

**City of Houston, Texas**  
**Houston Firefighters' Relief and Retirement Fund**  
**Pension Reform Proposal Terms and Conditions**

Note: This document constitutes the essential terms and conditions of pension system reform for the purpose of guiding the Parties in connection with preparing pension reform legislation, and other implementing legal documents as required, and is designed to provide a sustainable pension plan.

**I. Summary of Transaction**

<b>Parties</b>	
<b>Plan Sponsor</b>	City of Houston, Texas (the "City")
<b>Plan Government Entity</b>	Houston Firefighters' Relief and Retirement Fund ("HFRRF")
<b>Proposed Effective Date</b>	July 1, 2017 or such other effective date(s) as may be agreed by the Parties

The summary that follows is subject to (1) appropriate validation by HFRRF's actuary of estimated impacts, (2) validation by the City's actuary, Retirement Horizons Incorporated ("RHI"), of estimated impacts utilizing data as provided under a mutually agreeable confidentiality agreement between HFRRF and RHI, (3) approval of the summary by the authorized governing bodies, and (4) legislation reflecting these terms and conditions, but no others (except as otherwise agreed by each of the parties in a mutually signed writing) enacted by the Texas Legislature. Execution of this document does not modify any existing statutory obligation. The parties intend to present a mutually agreed pension reform solution embodied in mutually agreed bill language in the form of legislation to the Legislature in November 2016 and to oppose amendments to such jointly proposed bill language other than those agreed to by the parties in writing executed by both parties. The Parties agree to oppose any bill or bill amendment, other than the jointly proposed bill language, that would materially alter the benefit terms, or effects of the jointly agreed and proposed bill language, or the risk sharing provisions which the Parties have agreed to, or any provisions of the current statute governing HFRRF, or any legislation that would otherwise make any changes to HFRRF, or the HFRRF plan to which the Parties have not mutually agreed. No terms and conditions exist other than those described in this summary, unless as otherwise might become agreed by each of the parties in a mutually signed writing. With the exception of retiree health insurance, which nonetheless is an important independent undertaking of the City, each proposed term or condition herein is dependent upon the others summarized herein and none may be regarded or considered piecemeal fashion or as an individually proposed change. The City and HFRRF must mutually agree upon which elements of these terms and conditions are to be contained in legislation and which are to be contained only in an agreement for this document to be valid. For purposes of these terms and conditions a reference to the "current statute" means Texas Civil Statutes, art. 6243e.2(1) on the date of signing of this document. No changes are intended to any sections or subsections of the current statute that are not referenced in this document, except if agreed by each of the parties in a mutually signed writing. All benefit changes operate prospectively only, unless specifically noted otherwise.

Neither party will oppose passage of the agreed-upon legislation, and will assist in its passage where appropriate. The parties understand that agreed-to changes to the Terms and Conditions may be reflected in the submitted legislation, and such agreed-upon changes control.

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**II. Assumptions and Methodology of Calculations**

<b>Pension System Annual Report Dated</b>	June 30, 2015
<b>Pension System Actuarial Valuation Report Dated</b>	June 30, 2015
<b>Net Asset Values</b>	Unaudited values as of June 30, 2016
<b>Actuarial Method</b>	Section III utilizes entry age normal actuarial cost method (per GASB 68) and fair market value of assets. Section VII Risk Sharing Provision will utilize standard entry age normal.
<b>Assumed Rate of Return</b>	7.00% NOTE: The City of Houston, Texas Comprehensive Annual Financial Report dated June 30, 2015 assumes a rate of return of 8.50%
<b>Amortization</b>	Amortization of the unfunded liability over a 30-year closed period
<b>City Funding Requirement</b>	Pay the full City Contribution Rate as defined in Section VII, at the intervals specified in the statute or no less frequently than on a bi-weekly basis

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**III. Estimated Financial Impacts**

<b>Net Pension Liability:</b>	
- As of June 30, 2015 Comprehensive Annual Financial Report	\$578 million @8.5%
- Estimated Net Pension Liability as of June 30, 2016 - Section II Assumptions and Methodology	\$1.46 billion @7.0%
- Estimated Net Pension Liability as of June 30, 2016 - Section II Assumptions and Methodology - Proposed Pension Reforms according to Section IV	\$658 million @7.0%
<b>Proposed Pension Reform Estimated Reduction to the Net Pension Liability</b>	<b>\$802 million @7.0%</b>
<b>Contribution Rates (% of payroll):</b>	
FY 2017 Budgeted Rate	33.20%
FY 2017 City Contribution Rate @ 8.50%	30.80%
Estimated FY 2018 City Contribution Rate @ 7.00%	56.10%
Estimated FY 2018 City Contribution Rate @ 7.00% with Proposed Pension Reforms	30.30%
<b>Proposed Pension Reform Estimated Reduction to the Contribution Rate</b>	<b>25.80%</b>
<b>Annual Contribution Amounts (\$millions):</b>	
FY 2017 Budget	\$91.6 million
FY 2017 Actuarially Determined Contribution @ 8.50%	\$85.0 million
Estimated FY 2018 Actuarially Determined Contribution @ 7.00%	\$154.8 million
Estimated FY 2018 Actuarially Determined Contribution @ 7.00% with Proposed Pension Reforms	\$79.1 million
<b>Proposed Pension Reform Estimated Cost Avoidance</b>	<b>\$71.2 million</b>

**NOTE: Any changes made to benefit reductions stated herein will be offset so that the amount of total proposed pension reform estimated reduction to the NPL remains \$802 Million without issuance of POBs.**

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**IV. Proposed Revisions to Plan Provisions**

<b>Age of Retirement Eligibility</b>	<b>Current</b>	20 years of service
	<b>Proposed</b>	Rule of 70 for new hires
<b>Average Salary</b>	<b>Current</b>	Highest 78 pay periods of salary, as defined in current statute including overtime
	<b>Proposed</b>	Highest 78 pay periods of salary, as defined in current statute, for tested positions; excluding overtime, but overtime earned prior to bill or provision effective date remains credited
<b>Base Benefit Accrual Rate</b>	<b>Current</b>	Service years 1-20: 2.5% per year Service years 20+ : 3.0% per year 80% max
	<b>Proposed</b>	Prospectively for future service only: 2.5% per year of service; accrual of service time for base pension benefit purposes capped at 80%
<b>Average Salary for DROP Participants</b>	<b>Current</b>	The monthly benefit for a participant at actual retirement will increase 2% for each of ten years of DROP participation as an active member (Max 20%)
	<b>Proposed</b>	Those entering DROP after the Effective Date of the statute will not receive the increase in annuity benefit.
<b>COLA</b>	<b>Current</b>	3% compounded beginning at age 48 for active DROP participants and retirees
	<b>Proposed</b>	- Pre-1997 retirees receive COLA based on what is granted by Social Security with a 1% floor for three years - Post-1997 retirees receive no COLA for three years - After the three years, COLA for all members is based on what is granted by Social Security - COLA eligibility beginning at age 50
<b>Member Contributions</b>	<b>Current</b>	9.00%
	<b>Proposed</b>	10.50%
<b>DROP Eligibility</b>	<b>Current</b>	20 years of service
	<b>Proposed</b>	20 years of service if hired prior to the Effective Date

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<b>DROP Length of Participation</b>	<b>Current</b>	May elect to participate for up to 13 years as an active member, member contributions will only be credited for the first 10 years; annuity increases, per above, per year of participation; COLA at age 48; DROP account may be maintained with system at retirement
	<b>Proposed</b>	- If already in DROP, can stay in DROP up to 13 years; DROP account may be maintained with system at retirement - 10 years as an active member, if years of service is equal to or greater than 10 years as of the Effective Date; DROP account may be maintained with system at retirement - 7 years as an active member, if years of service is less than 10 years as of the Effective Date; DROP account may be maintained with system at retirement
<b>DROP COLA Credit</b>	<b>Current</b>	The COLA on the annuity credited to DROP account for active members in DROP.
	<b>Proposed</b>	Eliminate the COLA on the annuity credited to DROP accounts for active members in DROP (prospectively for participants currently in DROP and for future active participants)
<b>DROP Interest Credit</b>	<b>Current</b>	Five (5) year average investment earnings/losses with floor of 5% and ceiling of 10%
	<b>Proposed</b>	70% of five (5) year arithmetic average return; not less than 4% or greater than 7%
<b>PROP Eligibility</b>	<b>Current</b>	Retired
	<b>Proposed</b>	No future contributions to PROP by PROP participants and no eligibility to become a new PROP participant. Current balances will receive revised DROP interest credit.
<b>Drag-Up Pay to DROP Accounts</b>	<b>Current</b>	Unused leave pay is paid out to member as mustering out pay.
	<b>Proposed</b>	For all members with DROP accounts, Unused Leave Pay (as defined below) is contributed on a non-elective basis by the City at retirement to the individual DROP account instead of being paid out to member as mustering out pay. "Unused leave pay" means the accrued value of unused leave time payable to an employee after separation from service in accordance with applicable law and agreements.

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**V. Proposed Revisions to Governance Structure**

NOTE: The pension system may already practice the following and commits to future practice of the following:

<b>Frequency of Reporting</b>	Statutorily prescribed annual financial audit remains. Annual Risk Sharing Valuation audit as provided herein.
<b>Investment Audit</b>	<p>The pension system shall conduct an outside investment review and publish a report at least once every three (3) years or demonstrate in the published annual financial report that the following items have been reviewed by an outside investment professional.</p> <ul style="list-style-type: none"> <li>• Investment Policy Statement (which can include review or creation of policies on Gifts, Ethics, Insider Trading)</li> <li>• Asset Allocation, including a discussion of the various risks, objectives, and expected future cash flows</li> <li>• Portfolio Structure, including need for liquidity, cash income, real return, inflation protection, and active/passive/index approaches for different portions of the portfolio</li> <li>• Manager Performance Review and the processes used to retain and evaluate managers</li> <li>• Benchmarks used for asset classes and/or particular managers</li> <li>• Fees, Trading Costs</li> <li>• Any Leverage, FX hedging, or other hedging</li> <li>• Investment-Related Disclosures in retirement system annual reports</li> </ul>
<b>Investment Consultant</b>	Utilization of general consultant

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**VI. Information Sharing**

Subject to an agreement containing confidentiality provisions between the pension system and the City's retained actuary ("Information Agreement"), the pension system agrees to provide the City's actuary with access to the same census data that is routinely used by the pension system's actuary for the pension system's valuation studies and which is reasonably necessary in connection with the Risk Sharing provisions agreed to by the parties. Such census data shall not include identifying information, as established in the Information Agreement.

The census data shall be protected from disclosure and may not be obtained by open records request through Texas Government Chapter 552, the governing statute of the pension system, the Freedom of Information Act, or any other applicable statutes.

Subject to the Information Agreement, the census data described above shall be supplied by the pension system only to the City's retained actuary acting as the City's representative or agent. At no time will the census data be shared directly with the City or its representatives or agents other than the City's retained actuary, except that the City's retained actuary acting as the City's representative or agent may perform analyses and create reports based on the census data for the City and its representatives or agents in connection with the Risk Sharing provisions agreed to by the parties solely to the extent such analyses and reports contain no information in a form identifiable with a specific individual. Further, in no way will such analyses or reports provide sensitive data for individuals or be grouped in such a way that sensitive data about individuals (or groups of individuals) could be discerned from the report. The scope and duration of use of the census data shall be determined in the Information Agreement.

**VII. Proposed Risk-Sharing Provision**

Attachment A

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**VIII. Other Items**

- A. Upon the next business day after the agreed legislation becomes law, the City will move to dismiss with prejudice each of the following cases relating to the Fund regardless of which court (district court, court of appeals, or Supreme Court) is hearing the case or has jurisdiction over the case, the case's procedural stance, or any court decisions issued before the date that the City must move to dismiss the case; and the City further agrees not to bring any lawsuit based on the same or similar allegations as appear in such case based in whole or in part on events that occurred prior to the date of such agreed legislation becoming law:
- (1) *The Board of Trustees of the Houston Firefighters' Relief and Retirement Fund v. The City of Houston, Texas*, Tex. App. 466 S.W. 3d 182 (Tex. App. - Houston [1<sup>st</sup> Dist.] 2015 pet. filed no. 15-0653) and
  - (2) *City of Houston v. Houston Firefighters' Relief and Retirement Fund*, No. 14-14-00437-CV (Tex. App.—Houston 14<sup>th</sup> Dist. 2016).
- B. Not as any covenant in any agreement between HFRRF with the City and not in exchange for, or forbearance of, any benefit for HFRRF members, or reduction in funding to be received by HFRRF, the HFRRF Trustees are advised that the City has chosen to reduce health insurance rates for Houston Fire Department retirees under the age of 65 to match those of Houston Police Department retirees of equivalent age, resulting in approximately a 9% savings in rates for retirees, effective July 1, 2017, or earlier.
- C. To the extent reasonably possible and consistent with the City's obligations to the parties engaged in collective bargaining with the City, the City will use best efforts to provide notification to the Pension System that such collective bargaining negotiations are occurring.

## ATTACHMENT A

### RISK SHARING PROVISION

#### I. RISK SHARING OBJECTIVES

- a. The goal is to agree upon a *formal risk-sharing plan*.
- b. To give greater certainty to all stakeholders of the circumstances under which changes may occur to plan design.
- c. To recognize that a defined benefit model requires a framework of regulation over time to ensure that it remains sustainable given changes that may occur to the overall economic environment.

#### II. RISK SHARING STRUCTURE

- a. The City shall pay the City Contribution Rate under the parties' proposed, mutually agreed legislation. Based on the assumptions and methods contained within this Risk Sharing Provision, no new unfunded liability is projected to accumulate. The parties acknowledge that the Risk Sharing Valuation Study ("RSVS") (as described in Section IV of this Risk Sharing Provision) is based on a single set of assumptions and that actual results are expected to differ in the future resulting in an increase or decrease in the pension liabilities. These future deviations shall be amortized and treated as a component of the City Contribution Rate.
- b. The Initial RSVS shall be marked to market, thus there shall be no unrecognized gain or loss in the value of assets in the Initial RSVS. Future RSVS shall employ asset smoothing as described in Section IV.b of this Risk Sharing Provision.
- c. The RSVS shall employ actuarial methods as described in Section IV and is intended to serve as the funding valuation.
- d. Each RSVS will be completed annually within 180 days of the end of HFRRF'S fiscal year.
- e. The City Contribution Rate shall not go above the Maximum Contribution Rate or below the Minimum Contribution Rate.
- f. HFRRF and the City may mutually agree in writing to benefit changes outside of those required by this Risk Sharing Provision, to the extent permitted by all applicable laws and regulations.
- g. In any written agreement between the City and HFRRF, the parties shall not fundamentally alter this Risk Sharing Provision, increase the Discount Rate to more than The Public Fund Survey's (or other reference point as mutually agreed upon by the City and HFRRF if The Public Fund Survey is unavailable or the data provided by The Public Fund Survey is unusable) median return assumption minus 150 basis points, extend the amortization of a Liability Layer to more than 30 years from the creation of the Liability Layer, or to allow a City Contribution Rate in any year that is less than the calculated City Contribution Rate as determined pursuant to the RSVS for that year.
- h. Should any legislative or regulatory or governmental agency interpretation change materially affecting the pension plan occur at any point in time that is not mutually agreed to by the City

and HFRRF, the parties shall mutually agree upon an appropriate Meet and Confer response within 120 days of the passage of the legislative or regulatory change to address the impacts of the legislative or regulatory change; until such time as the Parties reach a mutual agreement as required by this paragraph, the City shall continue to pay the then-current year's City Contribution Rate.

- i. This Agreement establishes a method for future years to regulate the sustainability of pension costs so that except as provided herein, the City Contribution Rate for that year is less than or equal to the Maximum Contribution Rate and greater than or equal to the Minimum Contribution Rate, and that if actual results fail to meet that purpose, pursuant to a written agreement between the City and HFRRF, the Parties will adjust the language herein as necessary to achieve such purpose.
- j. [PENDING: MUTUAL PENSION REFORM ENFORCEMENT MECHANISMS]

### III. RISK SHARING

#### a. FALLING COST

- 1. If the Funded Ratio is less than 90% and the City Contribution Rate is less than the Corridor Midpoint for the corresponding year, but equal to or greater than the Minimum Contribution Rate, then the City shall pay the Corridor Midpoint.
- 2. If the Funded Ratio is greater than or equal to 90% and the City Contribution Rate is less than the Corridor Midpoint for the corresponding year, but equal to or greater than the Minimum Contribution Rate, then the City shall pay the calculated City Contribution Rate.
- 3. If the City Contribution Rate is less than the Minimum Contribution Rate for the corresponding year, then the City shall contribute a rate equal to the Minimum Contribution Rate, unless stated otherwise, and make adjustments as follows:
  - 1. First, prospectively restore all or part of benefit cuts that may have been made subsequent to this agreement as a result of this Risk Sharing Provision pursuant to a written agreement between the City and HFRRF, and then,
  - 2. Second, accelerate the Payoff Year of existing Liability Layers, including the Legacy Liability, oldest layers first, and then,
  - 3. Third, consider and, if mutually agreed upon by the City and HFRRF, reduce the Discount Rate, and then,
  - 4. Fourth, if the Funded Ratio is less than 90%, the City shall pay the amount required by the Corridor Midpoint, and the payment will be applied to increase the Funded Ratio, and then,
  - 5. Fifth, if the Funded Ratio is between 90% and 100%, the City shall pay the amount required by the Minimum Contribution Rate, and the payment will be applied to increase the Funded Ratio, and then,

6. Sixth, if the Funded Ratio is at least 100%, all existing Amortization Bases, including the Legacy Liability, will be considered fully amortized and eliminated, and changes to other plan assumptions may be mutually agreed upon, and then,
7. Eighth, reduce employee contributions and increase other pension benefits pursuant to a written agreement between the City and HFRRF.
  1. If an agreement has not been reached within 120 days of the release of the RSVS, then member contributions shall be reduced and COLAs shall be increased in a manner as determined by HFRRF such that the City Contribution Rate is increased to the Minimum Contribution Rate.

b. RISING COST

1. If the City Contribution Rate is greater than the Maximum City Contribution Rate for the corresponding year, then the City shall make adjustments as follows:
  1. First, reduce the City Contribution Rate to no less than the Corridor Midpoint by extending the Payoff Year of existing Liability Layers, including the Legacy Liability, but to no more than the original 30-year Payoff Year, newest layers first, and then,
  2. Second, if the City Contribution Rate is greater than the Third Quarter Line, reduce the City Contribution Rate to the Third Quarter Line, pursuant to a written agreement between the City and HFRRF, by increasing employee contributions and make any other benefit changes permissible by all applicable laws and regulations.
    1. If an agreement has not been reached within 120 days of the final release of the RSVS for the corresponding year, then HFRRF shall increase member contributions, suspend COLAs, and/or increase retirement age such that the City Contribution Rate is decreased to the Corridor Midpoint.
  3. Third, if the City Contribution Rate in the third year after adjustments were required per Section III.b.1 is greater than the Corridor Midpoint, then, the City Contribution Rate shall be reduced to the Corridor Midpoint, pursuant to a written agreement between the City and HFRRF, by increasing employee contributions and make any other benefit changes permissible by all applicable laws and regulations.
    1. If an agreement has not been reached within 120 days of the final release of the RSVS for the corresponding year, then HFRRF shall increase member contributions, suspend COLAs, and/or increase retirement age such that the City Contribution Rate is decreased to the Corridor Midpoint.

#### IV. RISK SHARING VALUATION STUDY (“RSVS”)

This study shall be included in the pension system’s standard valuation study, shall be conducted annually by both HFRRF’s retained actuary and the City’s actuary within 180 days of the end of each HFRRF’s fiscal year, shall detail the City Contribution Rate before and after any adjustments required by this Risk Sharing Provision, and shall include the following assumptions and methods. All other assumptions and methods not listed below are set by the Fund consistent with Actuarial Standards of Practice:

- a. Standard Entry Age Normal,
- b. A smoothing method of actuarial losses and gains for no more than 5 years that is selected by the Fund, that treats actuarial losses and gains in the same fashion, and is consistent with Actuarial Standards of Practice, applied prospectively with the actuarial value of assets marked to mark as of June 30, 2016.
- c. Closed amortization matching the Amortization Period,
- d. The Discount Rate,
- e. The Price Inflation Assumption, and
- f. Salary increases and pensionable payroll growth rates set in consultation with the City’s Finance Director.

This RSVS will be performed by each of the parties’ actuaries. HFRRF will provide census data and assumptions used for RSVS purposes to the City’s actuary under an agreement containing confidentiality terms, , within 90 days of the end of HFRRF’S fiscal year for replication of the Risk Sharing Valuation Study. If the City Contribution Rate measurement performed by each party is within 2% of pensionable payroll, the results from the pension system’s actuary will be used. If the measured results have a variance that is greater than 2% of pensionable payroll, then the actuaries for the two parties will have two weeks to work together in an attempt to reconcile the difference. If after such attempts, there remains a variance of greater than 2% of pensionable payroll, the arithmetic average of the two sets of results determined by the HFRRF actuary and the City’s actuary, respectively, will be used. If, for any year, the City does not perform a RSVS then the results from the RSVS performed by HFRRF’s actuary will be used.

The Initial RSVS will serve as the basis for the Corridor Midpoint. The Initial RSVS will be performed by each of the parties. If the results are not within 2% of pensionable payroll in each year, then the actuaries of the two parties shall work together to reconcile differences greater than 2% of pensionable payroll. If after such attempts, there remains a variance of greater than 2% of pensionable payroll, the arithmetic average of the two sets of results determined by the HFRRF actuary and the City’s actuary, respectively, will be used.

## V. DEFINITIONS

**Amortization Base** – Means the Legacy Liability and, as determined pursuant to each annual RSVS following the Initial RSVS, an amount equal to the unanticipated change in the unfunded actuarial accrued liability (UAAL) from the prior year. These bases could be due to demographic experience, investment experience, assumption changes, City contributions in excess of the City Contribution Rate, etc.

**Amortization Period** – The length of time it will take to fully pay an Amortization Base. Each Amortization Base will be layered and have its own Amortization Period. This initial amortization for each Amortization Base will set a Payoff Year for that Liability Layer. This closed Amortization Period shall initially be 30 years from the creation of the Liability Layer for each “Loss Base.” The Amortization Period for each “Gain Base” shall be equal to the remaining Amortization Period on the largest remaining “Loss Base”.

**City’s Actuary** - The City will select an actuary from a professional service firm to perform the RSVS. The principal actuary may not already be providing actuarial services to any of the City’s retirement systems, must have a minimum of 10 years of professional actuarial experience, and must be a member of the American Academy of Actuaries or a Fellow of the Society of Actuaries who has met the requirements to issue Statements of Actuarial Opinion.

**City Contribution Rate** – A percent of pensionable payroll sufficient to pay Employer Normal Cost plus the amortization of Liability Layers, including the Legacy Liability.

**Corridor** – The range of City Contribution Rates that are greater than or equal to the Minimum Contribution Rate and less than the Maximum Contribution Rate.

**Corridor Margin** – Set at five (5) percent.

**Corridor Midpoint** –The Corridor Midpoint in any given year shall equal the City Contribution Rate, rounded to XX.XX% (i.e. rounded to the nearest hundredths decimal place), as projected out for 31 years according to the Initial RSVS. Two years prior to the Payoff Year of the Legacy Liability, pursuant to a written agreement between the City and HFRRF, the Parties shall agree upon a transition plan such that the Corridor Midpoint will be reset within no more than three years from the Payoff Year of the Legacy Liability to the projected City Contribution Rate of the 31<sup>st</sup> year as determined pursuant to the Initial RSVS.

**Discount Rate** – The assumed rate of return on investments, initially 7%, but subject to reduction according to Section III of this Risk Sharing Provision. The discount rate shall never be reduced below The Public Fund Survey’s median return assumption minus 150 basis points (Summary of Findings for FY 2014 dated March 2016 reports a median of 7.75% making the initial minimum assumed discount rate 6.25%). The reference point may be modified by mutual agreement between the City and HFRRF if The Public Fund Survey becomes unavailable or if the data is provided in such a way as to be unusable.

**Employer Normal Cost** – The portion of the actuarial present value of additional member contributions different from the year of the RSVS.

**Funded Ratio** - The ratio of the pension plan’s actuarial value of assets available for paying benefits divided by the Actuarial Accrued Liability.

**Gain Base** – Each Amortization Base resulting from an unanticipated change decreasing the UAAL.

**Initial RSVS** – The Risk Sharing Valuation Study as of June 30, 2016 which will set the Corridor Midpoint in each year for 31 years.

**Legacy Liability** – The Unfunded Actuarial Accrued Liability (UAAL) as of June 30, 2016 reduced by the final agreement on pension plan design reform and the amount of any Pension Obligation Bonds issued by the City to HFRRF and paid down over time. The Legacy Liability may be reduced further by any other City contributions made in excess of these those required by this Risk Sharing Provision and the Payoff Year of the Legacy Liability shall be accelerated such that the updated City Contribution Rate equals the City Contribution Rate calculated without such excess contributions.

**Level Percent of Payroll Method** – Amortization method which defines the amount recognized each year as a level percent of pensionable payroll (actual dollar amount recognized increases each year).

**Liability Layer** – Amortization Base established in each RSVS.

**Loss Base** – The Legacy Liability and each other Amortization Base resulting from an unanticipated change increasing the UAAL.

**Maximum Contribution Rate** – The sum of the Corridor Midpoint and the Corridor Margin.

**Minimum Contribution Rate** – The difference between the Corridor Midpoint and the Corridor Margin.

**Payoff Year** – The payoff year of an amortization is the year set when a base is fully amortized according to the Amortization Period. According to Section III, this Payoff Year may move forward or backwards in time, but to no more than 30 years or less than 20 years from the original year of the Liability Layer. If a “Gain Base” has the same Payoff Year as a “Loss Base,” the acceleration of the Payoff Year must be applied to both.

**Price Inflation Assumption** – As set with each experience study conducted by HFRRF, but no less than every five years, the most recent Fed’s Survey of Professional Forecasters current Headline CPI ten year forecast; (currently 2.15%) (<https://www.philadelphiafed.org/research-and-data/real-time-center/survey-of-professional-forecasters>) plus or minus up to 50 basis points. The reference point may be modified by mutual agreement between the City and HFRRF if the Fed’s Survey of Professional Forecasters Headline CPI ten year forecast becomes unavailable.

**Third Quarter Line** – The Corridor Midpoint plus half of the Corridor Margin.