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**From:** Moehle, Michael  
**Sent:** Friday, March 25, 2011 1:21 PM  
**To:** Crosby, Russell  
**Subject:** RE: Firefighter 10% Pay Reduction

**Follow Up Flag:** Follow up  
**Flag Status:** Flagged

**Categories:** IMPORTANT

Let me know when you are ok with sending this.

Michael Moehle  
Retirement Investment Officer  
City of San Jose  
Department of Retirement Services  
[REDACTED]

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**From:** Crosby, Russell  
**Sent:** Wednesday, March 23, 2011 4:47 PM  
**To:** Moehle, Michael  
**Subject:** Re: Firefighter 10% Pay Reduction

Ok on never recd. Tell him I didn't look today carefully and thought it was what you've been working on. Yes on last look, but won't be until tomorrow.

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**From:** Moehle, Michael  
**To:** Crosby, Russell  
**Sent:** Wed Mar 23 16:42:19 2011  
**Subject:** FW: Firefighter 10% Pay Reduction

Do you want one last look? I would prefer to say we never received his prior email – I cannot find it either.

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**From:** Crosby, Russell  
**Sent:** Wednesday, March 23, 2011 4:25 PM  
**To:** Moehle, Michael  
**Subject:** Re: Firefighter 10% Pay Reduction

I'm ok w the 3 inserts. Lots of typos though. On the 3rd one expand to say that those savings will never materialize as the expected demographic and discount rate changes are incorporated.

When I saw the subject line I thought this was the project you were on for them... I still don't find this underlying email from 3/9 in my files. Strange. Just say we both overlooked?

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**From:** Moehle, Michael  
**To:** Crosby, Russell

**Sent:** Wed Mar 23 14:36:21 2011  
**Subject:** RE: Firefighter 10% Pay Reduction

Russell

My comments are inserted below. We may want to tell Sean that I did not see his request before today so he knows we are trying to be responsive. Note that, for his 3<sup>rd</sup> bullet, if assumptions are "fixed" in the future, such as the discount rate and the salary scale (as we have discussed previously), the savings for the 10% reduction in pay would actually be larger than what I have calculated. This is because the starting point, after the assumption fixes, would be higher so the savings would be higher, however the final contributions would still be higher than they are before the 10% pay cut and the fixing of assumptions. I would rather not point this out.

Mike

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**From:** Crosby, Russell  
**Sent:** Wednesday, March 23, 2011 1:53 PM  
**To:** Sean Kaldor; Moehle, Michael  
**Subject:** RE: Firefighter 10% Pay Reduction

Mike is working now. Anticipate something tomorrow.

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**From:** Sean Kaldor [mailto:██████████@sanjoseca.gov]  
**Sent:** Wednesday, March 23, 2011 1:51 PM  
**To:** Moehle, Michael  
**Cc:** Crosby, Russell  
**Subject:** Re: Firefighter 10% Pay Reduction

I haven't heard back. Are you still working on this?

Sean

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**From:** Sean Kaldor <██████████@sanjoseca.gov>  
**To:** "Moehle, Michael" <██████████@sanjoseca.gov>  
**Cc:** "Crosby, Russell" <██████████@sanjoseca.gov>  
**Sent:** Wed, March 16, 2011 2:47:23 PM  
**Subject:** Re: Firefighter 10% Pay Reduction

Thanks for your email. Here is the request I was referencing, below.

Thanks,

Sean

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**From:** Sean Kaldor <██████████@sanjoseca.gov>  
**To:** "Moehle, Michael" <██████████@sanjoseca.gov>  
**Cc:** "Crosby, Russell" <██████████@sanjoseca.gov>  
**Sent:** Wed, March 9, 2011 5:13:14 PM  
**Subject:** Re: Firefighter 10% Pay Reduction

Michael,

Thank you for the analysis. It is very detailed and very timely, speaking volumes about the quality of work being done in Retirement Services. I would like to explain this information accurately to anyone who plans to consider it, so I have a few questions and thoughts.

>I understand that 2011-12 fiscal year contributions were established on the June 2010 valuation. If the impact in 2011-12 could be assumed to be significant, would it be possible for someone (City, L230) to sponsor an analysis to update/recalculate the 2011-12 contribution rate that would hold all else equal, but factor in this one change? Just checking, because it could be worth a lot to the City. NOTE THAT POA HAD THE SAME QUESTION. IF WE WERE ABLE TO HAVE SEGAL REDO THE VALUATION, SEGAL WOULD THEN BE TAKING INTO ACCOUNT AN EVENT WHICH TOOK PLACE AFTER THE VALUATION. THERE MAY BE MANY WAYS SEGAL COULD ACCOMPLISH THIS SUCH AS A SELECT SALARY ASSUMPTION – BUT I CANNOT SAY THEY WOULD ACTUALLY AGREE TO THAT. FOR MILLIMAN, IT MAY TAKE SEVERAL MONTHS BEFORE THEY ARE IN ANY POSITION TO REPRODUCE THE VALUATION AND I DO NOT KNOW IF THEY WOULD AGREE EITHER. WE HAVE ALSO SAID THAT THERE MAY BE OTHER OFFSETTING EVENTS (MORE RETIREMENTS FOR FEDERATED FOR EXAMPLE) SO WE COULD BE ACCUSED OF CHERRY PICKING. I THINK THIS WOULD ALSO REQUIRE BOARD APPROVAL AND MAYBE MUNI CODE CHANGES.

>You've presented three scenarios for 2012-13 fiscal year. Each involves whether the 10% pay reduction is "made up over time". I understand this to mean that this considers whether the reduction sunsets/expires, and/or if there would be several years of raises following the contract to make up for the reduction. In other words, any "make up" would be an assumption of raises above the current 4.75% assumed by the actuary. If this is correct (please verify), then I believe it would be appropriate to assume there is no make-up to the 10%. There is no agreement to receive it back in any timeframe, and there will be economic forces negatively affecting the ability to support any type of extra wage recovery for the foreseeable future. It would seem that, if wages should be assumed to raise faster in the future, then the actuary assumption of 4.75% should be revisited. Nothing else indicates this should be revised upward. MY THINKING WAS THAT THE 10% REDUCTION MAY BE MADE UP OVER TIME FOR COMPETITIVE REASONS AND THE ACTUARY MAY INCREASE THE 4.25% UNDERLYING PAYROLL GROWTH ASSUMPTION IN ANTICIPATION OF THAT. THE ACTUARY WILL HAVE TO SIGN OFF ON WHATEVER ASSUMPTION THEY USE AS BEING REASONABLE, USING THEIR PROFESSIONAL JUDGEMENT. TO THE EXTENT THEY INCREASE THEIR ASSUMPTION FOR THAT, THE LOWER THE SAVINGS WILL BE.

>I completely understand that there will be a new valuation by a new actuary. So if you forecast the city contribution will change to \$X, the actual rate may be very different as a result of other assumption changes and result changes in that valuation. However, it does seem that an estimate of the negative or positive impact would hold true. So if \$1M of savings is projected by a policy/pay/plan change, then the next contribution rate would be approximately \$1M different than whatever is ultimately determined had that change not taken place. So in other words, the "effect on the contribution" (or "change in contribution") would hold roughly true, but the actual total contribution amount will be affected by a range of other assumptions and market results. (Acknowledging that this "effect on contribution" may be impacted somewhat by changing assumptions - so it is not a firm hard dollar amount.) AGREE, BUT THAT DEPENDS ON WHAT THE ACTUARY ASSUMES WITH RESPECT TO WHETHER THE 10% REDUCTION IS MADE UP OVER TIME. ANY "SAVINGS" DUE TO THE 10% PAY CUT MAY BE OFFSET UP BY FUTURE EXPECTED CHANGES IN DEMOGRAPHIC OR ECONOMIC ASSUMPTIONS.

>So combining my last two points above, would it be accurate to say that L230 firefighters taking a 10% pay reduction, with maintenance of the "highest 12 months" for final average salary rules, and assuming the ongoing actuary wage increase factor of 4.75% per the current actuarial assumptions so no extra make-up of the 10% reduction, that the 2012/13 fiscal year amount paid by the city would be reduced by \$6,143,000 (\$2,666,000 for normal cost and \$3,477,000 in UAAL)? AGREE, USING CURRENT ASSUMPTIONS AND PAY LEVELS.

Sean

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**From:** "Moehle, Michael" <[REDACTED]@gov>  
**To:** [REDACTED]  
**Cc:** "Crosby, Russell" <[REDACTED]@gov>  
**Sent:** Wed, March 9, 2011 1:22:04 PM  
**Subject:** FW: Firefighter 10% Pay Reduction

Sean

We understand that the Firefighters have agreed to approximately a 10% pay reduction effective June 26, 2011, except that the highest 12 month pensionable pay will be grandfathered. We have summarized below our understanding how this will impact pension plan contributions under current Board methodologies and assumptions.

**Impact on the 2011-12 Fiscal Year Contributions**

This reduction will be reflected in the June 30, 2011 actuarial valuation and will affect the contributions for the 2012-13 fiscal year, but will not affect the contributions for the 2011-12 fiscal year, as those contributions have been already determined in the June 30, 2010 valuation (as contributions are applied on a one-year delayed basis).

**Impact on the 2012-13 Fiscal Year Contributions**

We have prepared three scenarios:

1. None of the 10% pay reduction is made up over time.
2. 50% of the pay cut is made up over time.
3. 100% of the 10% pay cut is made up over time.

Our estimates may change in that there will be an experience study performed as part of the June 30, 2011 valuation, which may result in new methods and/or assumptions to be used for the June 30, 2011 valuation. The total reduction in liability would be approximately \$42M if none of the 10% pay reduction is eventually made up by employees. The reduction in liability would be \$21M if one-half of the 10% pay reduction is eventually made up by employees. The reduction in liability would be \$0 if all of the 10% pay in pay reduction is eventually made back by the employees.

Using the results from the June 30, 2010 valuation for estimation purposes, the 10% pay reduction would have the following approximate impacts, starting with the 2012-13 fiscal year:

**Before impact of 10% pay reduction**

City normal cost is 28.53% of payroll or \$26,662,000.  
Member normal cost is 10.70% of payroll or \$9,999,000.  
City UAAL contribution is \$21,504,000.

**After impact of 10% pay reduction**

City normal cost is 28.53% of payroll or \$23,996,000.  
Member normal cost is 10.70% of payroll or \$8,999,000.

**Scenario 1: None of the 10% in pay reduction is made back**

City UAAL contribution is \$18,027,000.

The total estimated City savings would be \$2,666,000 for normal cost and \$3,477,000 in UAAL payments. The total estimated employee normal cost savings would be \$1,000,000.

Scenario 2: One-half of the 10% in pay reduction is made back  
City UAAL contribution is payroll or \$19,765,000.

The total estimated City savings would be \$2,666,000 for normal cost and \$1,739,000 in UAAL payments. The total estimated employee normal cost savings would be \$1,000,000.

Scenario 3: All of the 10% in pay reduction is made back  
City UAAL contribution payroll or \$21,504,000.

The total estimated City savings would be \$2,666,000 for normal cost and \$0 in UAAL payments. The total estimated employee normal cost savings would be \$1,000,000.

Also note that in the past, except for certain benefit improvements, the City UAAL cost is shared between Police and Fire members.

Mike

Michael Moehle  
Retirement Investment Officer  
City of San Jose  
Department of Retirement Services  
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