City of Houston, Texas
Houston Municipal Employees Pension System
Pension Reform Proposal Terms and Conditions

Note: This document constitutes a brief summary of certain, but not all, transaction terms and conditions and is: (1) for the purpose of guiding the Parties in the preparation of a proposed "final agreement"; and, (2) to reflect the structure and terms of pension reform that, if incorporated into a binding agreement and legislation, reflect the City of Houston (the "City") and the Houston Municipal Employees Pension System's ("HMEPS'") goal of realizing a sustainable pension plan

I. Summary of Transaction

Parties	
Plan Sponsor	City of Houston, Texas (the "City")
Plan Administrator	Houston Municipal Employees Pension System ("HMEPS")
Proposed Effective Date	July 1, 2017

The summary that follows is subject to (1) appropriate validation by HMEPS' actuary of estimated impacts, (2) validation by the City's actuary, RHI, of estimated impacts utilizing data as provided in a mutually agreeable confidentiality agreement, (3) approval by the authorized governing bodies, and (4) legislation enacted by the Texas Legislature. These Terms and Conditions do not themselves modify any existing agreement or statutory obligation. The parties intend to present a mutually agreed pension reform solution in the form of legislation to the Legislature in November 2016, and to oppose amendments to any bill jointly proposed or supported by the Parties that would materially alter the economic benefit terms and risk sharing provisions to which the Parties have agreed or any legislation that would otherwise make any changes to HMEPS or the HMEPS plan to which the Parties have not mutually agreed. Neither party will oppose the 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-to changes control. Both parties agree that the submission of agreed-upon legislation is not a breach under the terms of the Meet and Confer Agreement between the City and the Board of Trustees of HMEPS.

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II. Assumptions and Methodology of HMEPS’ Calculations in Section III

Pension System Annual Report Dated	June 30, 2015
Pension System Actuarial Valuation Report Dated	July 1, 2015
Net Asset Values	Unaudited values as of June 30, 2016
Actuarial Method	Individual entry age normal actuarial cost method (per GASB 68) and fair market value of assets for calculating Net Pension Liability. Ultimate entry age normal actuarial cost method and fair market value of assets for calculating contribution rates. Section VII will utilize ultimate entry age normal actuarial cost method.
Assumed Rate of Return	7.00% NOTE: The City of Houston, Texas Comprehensive Annual Financial Report dated June 30, 2015 assumes a rate of return of 8.00%
Amortization	Amortization of the unfunded liability over a 30-year closed period
City Funding Requirement	Pay the full Total City Contribution required pursuant to Section VII no less frequently than on a bi-weekly basis.
Pension Obligation Bonds	The City will issue Pension Obligation Bonds resulting in $250,000,000 of bond proceeds paid to HMEPS. The City will make best efforts to issue the bonds by July 1, 2017, but will issue the bonds no later than December 31, 2017. Proceeds will be paid immediately to HMEPS.

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III. Estimated Financial Impacts

HMEPS' actuary has projected that the Proposed Revisions to Plan Provisions according to Section IV will result in the Estimated Financial Impacts presented here.

Net Pension Liability:	
- As of June 30, 2015 Comprehensive Annual Financial Report	$2.31 Billion @ 8.00%
- Estimated Net Pension Liability as of June 30, 2016 - Section II Assumptions and Methodology	$3.1 Billion @ 7.00%
- Estimated Net Pension Liability as of June 30, 2016 - Section II Assumptions and Methodology - Proposed Pension Reforms according to Section IV	$2.4 Billion @ 7.00% without issuance of POBs $2.15 Billion @ 7.00% with issuance of POBs
Proposed Pension Reform Estimated Reduction to the Net Pension Liability	$700 Million without issuance of POBs $950 Million with issuance of POBs
Contribution Rates (% of payroll):	
FY 2017 Budgeted Rate	29.36%
FY 2017 Actuarially Determined Rate @ 8.00%	31.81%
Estimated FY 2018 Actuarially Determined Rate @ 7.00%	38.98%
Estimated FY 2018 Actuarially Determined Rate @ 7.00% with Proposed Pension Reforms	29.33% without issuance of POBs 26.95% with issuance of POBs
Proposed Pension Reform Estimated Reduction to the Contribution Rate	9.65% without issuance of POBs 12.03% with issuance of POBs
Annual Contribution Amounts ($millions):	
FY 2017 Budget	$178.06
FY 2017 Actuarially Determined Contribution @ 8.00%	$192.92
Estimated FY 2018 Actuarially Determined Contribution @ 7.00%	$236.40
Estimated FY 2018 Actuarially Determined Contribution @ 7.00% with Proposed Pension Reforms	$177.88 Million without issuance of POBs $163.45 Million with issuance of POBs
Proposed Pension Reform Estimated Cost Avoidance	**- $58.52 Million without issuance of POBs** - $72.96 Million with issuance of POBs[1]

[1] The increase in cost avoidance will need to be utilized for the debt service payment on the POBs, but will have no effect on any agreement or obligation with HMEPS.

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IV. Proposed Revisions to Plan Provisions

Effective 7/1/2017 except as specified below.

COLA	**Current**	Group A/B: 3%, not compounded, if hired before 2005 2%, not compounded, if hired after 2005 Group D: 0%
	Future (2/1/18)	No COLA in 2018, then 1% for all members thereafter.
Member Contributions	**Current**	Group A: 5.0% Group B: 0.0% Group D: 0.0%
	Future	Group A: 8.0% (2%/1% 2yr phase in) Group B: 4.0% (2%/2% 2yr phase in) Group D: 2.0%
Addition of a Cash Balance Component	**Future (1/1/18)**	Group D: 1% contribution (in addition to 2% employee contribution) - Interest credited same as DROP interest crediting rate
DROP COLA Credit	**Current**	COLAs credited to DROP accounts upon DROP eligibility
	Future	No COLAs credited to DROP accounts until age 62
DROP Interest Credit	**Current**	Half of prior fiscal year investment return, 2.5% - 7.5% collar
	Future (1/1/18)	Half of the five-year investment return[2], 2.5%-7.5% collar
Survivor Benefit	**Current**	Group A/B (D prior to termination): 100%
	Future	Group A/B (D prior to termination): 80% - for all new survivors after 6/30/17

[2] For determining the DROP interest credit, the five year investment return is based on a rolling 5-year basis and net of investment expenses.

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V. Proposed Revisions to Governance Structure

NOTE: The pension system may already be in compliance with one or more of the provisions below, with these revisions serving as formalization of practice.

Frequency of Reporting	Annual financial audit and valuation
Investment Audit	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. • Investment Policy Statement (which can include review or creation of policies on Gifts, Ethics, Personal Trading) • Asset Allocation, including a discussion of the various risks, objectives, and expected future cash flows • Portfolio Structure, including need for liquidity, cash income, real return, inflation protection, and active/passive/index approaches for different portions of the portfolio • Manager Performance Review and the processes used to retain and evaluate managers • Benchmarks used for asset classes and/or particular managers • Fees, Trading Costs • Any Leverage, FX hedging, or other hedging • Investment-Related Disclosures in retirement system annual reports
Investment Consultant	General consultant required

VI. Information Sharing

Subject to a separate confidentiality agreement between the pension system and the City's retained actuary ("Confidentiality Agreement"), the pension system agrees to provide access to the same census data that is routinely used by the pension system's actuary for the pension system's valuation studies 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 Confidentiality 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 Confidentiality Agreement, the census data 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 to 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 Confidentiality Agreement.

VII. Proposed Risk-Sharing Provision

Attachment A

VIII. Other Items

- During and independent of the development of these Terms and Conditions, the City stated that it will reduce medical health insurance rates for municipal retirees under the age of 65 to match those of HPD retirees, resulting in approximately a 9% savings in rates for retirees. This does not affect any obligation under this document or any provision of HMEPS governing laws. HMEPS supports this effort to equalize retiree rates, but is not responsible for or authorized to administer the City's health benefits plan.
- The parties agree that this document does not resolve issues related to current litigation between HMEPS and the City.

ATTACHMENT A

RISK SHARING PROVISION

I. RISK SHARING OBJECTIVES

a. The goal is to codify 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. Effective July 1, 2017 and in each fiscal year thereafter, the City shall pay the Total City Contribution. 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 Total City Contribution amounts.
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. The Initial RSVS, using Level Percent of Payroll Method, will set a pre-determined payment schedule expressed in dollars paying down the Legacy Liability, which is the Unfunded Actuarial Accrued Liability (UAAL) as of June 30, 2016 reduced by the final agreement on pension plan design reform and payment to HMEPS of the net proceeds of Pension Obligation Bonds issued by the City for the benefit of HMEPS. The amounts payable by the City for amortization of the Legacy Liability will not be included in the City Contribution Rate. As a result, in the Initial RSVS establishing the Corridor Midpoint, the Corridor Midpoint will be calculated based on the Employer Normal Cost.
e. Each RSVS will be completed annually within 180 days of the end of HMEPS' fiscal year.
f. The Total City Contribution shall not go above the Original Contribution Amount plus the Maximum Contribution Rate multiplied by the corresponding year's pensionable payroll or below the Original Contribution Amount plus the Minimum Contribution Rate multiplied by the corresponding year's pensionable payroll. The City shall pay HMEPS $250 million from the net proceeds of the City's issuance of Pension Obligation Bonds prior to December 31, 2017, as well as annually the Total City Contribution required, no less frequently than bi-weekly. The parties

acknowledge that these obligations are integral to the proposed pension plan design reform and risk-sharing provisions.

g. HMEPS and the City may mutually agree in writing to benefit and/or plan changes outside of those required by this Risk Sharing Provision to the extent permitted by all applicable law.

h. In any written agreement between the City and HMEPS, 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 HMEPS 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 Total City Contribution in any year that is less than the calculated Total City Contribution as determined pursuant to the RSVS for that year.

i. Should any legislative or regulatory change materially affecting the pension plan occur at any point in time that is not mutually agreed to by the City and HMEPS, 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.

j. The Parties recognize that the purpose of this Agreement is to establish 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 HMEPS, the Parties will adjust the language herein as necessary to achieve such purpose.

k. [PENDING INVESTMENT CONTINGENT COLA ADJUSTMENT TO DAMPEN VOLATILITY]

l. [PENDING MUTUAL APPLICABLE ENFORCEMENT ACTIONS]

III. <u>RISK SHARING</u>

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 below, 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 HMEPS, and then,
2. Second, accelerate the Payoff Year of the Legacy Liability by offsetting the remaining Legacy Liability by the amount of the new Liability Layer. That resulting Legacy Liability is then re-amortized over the period such that the Total City Contribution equals the Original Contribution Amount plus the Minimum Contribution Rate multiplied by the corresponding year's pensionable payroll, and then,
3. Third, accelerate the Payoff Year of existing Liability Layers, excluding the Legacy Liability, oldest layers first, and then,
4. Fourth, consider and, if mutually agreed upon by the City and HMEPS, reduce the Discount Rate, and then,
5. Fifth, 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,
6. Sixth, 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,
7. Seventh, 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,
8. Eighth, reduce employee contributions and/or increase other pension benefits pursuant to a written agreement between the City and HMEPS.
    1. If an agreement has not been reached within 120 days of the release of the RSVS, then HMEPS shall reduce member contributions and increase COLAs 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, extend the Payoff Year of the Legacy Liability by increasing the Legacy Liability by the amount of the new Liability Layer up to a maximum amount. The maximum amount will result in a Payoff Year no later than the original 30-year period and a Total City Contribution equal to the Original Contribution Amount plus the Corridor Midpoint multiplied by the corresponding year's pensionable payroll, and then,
    2. Second, reduce the City Contribution Rate to no less than the Corridor Midpoint by extending the Payoff Year of existing Liability Layers, excluding the Legacy Liability, but to no more than the original 30-year Payoff Year, newest layers first, and then,

3. Third, 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 HMEPS, by increasing employee contributions and making any other benefit changes permissible by all applicable law. Other plan changes may be considered as necessary. Liability Layers resulting from the gains pursuant to a written agreement between the City and HMEPS shall be applied to the City Contribution Rate, not to the Legacy Liability.
    1. If an agreement has not been reached within 120 days of the final release of the RSVS for the corresponding year, then HMEPS shall increase member contributions and suspend COLAs such that the City Contribution Rate is decreased to the Corridor Midpoint.
4. Fourth, 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 HMEPS, by increasing employee contributions and making any other benefit changes permissible by all applicable law. Consider other plan changes as necessary.
    1. If an agreement has not been reached within 120 days of the final release of the RSVS for the corresponding year, then HMEPS shall increase member contributions and suspend COLAs such that the City Contribution Rate is decreased to the Corridor Midpoint.

IV. <u>RISK SHARING VALUATION STUDY ("RSVS")</u>

This study shall be included in the pension system's standard valuation study, shall be conducted annually by both HMEPS' retained actuary and the City's actuary within 180 days of the end of each HMEPS' fiscal year, shall detail the City Contribution Rate and Contribution Amount 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. Ultimate 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 market as of June 30, 2016.
c. Closed amortization matching the Amortization Period,
d. The Discount Rate,
e. The Price Inflation Assumption,

f. Salary increases and pensionable payroll growth rates set in consultation with the City's Finance Director, and
g. With the City Contribution Rate being calculated without inclusion of the Legacy Liability.

This RSVS will be performed by both HMEPS and the City's actuary. HMEPS will provide the necessary census data and assumptions to the City's actuary under a confidentiality agreement, as well as any other data used by the plans' actuary, within 90 days of the end of HMEPS' fiscal year for independent 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 study will be used. If the independently 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 HMEPS 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 HMEPS will be used.

The Initial RSVS, which will serve as the basis for the Corridor Midpoint, performed by each party's actuary must be within 2% of pensionable payroll in each year. 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 HMEPS 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.

Contribution Amount – The Original Contribution Amount as restated in the same fashion each time the Payoff Year is moved forward or backwards in time pursuant to Section III of this Risk Sharing Provision. While this amount may be determined on an annual basis, it will be paid to HMEPS no less frequently than equal bi-weekly "level-dollar" installments. This amount is not included in calculations of the City Contribution Rate.

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 of pensionable payroll.

Corridor Midpoint –The Corridor Midpoint in any given year shall equal the City Contribution Rate, rounded to XX.XX%, 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 HMEPS, 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 31st 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 HMEPS 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 Normal Cost less the member contribution rate for the new hire group used to determine the Ultimate Entry Age Normal cost. The present value of additional member contributions different from the foregoing rate are applied against or towards the actuarial accrued liability.

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 and the Original Contribution Amount.

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 HMEPS and paid down over time according to the Contribution Amounts. The Legacy Liability may be reduced further by any other City contributions made in excess of those required by this

Risk Sharing Provision and the resulting Legacy Liability is then re-amortized over the period that results in the same amortization payment for the year as determined for the current Contribution Amount.

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.

Normal Cost – The portion of the actuarial present value of projected benefits that is allocated under the actuarial cost method (Ultimate Entry Age Normal) to the year of the RSVS, plus an allowance for assumed administrative expenses.

Original Contribution Amount – A pre-determined payment schedule expressed in dollars paying down the Legacy Liability using the Level Percent of Payroll Method and the Amortization Period and Payoff Year, pursuant to the Initial RSVS. The Original Contribution Amount will be adjusted to include accumulated interest based on the Discount Rate and on the amount and timing of the payment to the Pension System of the net proceeds from the City's issuance of Pension Obligation Bonds.

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 HMEPS, 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 HMEPS 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.

Total City Contribution – For any fiscal year, the City contribution shall consist of two components; 1) the greater of the City Contribution Rate or such higher rate based on the parameters in Section III(a), multiplied by the following fiscal year's pensionable payroll, and 2) the Contribution Amount.