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July 16, 2013

***Via E-Mail & U.S. Mail***

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**Re: AEU and CSEA – 2013 Contract Negotiations  
(Ongoing Information Requests)**

Gentlemen:

Enclosed please find a more detailed response addressing each of the ten points raised on pages one through six of Mr. Pace's letter of July 10<sup>th</sup>.

Once again, we reiterate that it is evident that CSEA is using accounting accrual figures rather than actuarial cost figures in responding to information requests concerning the costs of AEU's bargaining proposal. CSEA's continued use of accrual accounting to explain costs of pension liabilities in its budget documents exacerbates the misinformation concerning the true cost of AEU's pension proposals.

In order to clarify this issue, we again request that CSEA's actuary at Milliman and Robertson speak directly with AEU's actuary Thomas Lowman to attempt to reach agreement on the relevant cost of AEU's pension proposal.

We had hoped that any questions concerning the pension cost data received from CSEA would have been resolved by direct communication between the actuaries in time to meet for the bargaining on July 15<sup>th</sup>, at least on the issue of pension benefits.

Unfortunately, that conversation has yet to take place and we hope that it will shortly.

We await receipt of CSEA's FY 2013 financial report which according to Mr. Pace's letter of July 10<sup>th</sup> will appear shortly. This, combined with Milliman's June 1, 2013 Funding Valuation Report, will permit the parties to meet again in bargaining ASAP. Please provide a copy of the CSEA Retirement Plan FASB ASC 715-20 FY 2013 and the CSEA Retiree Medical Plan FASB ASC 715-20 FY 2013 report.

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AEU also requests a statement from CSEA confirming the dollar contribution amount for FY 2013 made by CSEA to the Retirement Plan and to the VEBA medical plan – not the accrued figure, but the actual dollar contribution amount.

Again, if there are any further questions concerning AEU's cost data of its pension proposals, we request that dialogue take place immediately by and between the two actuaries to resolve any outstanding issues.

Your courtesy and cooperation in this ongoing matter is appreciated.

Very truly yours,



CHRISTOPHER E. PLATTEN

CEP:Imt  
Enclosure

cc: Scott Hendries, AEU  
Karen Hartmann, AEU  
Valerie Hollins, AEU  
Debbie Pichetto, AEU  
Carol Koenig, Esq.

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1. As mentioned in the original response, the \$837,000 estimate is based on the provisions of the June 1, 2012 valuation report provided by Milliman. These provisions are listed in Appendix B of the report. The early retirement age listed on page B-3 is 55 for participants hired until June 1, 2011, and 59 for participants hired after June 1, 2011. The answer to the question is then no, the cost estimate does not reflect a reduction of the early retirement age from 59 to 55. The normal retirement age listed on B-2 is 60 for participants hired until June 1, 2011, and 65 for employees hired after June 1, 2011. The answer to the question is then no, the cost estimate does not reflect a reduction of the normal retirement age from age 65 to 60. The escalator provision is not listed in Appendix B, so due to the lack of information, the estimate does not reflect this restoration. The provisions were changed to only affect new hires after June 1, 2011, which means the majority of the participants still have the normal retirement age of 60 and the early retirement age of 55. This should have a minimal effect on the change in cost, since it affects very few people.
2. As mentioned in the original response, the cost of A is \$1,309,531, and the cost of B is \$525,724. Because the provisions in Appendix B do not reflect C, D, and E, there is not enough information to estimate their costs. The specific calculations have been provided in the original response to question B, but are repeated below:

The amount of \$837,000 was calculated as follows:

Increase for future years:

Normal cost using 2.0%: \$3,823,450

Normal cost using 2.275%:  $\$3,823,450 \times (2.275\%/2.0\%) = \$4,349,174$

Difference:  $\$4,349,174 - \$3,823,450 = \$525,724$ , rounded to **\$526,000**.

Restore 2011 and 2012 plan year:

2011:

Normal cost using 1.59%:  $\$3,823,450 \times (1.59\%/2.0\%) = \$3,039,643$

Difference:  $\$4,349,174 - \$3,039,643 = \$1,309,531$

2012:

**\$525,724** (calculated above)

Total amount to restore 2011 and 2012:  $\$1,309,531 + \$525,724 = \$1,835,255$

Amortization factor for 7 years using 2012 MAP-21 Segment Rates: 5.8919

Amortization of 2011 and 2012:  $\$1,835,255 / 5.8919 = \$311,488$ , rounded to **\$311,000**.

The total cost is  $\$526,000 + \$311,000 = \mathbf{\$837,000}$ .

Note on estimates: Since the normal cost is the change in the accrued benefit for the upcoming year, it includes the change in average compensation using valuation assumptions and assumes

that participants will be credited with a year of service. To get the true impact of the restoration of benefits and increases for future years, we would need a census file and complete a full valuation. Our estimates are limited to using the normal cost on the valuation report.

3. As mentioned in the original response, and repeated at the end of the response of 2, our estimates are limited to using the normal cost on valuation report that was created by Milliman. More information would be required, such as a census file, to complete a report. These estimates only use a proration of the normal cost in the valuation report. The amounts in 2 are the supporting cost calculations. No actuary report was done to derive the estimated cost of \$837,000.
4. Please see the answer to 3. This estimate does not include the pension formula escalator provision from age 60.25 to 65, the reduction of the early retirement age from 59 to 55 and the reduction of the normal retirement age from 65 to 60, however the impact from these provisions should be minimal.
5. Resolved
6. As mentioned in the original response, the assumptions used are in Appendix A of the June 1, 2012 valuation report provided by Milliman. Also, as mentioned in the original response, the estimates use the provision in Appendix B, which do not reflect the changes to the provisions of the pension formula escalator, the early retirement age, or the normal retirement age.
7. Resolved.
8. The following was the response to question E in the original response:

The restoration of benefits would be amortized over 7 years. The increase for future years would be for each year the benefit accrual rate is 2.275%.

To further clarify, the restoration of benefits for past years would be paid annually for 7 years. This restoration applied for future years would be the estimated cost of the increase from 2.0% to 2.275% for the entire period the CBA, as long the benefit accrual rate is 2.275%.
9. As mentioned in the original response, the estimates use the provisions in Appendix B, which do not reflect the changes to the provisions of the pension formula escalator, the early retirement age, or the normal retirement age. These calculations have been repeated under response 2. The \$837,000 amount will be the annual increase for 7 years. After 7 years, the amortization is complete for the restoration, and what remains is the future increase of \$526,000 per year.
10. As mentioned in the original response and repeated in response 2, the \$1.8 million is calculated as:

Increase for future years:

Normal cost using 2.0%: \$3,823,450

Normal cost using 2.275%:  $\$3,823,450 \times (2.275\%/2.0\%) = \$4,349,174$

Difference:  $\$4,349,174 - \$3,823,450 = \$525,724$ , rounded to \$526,000.

Restore 2011 and 2012 plan year:

2011:

Normal cost using 1.59%:  $\$3,823,450 \times (1.59\%/2.0\%) = \$3,039,643$

Difference:  $\$4,349,174 - \$3,039,643 = \$1,309,531$

2012:

\$525,724 (calculated above)

**Total amount to restore 2011 and 2012:  $\$1,309,531 + \$525,724 = \$1,835,255$**

Amortization factor for 7 years using 2012 MAP-21 Segment Rates: 5.8919

Amortization of 2011 and 2012:  $\$1,835,255 / 5.8919 = \$311,488$ , rounded to \$311,000.