million in savings to CSEA) to the 2010 AEU bargaining team who chose the current two tier and reduced pension accrual factor "cuts" instead.[3] In other words, if AEU had taken the temporary pension suspension as CSEA offered, sufficient money would have generated to automatically restore the 2.275% factor after one year and the two tier system would not have been implemented. According to CSEA, today's salary and pension restoration issues were "created by AEU itself."

---

[2] This is an unprecedented achievement through AEU's employment of an expert witness actuary at or above the Milliman level and represents lessons learned from the 2010 negotiations. As stated on the face of its proposal on January 13, 2014, CSEA has already begun to deny the pension costs reconciled between the actuaries on October 18, 2013 [". . . CSEA disagrees with AEU's assertions that their former pension proposal would cost only $400,000. . . ." In the February 4, 2014 letter rejecting AEU's proposal, Keith Pace goes on to argue that the approximate $400k cost for pension restoration was "based on assumptions that were not accurate." It is this very "shifting assumptions" game that triggered the pension arbitration in 2012. The arbitrator found that CSEA intentionally manipulated the figures in bad faith to avoid paying monies owed to the unit under the contract yielding the 2% wage pay-outs in December 2012. Prior to the actuarial work in these negotiations, CSEA's manipulation of accurate pension costs has historically plagued AEU at the table.

[3] CSEA has most recently taken the position that the 2% and two tier are permanent.

CSEA handed us the same proposal in substance outlined below. After 24 bargaining sessions and 11 very difficult months, AEU called CSEA's bluff by its term in our proposal.[4] The parties were at the tipping point in these negotiations.

At about 3:00 p.m., CSEA chose not to respond to our proposal stating they were taken off guard and needed time to process the proposal including new actuarial costing. CSEA asked for a recess before returning to the table on another day. We reported this out to you that afternoon. Before night fall that same day, CSEA blind-sided us by its "At the Table" update misleading the unit in news headline fashion that AEU offered a harmful "pension concession." The recess turned into 18 days prompting a follow up letter by AEU's Platten on January 31, 2014. CSEA's Pace responded to Platten on February 4, 2014 including CSEA's counter proposal below *rejecting its own concept of solution* and AEU's proposal in its entirety. AEU provides you with the details following CSEA's most recent rejection of each and every AEU economic proposal since the beginning of bargaining.

CSEA's Current Proposal

As previously reported, CSEA's current offer to you is as follows:

1. Article 13 Salary Schedules and Related Matters
   a. The parties agree to reopen Article 13 on October 1st of 2014, 2015, and 2016.

2. Article 22 Insurance Plans
   a. The parties agree to reopen Article 22 on October 1st of 2014, 2015, and 2016.

3. Article 27 Duration
   a. The parties agree to a 4-year term of June 1, 2013 through May 31, 2017.

4. All of the imposed terms contained in CSEA's letter of September 25, 2013 and attachments.

The offer is the same in substance as the CSEA proposal provided on January 13, 2014 following the unit's rejection of ED Low's "0,0,0" on December 8, 2013 in Visalia.[5]
Rather than finally close the deal after AEU significantly moved that morning to accept Low's "0,0,0" but for salary increases pending economic reopeners in years three and four -- *CSEA went far the other way*. By its counter that day and again by its current terms above, CSEA proposes to keep AEU in perpetual bargaining and labor unrest on salary and health care for four

[4] To reach a savings anywhere near the $6 million stated by CSEA on January 13, 2014, a "hard freeze" in actuarial language would be implicated. If fact, the $6M figure appears to be an overstatement even if a "hard freeze." Under a "hard freeze" both the benefit accrual (service credit) factor and the average monthly compensation (salary) factor are frozen grinding all pension earnings to a complete standstill for that year. In contrast, AEU proposed a "soft freeze" under its package proposal including a total 7% salary increase. Under this approach, the benefit accrual factor only is frozen. When combined with the 7% salary increase (average monthly compensation factor for purposes here) the effect is the gain in both pension earnings and immediate salary demonstrated in the illustration above. A "soft freeze" generates an approximate $3 million in savings to CSEA as stated. A "hard freeze" would have increased that amount by approximately $1 million for a possible savings total to CSEA of some $4 million but in that case, there could not be any gains for staff as sought by CSEA in 2010. We underscore that AEU did *not* propose a "hard freeze" here as CSEA appears to have offered in the 2010 negotiations.

[5] Clarification of the "imposed terms contained in CSEA's letter of September 25, 2013" is required. The September 25, 2013 imposed terms specifically include the employee pension contribution later shifted to the health and welfare deduction in your paycheck today. It is uncertain whether CSEA returns to a pension contribution by its latest proposal or simply failed to clarify in its February 4, 2014 letter.)

continuous years. [6] Pension is completely removed from the table in direct contrast to Pace's statement in a letter dated October 31, 2013 that CSEA is "willing to negotiate pension restoration elements after CSEA's economic condition sufficiently improves." Retiree medical remains threatened. Without explanation, none of the non-economic tentative agreements reached after September 25, 2013 would be honored.

Conclusion

The membership must now collectively consider what this means and where this leaves us. Research into potential affiliation and labor council membership is already discussed.

Attached are copies of AEU's two proposals made on January 13, 2014; CSEA's proposal made on January 13, 2014; CSEA's February 4, 2014 proposal and the September 25, 2013 letter and attachments referenced by CSEA in its current proposal above. The Bargaining Team will seek to convene the Bargaining Council for its advice and counsel in the near future. The National Labor Relations Board is set to commence its investigation of AEU's unfair labor practice charge challenging CSEA's impasse and imposition and other bargaining conduct this week. CSEA has yet to comply with the Notice posting on the Op 6 cell phone unfair practice found against it which AEU is monitoring.

The need for unity has never been more paramount.

The AEU Bargaining Team

[6] We note our concern regarding CSEA's imposition of the H/W employee contribution as a *percentage of salary*. This is outside the equitable standard in health care cost sharing of the insurance premium -- not a percentage of your salary -- in contracts throughout the state.