Pension Review Board
August 2017

85th Regular Legislative Session

Pension Legislation Passed

Local Systems

Dallas Police and Fire Pension System

HB 3158 – Flynn, West

The bill was signed by the Governor on May 31, 2017. Article 1 of the bill becomes effective September 1, 2017, unless the board of trustees of the system violates the DROP distribution prohibitions section, then Article 1 has no effect.

HB 3158 amends and adds sections to Title 109, Revised Civil Statutes Article 6243a-1 to increase both employee and City contributions, modify future benefit accruals, provide a retroactive multiplier increase for certain members, modify Deferred Retirement Option Plan (DROP) participation and cost of living adjustment, make changes to the board's composition and governance structure, and require the creation of an investment advisory committee.

Board Composition

The bill changes the board composition by establishing new requirements for trustee positions. Six of the board trustees will be selected by the mayor in consultation with city council, three will be selected by the pension system through a nominations committee, and two will be current or former police officers or fire fighters nominated and elected by members of the pension system under rules adopted by the board. The board may not take any action until at least ten initial trustees have been appointed.

Board Governance

The bill clarifies that the executive director is a fiduciary of the pension system if acting in their own discretion, whereas currently the statute states that the "administrator" of the plan is *not* a fiduciary. If the executive director is acting at the discretion of the board and not exercising their own discretion, the executive director does not owe a fiduciary duty.

- Two-thirds vote: The bill requires at least a two-thirds vote of the full board (8 out of 11 trustees) for creating an alternative benefit plan, reducing the city contribution rate, increasing the member contribution rate, lowering benefits or otherwise reducing amounts payable to, or accrued for, the benefit of any member, or any rules requiring the equitable return of funds paid to or credited to the benefit of a member or pensioner.

At least twice each year, the board shall have a meeting to receive public input regarding the pension system and to inform the public about the health and performance of the pension system. <u>The PRB is entitled to all documents and other information provided by DPFPS to the public, which would then be subject to an independent review by the PRB. Any employee or other agent acting on behalf of DPFPS or the city must certify to the PRB that any information provided is accurate and based on realistic assumptions.</u>

<u>The bill also requires the board to adopt a code of ethics, which must be filed with the PRB upon adoption or amendment.</u> The bill also requires the board members to take pension-related training from a manual created by the DPFPS executive director.

City and Member Contributions

- <u>City</u> - The bill increases City contributions from 27.5% to 34.5%. The contribution policy for the City is a fixed percentage of pay plus a flat dollar contribution per year through the end of 2024. However, the fixed percentage contribution will be subject to a minimum dollar floor in each year through 2024.
- Any change to the contributions required to be made to the pension system by the City may only be made by the legislature, by a majority vote of the voters of the City, or by written agreement with at least a 2/3 vote of all trustees on the board, and the City, provided that a change may not increase the period required to amortize the UAAL of the fund. Any reduction in City contributions requires the approval of at least a 2/3 vote of all trustees of the board.
- <u>Member</u> – The bill increases employee contributions from 8.5% to 13.5%. Any increase in member contribution rate requires approval of at least 2/3 vote of all the trustees on the board.

Actuarial Analysis and Legislative Recommendations

<u>Prior to July 1, 2024, the PRB will select an actuary without conflicts to be hired by the DPFP board to perform an analysis based on the January 1, 2024 actuarial valuation prepared by the pension system.</u> The analysis will include a conclusion by the actuary on whether the plan meets the current PRB pension funding guidelines, and the actuary will recommend changes to benefits, member or city contributions to be submitted to the board by October 1, 2024.

The DPFPS board will adopt a plan that complies with funding and amortization period requirements applicable to the pension system under Chapter 802 of the Texas Government Code and takes into consideration the independent actuary's recommendations.

The DPFPS board will provide a copy of the analysis and a summary of any rules adopted by the DPFPS board under this section to the PRB. Not later than December 1, 2024, the PRB will submit a report to the legislature regarding actions taken under this section. The report must include a copy of the analysis prepared by the independent actuary and a summary of rules adopted by the DPFPS board under this section. The legislature must approve the changes for them to become part of the statute.

Benefit Changes

The bill makes several changes to member benefits, including (for Normal Service Retirement):

- Changing the multiplier for all members to 2.5% for future service;
- Increasing the normal retirement age to 58 years for all members, and decreasing the vesting requirement to 5 years from 10 years for Tier 3 members;
- Lowering the maximum retirement annuity from 96% to 90% of final average salary; and
- Changing the calculation of final average salary prospectively from the highest 36 month period for Tiers 1 and 2 to highest 60 month period for service after September 1, 2017.

For a comprehensive list of changes, please see **Appendix A**.

Rulemaking to Change Benefits

The DPFPS board shall conduct an evaluation to study the impact on the pension system of establishing one or more alternative benefit plans, including a defined contribution plan or a hybrid plan for newly hired employees and for members who voluntarily elect to transfer to an alternative benefit plan. This evaluation must be completed by January 1, 2018.

Based on the evaluation, if the DPFPS board considers adopting a rule to establish any plan, it would be subject to the following:

- may not cause the amortization period of the system to exceed 35 years; and
- require the approval of 2/3 vote of all trustees on the board.

Additionally, any rule considered to increase benefits (obtained with 2/3 vote of all board members) can only be made if the increase will not cause the amortization period of the UAAL to exceed 25 years, after taking into account the impact of the increase. <u>Any rules under this section must be reviewed by the PRB and the PRB must find that the implementation of the rule complies with the amortization periods prescribed by the specific subdivisions of the section.</u>

Investment Advisory Committee

The bill requires the board to establish an investment advisory committee. The committee will be composed of a majority of outside investment professionals, as well as sitting board members. The committee will review investment-related matters and make recommendations to the board.

Board Approval of Certain Alternative Investments

Any person with delegated authority to invest or reinvest pension system assets under this article may not invest pension system assets in a single alternative investment unless the DPFPS board votes to approve the investment by at least a two-thirds vote. The bill defines "alternative investment" as an investment in an asset other than a traditional asset. The term includes an investment in private equity funds, private real estate transactions, hedge funds, and infrastructure.

Equitable Adjustments to Benefits

The bill allows the DPFPS board by at least a 2/3 vote of all trustees to consider and adopt rules requiring the equitable return of funds paid or credited to the benefit of a member or a pensioner before 9/1/17, including the return of excessive interest credited to a member's DROP account and excessive adjustments made as disability or COLA benefits. The bill also outlines the adjudication process for any judicial challenges to the equitable return of funds as required by the board.

DROP Payment Options

A member who terminated service on or before 9/1/2017, or who terminates from active service shall have their DROP account annuitized over their life expectancy as of the date of the annuitization using mortality tables recommended by the system's actuary. Upon election by the member, the account will be payable either monthly or annually.

The DPFPS board may adopt a shorter period for annuitizing DROP balances under this section if the system's actuary determines doing so will not cause the system's amortization period to exceed 25 years. The annuitization of an account under this section must reflect accrual of interest on the amount in the DROP account as of 9/1/17. The interest rate applied must be a rate as reasonably equivalent as practicable to the interest rate on a note issued by the U.S. Department of the Treasury or other federal treasury note with a duration that is reasonably comparable to the annuitization period applied to the account, as determined by the DPFPS board.

Prohibition on Certain Distributions

Distributions from DROP accounts are immediately prohibited, except in certain cases including hardships, those in compliance with court order, and minimum annual distributions under current DPFPS board policy are allowed to continue until August 31, 2017. If any lump sums are paid in violation of the bill prior to August 31, 2017, changes made under the legislation become null and void.

<u>The board of trustees shall provide data or other information requested to the PRB in order for the PRB to determine whether DPFPS has violated the prohibition of certain distributions provision by August 31, 2017. If the PRB determines that the system is in violation of the statute, the PRB shall, before August 31, 2017, notify the board of trustees of the system and the mayor and city council of its determination under this section and publish notice of its determination on the PRB website and a notice of its determination under this section in the *Texas Register*.</u>

Alternative Benefit Plan

The bill adds Section 810.002 to the Government Code to allow the City to establish an alternative benefit plan by ordinance and determine the benefits, funding source and amount, and administration of the alternative benefit plan. Also, the bill allows the municipality to require an employee first hired by the municipality on or after the date the alternative benefit plan is implemented to participate in the alternative benefit plan instead of participating in DPFPs. Employee and employer contributions shall be determined by the City.

An alternative benefit plan may only be established by the City if the pension system's actuary determines that its implementation would allow the pension system to continue to comply with funding and amortization period requirements of Chapter 802 and if the PRB conducts a review of and validates this determination.

Houston Systems – Houston Firefighters' Relief & Retirement Fund (HFRRF), Houston Police Officers' Pension System (HPOPS), Houston Municipal Employees Pension System (HMEPS)

SB 2190 – Huffman/Flynn

The bill was signed by the Governor on May 31, 2017 and became effective July 1, 2017.

SB 2190 amends and adds sections to Title 109, Revised Civil Statutes Articles 6243e.2(1), 6243g-4, and 6243h to reduce benefits, increase employee contributions, outline funding policies, codify certain actuarial assumptions and methods for purposes of valuing benefits, and detail an approach to making modifications to the assumptions, methods and benefits under certain economic scenarios with the intent of minimizing the volatility of future contributions requirements for the affected retirement systems. The bill also requires the city to make contributions as outlined by the risk sharing sections.

Board Composition/Governance

- HPOPS – The bill requires candidates for active or retired board member positions to receive the majority vote for that position, otherwise a runoff election shall be held.
- HMEPS trustees are required to complete minimum educational training requirements established by the PRB, and the bill allows the appointing entity to remove an appointed trustee who does not complete the required training. Also, a member may be removed if he or she attends less than 50% of board meetings.

Benefit Changes

The bill increases employee contributions and introduces a corridor mechanism to determine employer contributions for each fiscal year. The bill also makes substantive changes to the three systems' benefit formulas, DROP programs, and death and disability benefits.

For more detail on benefit changes, please refer to **Appendix B1-B3.**

Corridor Midpoint

The bill establishes a unique funding policy that establishes a "target" contribution rate (or corridor midpoint) for the City, develops a minimum and maximum corridor around the City's target contribution rate (equal to +/- 5% of the projected midpoint), and defines steps that must be taken should the annual calculated contribution move outside this corridor. Generally, for all three retirement systems, the retirement system and the city must jointly determine the expected contribution requirements for the 31-year period beginning with the fiscal year starting July 1, 2017, consisting of the expected normal cost plus a closed 30-year amortization of the UAAL as it exists on June 30, 2016.

- For HFRRF and HPOPS, the sum of the expected normal cost, amortization payment and a provision for administrative expenses for each of the next 31 years becomes the "target" rate or corridor midpoint.
- For HMEPS, the corridor midpoint is the sum of the normal cost and a provision for administrative expenses. The 30-year amortization schedule of the unfunded liability as of June 30, 2016, known as the legacy liability, is established and treated separately from the corridor for HMEPS.

Additionally, in future years, a new base would be established to amortize gains and losses. The losses are amortized over a closed 30-year period, while the gains are amortized over the same period as the largest outstanding liability loss base, the gain and associated loss base are treated as a single base for any future actions.

Once the corridor is established in the initial valuation, it will not change.

For more detail on the corridor mechanism, please refer to **Appendix C1 and C2**.

Preparation of the Risk Sharing Valuation Study (RSVS)

The bill requires the systems' actuary and City actuary to separately prepare a draft of an RSVS, based on the systems' respective actuarial data. The initial RSVS must use the following assumptions set in statute to arrive at an estimated city contribution rate:

- Assumed rate of return (subject to adjustment) may not exceed 7% per year;
- Ultimate entry age normal actuarial cost method;
- Assets marked-to-market method applied as of June 30, 2016 (after initial RSVS, this changes to use 5-year smoothing method over a five-year period applied prospectively beginning on the year 2017 effective date);
- Closed 30-year amortization of legacy liability;
- For HMEPS, the City contribution rate is calculated without inclusion of the legacy liability
- Payroll growth rate assumption of 2.75%, not to exceed 3% in future RSVS

The RSVS must be included within an actuarial valuation. Once completed, each actuary shall exchange their draft RSVS. If the difference between the two estimated city contribution rates falls at or below 2%, the system's RSVS and estimated city contribution rate will be used to determine the contribution rate for the fiscal year. If the difference is greater than 2%, the actuaries must reconcile the rates until the difference falls below 2%. If it cannot be reconciled, the arithmetic average will be used.

PRB Review of RSVS

The bill requires the systems and City to jointly submit a copy of the RSVS to the PRB for a determination that the pension systems and City are in compliance with the articles. The PRB shall notify the governor, lieutenant governor, the speaker of the house of representatives, and the legislative committees having principal jurisdiction over legislation governing public retirement systems if the PRB determines the system or city is not in compliance with the applicable sections.

City Approval of POBs

The bill amends Chapter 107, Local Government Code to require voter approval for POBs issued to fund the Houston pension systems.

Delivery of POBs

The bill allows HFRRF, HPOPS and HMEPS to rescind, prospectively, any or all benefit changes made effective under the bill, and allow HPOPS and HMEPS to reestablish the deadline of the delivery of the POB proceeds, if the city fails to deliver the proceeds of pension obligation bonds before March 31, 2018. If HPOPS and HMEPS do not receive the proceeds from the POBs by December 31, 2017, the initial RSVS shall be reprepared without assuming delivery of POB proceeds.

Additional Reporting Requirements

The bill adds reporting requirements for the three systems, including the requirement to conduct actuarial experience studies at least once every four years with the first experience study for HFRRF no later than September 30, 2020, for HPOPS no later than September 30, 2022 and for HMEPS published no later than September 30, 2021.

The systems must also contract with an investment consultant to perform an audit on investments at least once every three years.

Alternative Retirement Plans

The bill allows the three retirement systems' boards and the City to enter into a written agreement to offer an alternative retirement plan or plans, including a cash balance retirement plan or plans, if both parties consider it appropriate.

The bill also requires the respective boards to close the existing plan to new entrants and establish a separate cash balance plan for new hires under the following circumstances:

1. For HFRRF and HPOPS, if the plan's ratio of assets to liabilities falls below 65% at any time after June 30, 2021, and
2. For HMEPS, if the plan's ratio of assets to liabilities falls below 60% at any time after June 30, 2027.

The requirement to establish a separate cash balance plan for new hires will not take effect for HMEPS if they do not receive the required POB proceeds. The requirement to establish a separate cash balance plan for new hires will not take effect for HPOPS if they do not receive the required POB proceeds.

University Park Firemen's Relief & Retirement System

HB 3056 – Meyer/Huffines

The bill was signed by the Governor on June 15, 2107, and becomes effective September 1, 2017.

The bill adds Section 31A to the Texas Local Fire Fighters Relief and Retirement Act (TLFFRA) to allow the City of University Park to adopt ordinances that would concurrently:

a) exclude fire fighters hired on or after the "closure effective date" under the bill from participation in the University Park Firemen's Relief and Retirement Fund, and
b) allow those excluded employees to participate in TMRS.

Current employees of the City's fire department who are members of the Retirement Fund would continue to participate and would retire and receive benefits under the Fund.

The bill requires that within 60 days following the date the City adopts the ordinances, the ordinances must be approved, via election, by a majority of the participating members of the Retirement Fund. As soon as practicable following approval, the board of the Retirement Fund must amend the plan documents and the City must provide a notice of the election results and copies of the amended plan documents to TMRS. The "closure effective date" is the first day of the second month after the month TMRS receives the notice.

All actions required by the bill must occur before October 1, 2018; otherwise, any ordinances adopted by the City to enact such changes expire on October 1, 2018. The bill also amends the definition of "Department" in the Texas Government Code Section 851.001(7) of the TMRS Act to include employees of the City excluded from the Retirement Fund and allowed in TMRS in accordance with the amended Section 31A of TLFFRA.

<u>**Statewide Systems**</u>

HB 89 – King, Phil/Creighton

The bill was signed by the Governor on May 2, 2017; and becomes effective September 1, 2017.

HB 89 adds Chapter 808 to the Texas Government Code to prohibit certain state governmental entities from investing in companies engaged in a boycott of a person or entity doing business in Israel or in an Israeli-controlled territory. State public retirement systems that qualify under the bill include the Employees Retirement System, Teacher Retirement System of Texas, the Texas Municipal Retirement System, Texas County and District Retirement System, and the Texas Emergency Services Retirement System. The provisions of the bill could potentially impact the investment decisions made by these governmental entities, and could cause the entities to sell certain current investment holdings.

SB 253 – Taylor, Van/Davis, Sarah

The bill was signed by the Governor and became effective May 23, 2017.

The bill transfers and consolidates the investment prohibitions and divestment provisions of Government Code Chapters 806 and 807 into a new Chapter 2270 of the Government Code. The bill also adds provisions to prohibit certain governmental entities defined as investing entities under the bill from investing in companies with business ties to designated foreign terrorist organizations. State public retirement systems that qualify under the bill include the Employees Retirement System of Texas and the Teacher Retirement System of Texas. The provisions of the bill could potentially impact the investment decisions made by these investing entities, and could cause the entities to sell certain current investment holdings.

Additionally, the bill transfers the duties of the PRB to prepare, maintain, and administer the Texas Prohibition on Investment in Iran Scrutinized Companies List to the Office of the Comptroller. The bill repeals Chapter 807, Government Code.

SB 500 – Taylor, Van/Geren

The bill was signed by the Governor and became effective immediately June 6, 2017.

The bill adds Section 810.002 of the Texas Government Code, which makes certain elected officials who are convicted of a qualified felony related to the member's performance of public service, ineligible for retirement annuity. A qualifying felony is defined as any felony involving bribery; embezzlement, extortion, or other theft of public money; perjury; coercion of public servant or voter; tampering with governmental record; misuse of official information; conspiracy or the attempt to commit any of these crimes; or abuse of official capacity. The provisions of this bill apply to qualified offenses committed on or after the effective date of the bill.

Employees Retirement System of Texas (ERS)

SB 301 – Watson/Flynn

The bill was signed by the Governor on June 9, 2017, and becomes effective September 1, 2017.

SB 301 is the Sunset bill for the Employees Retirement System of Texas (ERS). The legislation focuses primarily on strengthening board oversight of alternative investments, improving transparency of alternative investments, and ensuring the Group Benefit Program is managed effectively to meet the needs of members and the state. The bill requires the ERS board of trustees to approve any individual alternative investment over $100 million and allows the board of trustees to discuss the investment in closed session or by teleconference. A vote on the alternative investment, however, must be taken in public.

The bill also directs the agency to develop a consistent method to collect or calculate profit-sharing data for alternative investments, which are defined in the bill as a private equity fund, private real estate fund, hedge fund, infrastructure fund, or another asset as defined by rule by the board of trustees. ERS will be required to conduct its experience study and adopt actuarial assumptions once every four years, instead of its previous requirement of every five years.

The bill improves the insurance appeal process for state employees and other ERS members by allowing members to participate more directly in the appeal process and providing a precedent manual to help guide agency appeal decisions. In addition, the bill applies Sunset's standard across-the-board good government recommendations and sets the next Sunset review for ERS at 2029.

Teacher Retirement System of Texas (TRS)

SB 1663 – Huffman/Flynn

The bill was signed by the Governor June 15, 2017. Chapter 825.212, as amended by the bill, became effective immediately. The remainder of the bill becomes effective September 1, 2017.

The bill amends the Insurance Code and various sections of the Government Code to make clarifications and updates to the Teacher Retirement System of Texas (TRS) statute. The bill clarifies that certain student employment is not eligible for TRS service credit. The bill also makes administrative changes, which include the protection of key employees' personal information from public disclosure and prohibiting TRS employees from receiving "double" benefits while working outside the country.

The bill provides that a retiree working during the first 12 months following retirement as an independent contractor, volunteer, or who waives compensation is considered an employee of the public school or higher education employer. The bill also allows the TRS board to go into executive session to discuss particular investment strategies; allows TRS to charge late fees not to exceed $1,000 for each business day and $25,000 per reporting period if employer reports are filed after statutory deadlines; and allows TRS to send information to members electronically. The bill removes auxiliary personnel positions from the TRS Retiree Advisory Committee and removes the prohibition on members who do not complete a purchase of service credit using an installment payment method from using the method for the next three years.

SB 1664 – Huffman/Flynn

The bill was signed by the Governor on June 15, 2017, and becomes effective September 1, 2017.

The bill amends the Education Code and Government Code to make clarifications, updates and corrections to the TRS statute. The bill clarifies sections in the Government Code to correctly cite the IRS Code, and updates TRS plan terms to allow rollover by TRS to a 401(a) plan. The bill makes statutory corrections to include the removal of a previous error that included a requirement for school districts to provide health care comparability reports to TRS. The bill also makes administrative changes, including granting additional time for TRS members to purchase service credit at retirement, as well as granting members additional time for purchasing sick or personal leave credit.

SB 1665 – Huffman/Flynn

The bill was signed by the Governor and became effective immediately on June 15, 2017.

SB 1665 amends the Government Code to include in the definition of "securities" any derivative instrument, and any other instrument commonly used by institutional investors to manage institutional investment portfolios.

The bill allows the board to delegate discretionary investment authority to external managers to invest and not manage more than 30 percent of the total assets held in trust by the system.

The bill repeals the temporary provision authorizing the board to buy and sell certain investment instruments for the purpose of efficiently managing and reducing the risk of the overall investment portfolio. The bill also extends the exemption of a contract under certain provisions relating to the investment of TRS assets from statutory provisions relating to the resolution of certain contract claims against the state to all contracts under provisions relating to the investment of TRS assets.

Optional Retirement Program (ORP)

SB 1954 – Hughes/Lozano

The bill was signed by the Governor on May 26, 2017 and becomes effective September 1, 2017.

SB 1954 amends the Government Code to allow a person more time to decide to participate in ORP if they are notified later than the day they become eligible.

The bill adds a section to the Government Code to establish procedures for correcting reporting errors. The bill states that an employer submits a member contribution to TRS on behalf of a person in error if the person previously elected to participate in the optional TRS retirement program, participated in the program for at least one year, and is or was employed by a public institution of higher education in a position normally covered by TRS and is or was at the time of that employment not eligible for membership in TRS. The bill requires a person's participation in ORP to be immediately restored if an employer commits such an error and the person on whose behalf the member contribution is erroneously made is a participant in the optional retirement program and requires funds to be deposited in the person's participant account in the program or otherwise remitted to the person in accordance with the bill's provisions and as soon as practicable.

Retirement Systems – General

SB 1735 – Hughes/Springer

The bill became effective June 12, 2017.

SB 1735 is a repeal of several pension-related statutes that no longer apply to any existing persons, programs, or funds. The bill amends current law relating to the repeal of certain obsolete laws governing state pensions and other similar benefits.

Appendix A –
HB 3158
Summary of Plan Changes for DPFPS

Normal Retirement Benefit

Eligibility

Current	Tier 3: Age 55 and 10 Years of Service
HB 3158	Tier 3: Age 58 and 5 Years of Service

Amount

Current — Tiers 1 & 2: 3.0% x Years of Service x Final Average Salary, no more than 96% x Final Average Salary or less than $2,200 per month (minimum is prorated for periods of service less than 20)

Tier 3: [Years of Service (up to 20) x 2.0% +Years of Service (>20, <=25) x 2.5% + Years of Service (>25) x 3.0%] x Final Average Salary, not less than $110 x Years of Service (up to 20)

HB3158 — Tiers 1 & 2: [3.0% x Years of Service (prior to September 1, 2017) + Percent Multiplier (in table below) x Years of Service (after September 1, 2017)] x Final Average Salary, max is the greater of i. 90% or ii. the vested accrued benefit as of August 31, 2017

Age at Retirement	Percent Multiplier
57	2.40%
56	2.30%
55	2.20%
54	2.10%
53 and younger	2.00%

Tier 3: Years of Service x 2.5% x Final Average Salary, max 90%

Final Average Salary

Current	Tiers 1 & 2: Highest 36 month period
HB 3158	Tiers 1 & 2: Highest 36 month period for service prior to September 1, 2017 and highest 60 month period for service after September 1, 2017

Early Retirement Benefit

Eligibility

Current — Tiers 1 & 2: Age 45 and 5 Years of Service or 20 Years of Service

Tier 3: N/A

HB 3158 Tiers 1 & 2: Age 45 and 5 Years of Service, if 45 years or older as of September 1, 2017, age 53 and 5 Years of Service otherwise, or 20 Years of Service

Tier 3: Age 53 and 5 Years of Service or 20 Years of Service

Amount

Current Tiers 1 & 2 with 20 Years of Service – replace 3% multiplier with the following based on age at retirement:

Age at Retirement	Multiplier
48 & 49	2.75%
47	2.50%
46	2.25%
45 or younger	2.00%

Tiers 1 & 2 with less than 20 Years of Service: Reduction equal to 2/3 of 1% per month retirement date precedes age 50.

HB 3158 Tiers 1 & 2 with 20 Years of Service accrued as of September 1, 2017 – replace 3% multiplier with the following based on age at retirement:

Age at Retirement	Multiplier
48 & 49	2.75%
47	2.50%
46	2.25%
45 and younger	2.00%

All others with 20 Years of Service – replace 2.5% multiplier with the following based on age at retirement:

Age at Retirement	Multiplier
57	2.40%
56	2.30%
55	2.20%
54	2.10%
53 and younger	2.00%

With less than 20 Years of Service: Reduction equal to 2/3 of 1% per month retirement date precedes age 45 if 45 years or older as of September 1, 2017, age 53 otherwise.

Unreduced at any retirement age if a member's pension is equal to 90% of Final Average Salary.

Supplemental Retirement Benefit

Current	The greater of $75 per month or 3% of their Normal or Early Retirement Benefit, payable beginning at age 55
HB 3158	Payable only to those receiving the supplement as of September 1, 2017

Vesting

Current	Tier 3: 10 Year Cliff
HB 3158	Tier 3: 5 Year Cliff

Cost of Living Adjustment

Current	Tier 1: 4.0% simple
HB 3158	Ad-hoc, which may only be paid if the plan is at least 70% funded after taking into account the COLA equal to a simple crediting rate on October 1 equal to 100% of the average annual rate of actual investment return for the five-year period ending on the preceding December 31 minus 5%, and not to exceed 4%, beginning at the earlier of age 62 or 3 years after retirement.

Deferred Retirement Option Plan

Active

Current — Interest credited is 6% effective October 1, 2016 dropping to 5% effective October 1, 2017 and variable based on the plans funded ratio thereafter.

Funded Ratio	Crediting Rate
>=95%	7.0%
90%-94%	6.5%
85%-89%	6.0%
65%-84%	5.0%
60%-64%	4.0%
55%-59%	3.0%
<55%	0.0%

COLA credited to account

No maximum participation period

May elect a lump sum distribution or leave up to 100% of account balance in plan at separation of service and continue to accrue interest credit

HB 3158	No interest credited to account
	No COLA credited to account
	10 year maximum participation period
	DROP balance distributed over the life expectancy at separation of service,
	DROP account balance as of September 1, 2017 will be annuitized using a rate on a United States Treasury or other federal treasury note with a reasonable duration, as determined by the Board.

Contributions

<u>Employee</u>

Current	8.5% for non-DROP active participants & 4.0% for DROP active participants
HB 3158	13.5% as of the effective date

<u>Employer</u>

Current	27.5% of total pay
HB 3158	A + B, as described below

A. 34.5% of computation pay

The employer contribution above will be no less than

i. $5,173,000 for each of the pay periods beginning in 2017;

ii. $5,344,000 for each of the pay periods beginning in 2018;

iii. $5,571,000 for each of the pay periods beginning in 2019;

iv. $5,724,000 for each of the pay periods beginning in 2020;

v. $5,882,000 for each of the pay periods beginning in 2021;

vi. $6,043,000 for each of the pay periods beginning in 2022;

vii. $5,812,000 for each of the pay periods beginning in 2023;

viii. $6,024,000 for each of the pay periods beginning in 2024; and

ix. $0 thereafter

B. 1/26th of $13 million per pay period for each pay period beginning after September 1, 2017 and before December 31, 2024

The contributions outlined above will remain in force as long as the system has a UAAL. If the plan is fully funded, contributions would be split equally between the city and members.

Appendix B1

SB 2190

Summary of Plan Benefit Changes for HFRRF

Employee Contributions

Old	9.00%
SB 2190	10.50%

Final Average Salary

Old	Highest 78 pay periods of salary
SB 2190	Hired before the effective date: Highest 78 pay periods of salary, excluding overtime for salary paid after the effective date Hired on or after the effective date: Final 78 pay periods of salary, excluding overtime

Retirement Benefit

Eligibility

Old	20 Years of Service
SB 2190	Hired before effective date: 20 Years of Service Hired on or after effective date: Rule of 70

Amount

Old	Final Average Salary x [Years of Service (20 max) x 2.5% +Years of Service (>20) x 3.0%; 80% max]
SB 2190	Hired before effective date: Member's accrued benefit as of the effective date + Final Average Salary x [Years of Service after effective date (20 max) x 2.75% per year +Years of Service after effective date (>20) x 2.0%] Hired on or after effective date: Final Average Salary x [Years of Service (20 max) x 2.25% + Years of Service (>20) x 2,0%; 80% max]

Termination Benefit

Old	Terminate with at least 10 years of service but less than 20 years of service, choice of: Refund of employee contributions with 5% interest; or Final Average Salary x 1.7% x Years of Service, payable at age 50
SB 2190	Members hired before the effective date will not receive interest on employee contributions made after the effective date Members hired after the effective date receive a refund of employee contributions without interest only

Cost of Living Adjustment (COLA)

Old — 3.0% compounded, beginning at age 48

SB 2190 — Crediting rate of 100% of the 5 year smoothed return minus 4.75%, not less than 0% or greater than 4%, beginning at age 55 with a 3 year freeze on COLAs for members under 70 years of age.

Deferred Retirement Option Plan (DROP)

Old — Eligibility is 20 Years of Service

Interest credited is 100% of the 5 year average investment return, not less than 5.0% or greater than 10.0%

COLA credited to account

Member contributions credited to account for 10 years

Participation limited to 13 years
Retirement annuity is increased upon exit by 2% per year of DROP participation up to a maximum of 20%

SB 2190 — Eligibility is 20 Years of Service and must be hired prior to effective date

Interest credited is 65% of the 5 year compounded average investment return, no less than 2.5%

COLA and member contributions not credited to account after effective date

Member's unused leave pay will be contributed and credited to member's DROP account

Participation limited to 13 years

Retirement annuity is increased upon exit by 2% per year of DROP participation up to a maximum of 20% as long as accrued at least 20 years of service as of the effective date

Post Retirement Option Plan (PROP)

Old — Up to 100% of DROP account, $5,000 Lump Sum payment, and/or a portion of monthly annuity may be deposited and earn the same interest credit as DROP accounts

SB 2190 — No new funds may be added to PROP accounts

Appendix B2

SB 2190

Summary of Plan Benefit Changes for HPOPS

Employee Contributions

Old	If sworn prior to October 9, 2004	9.00%
	If sworn after October 9, 2004	10.20%
SB 2190	All	10.50%

Retirement Benefit

<u>Eligibility</u> (if sworn after October 9, 2004)

Old — Age 55 with 10 Years of Service

SB 2190 — Rule of 70

Termination Benefit (if sworn after October 9, 2004)

<u>Eligibility</u>

Old — None

SB 2190 — 10 Years of Service

<u>Amount</u>

Old — None, refund of employee contributions (without interest) only

SB 2190 — Monthly annuity payable at age 60 equal to Years of Service x 2.25% x Final Average Salary or refund of employee contributions (without interest)

Cost of Living Adjustment (COLA)

Old — Crediting rate of 80% increase in CPI-U, not less than 2,4% or greater than 8.0%

SB 2190 — Crediting rate of 100% of the 5 year smoothed return minus 5.00%, not less than 0% or greater than 4%

Must be 70 years of age or older as of April 1 for fiscal years ending June 30, 2018, 2019 and 2020 and 55 years of age or older for fiscal years end on or after June 30, 2021

Deferred Retirement Option Plan (DROP) (if sworn prior to October 9, 2004)

Old — Eligibility is 20 Years of Service

Interest credited is 100% of the 5 year average investment return, not less than 3.0% or greater than 7.0%

COLA credited to account

8.75% of member contributions are credited to account

No maximum participation period

	Retirement annuity is recalculated upon exit as the greater of annuity credited to DROP immediately prior to DROP exit (i.e. including COLA) or using service at DROP entry and Final Average salary at DROP exit
SB 2190	No entry after June 30, 2027
	Interest credited is 65% of the 5 year compounded average investment return, no less than 2.5%
	COLAs occurring after effective date not credited to account
	Member contributions not credited to account
	Participation limited to 20 years
	No recalculation of annuity at DROP exit

Post Retirement Option Plan (PROP) (if sworn prior to October 9, 2004)

Old	Up to 100% of DROP account, $5,000 Lump Sum payment, and/or a portion of monthly annuity may be deposited and earn the same interest credit as DROP accounts
SB 2190	No new funds may be added to PROP accounts

Appendix B3

SB 2190

Summary of Plan Benefit Changes for HMEPS

Employee Contributions

Old	Group A: 5.00% Group B: 0.00% Group D: 0.00%
SB 2190	Group A: 7.00% for FYE 2018; 8.00% thereafter Group B: 2.00% for FYE 2018; 4.00% thereafter Group D: 3.00% (2.00% for service benefit; 1.00% for cash balance benefit)

Post-Retirement Survivor Benefit (Groups A &B)

SB 2190	Group D: Cash Balance Benefit equal to 1.00% employee contributions credited with the DROP interest crediting rate.

Post-Retirement Survivor Benefit (Groups A &B)

Old	100% Joint & Survivor, no actuarial reduction
SB 2190	80% Joint & Survivor, no actuarial reduction

Cost of Living Adjustment (COLA)

Old	Group A/B: 3.0% not compounded, if hired before 2005; 2.0% not compounded, if hired after 2004. Group D: 0%
SB 2190	50% of the rolling 5 year net investment return minus 2.00% less than the assumed rate of return (currently 5.00%), not less than 0.00% or greater than 2.00%

Deferred Retirement Option Plan (DROP) (Groups A & B)

Old	Interest credited is 50% of the prior year investment return, not less than 2.5% or greater than 7.5% COLA credited to account
SB 2190	Interest credited is 50% of the rolling 5 year net investment return, not less than 2.5% or greater than 7.5% COLA credited on or after 62 years of age

Appendix C1

SB 2190

HFRRF – Municipal Contribution Rate When Estimated Municipal Contribution Rate Lower than Corridor Midpoint, Authorization for Certain Adjustments (Sec 13E)	
If funded ratio is less than 90%	Municipal Contribution Rate = Corridor Midpoint
If funded ratio is equal to or greater than 90%	**If municipal contribution rate is equal to or greater than the minimum contribution rate** Estimated contribution rate = Municipal Contribution Rate ____ If municipal contribution rate is **less than the minimum contribution rate** for corresponding fiscal year Municipal Contribution Rate = Minimum Contribution Rate Achieved **in accordance with subsection c.** SUBSECTION c (Adjustments): • First, adjust AVA to = MVA, if making adjustment causes municipal contribution rate to increase • Second, under written agreement (not later than April 30 before the first day of the next fiscal year), reduce assumed rate of return • Third, under written agreement (not later than April 30), prospectively restore all or part of any benefit reductions or reduce increased employee contributions, in each case made after the year 2017 effective date • Fourth, accelerate the payoff year of the existing liability loss layers, including the legacy liability, by accelerating the oldest liability loss layers first, to an amortization period that is not less than 10 years from the first day of the fiscal year beginning 12 months after the date of the risk sharing valuation study in which the liability loss layer is first recognized.
If funded ratio is equal to or greater than 100%	• All existing liability layers, including the legacy liability, are considered fully amortized and paid • The applicable fiscal year is the payoff year for the legacy liability • For each fiscal year subsequent, the corridor midpoint shall be determined as provided by Section 13C(g) of the article
If funded ratio is greater than 100%	In a written agreement between the municipality and the fund, the fund may reduce member contributions or increase pension benefits if, as a result of the action: • the funded ratio is not less than 100 percent, and

<table>
<tr><td></td><td>• the municipal contribution rate is not more than the minimum contribution rate</td></tr>
<tr><td colspan="2">HPOPS – City Contribution Rate When Estimated City Contribution Rate Lower than Corridor Midpoint, Authorization for Certain Adjustments (Sec 9D)</td></tr>
<tr><td>If funded ratio is less than 90%</td><td>City Contribution Rate = Corridor Midpoint</td></tr>
<tr><td>If funded ratio is equal to or greater than 90%</td><td>If city contribution rate is equal to or greater than the minimum contribution rate

Estimated contribution rate = City Contribution Rate
____
If city contribution rate is less than the minimum contribution rate for corresponding fiscal year

City Contribution Rate = Minimum Contribution Rate Achieved in accordance with Subsection (c).

Subsection (c) (Adjustments):

• First, adjust AVA to = MVA, if making adjustment causes city contribution rate to increase

• Second, under written agreement (not later than April 30 before the first day of the next fiscal year), reduce assumed rate of return

• Third, under written agreement (not later than April 30), prospectively restore all or part of any benefit reductions or reduce increased employee contributions, in each case made after the year 2017 effective date

• Fourth, accelerate the payoff year of the existing liability loss layers, including the legacy liability, by accelerating the oldest liability loss layers first, to an amortization period that is not less than 10 years from the first day of the fiscal year beginning 12 months after the date of the RSVS in which the liability loss layer is first recognized.</td></tr>
<tr><td>If funded ratio is equal to or greater than 100%</td><td>• All existing liability layers, including the legacy liability, are considered fully amortized and paid
• The applicable fiscal year is the payoff year for the legacy liability
• For each fiscal year subsequent, the corridor midpoint shall be determined as provided by Section 9B(g) of the article</td></tr>
<tr><td>If funded ratio is greater than 100%</td><td>In a written agreement between the city and the board, the fund may reduce member contributions or increase pension benefits if, as a result of the action:
• the funded ratio is not less than 100 percent, and
• the municipal contribution rate is not more than the minimum contribution rate</td></tr>
</table>

<table>
<tr><th colspan="2">HMEPS – City Contribution Rate When Estimated City Contribution Rate Lower than Corridor Midpoint, Authorization for Certain Adjustments (Sec 8E)</th></tr>
<tr><td>If funded ratio is less than 90%</td><td>City Contribution Rate = Corridor Midpoint</td></tr>
<tr><td>If funded ratio is equal to or greater than 90%</td><td>If city contribution rate is equal to or greater than the minimum contribution rate

Estimated Contribution Rate = City Contribution Rate
____
If city contribution rate is less than the minimum contribution rate for corresponding fiscal year

City Contribution Rate = Minimum Contribution Rate achieved in accordance with subsection c.

Subsection (c) (Adjustments):
First, adjust AVA to = MVA, if making adjustment causes city contribution rate to increase
Second, under written agreement (not later than April 30), prospectively restore all or part of any benefit reductions or reduce increased employee contributions, in each case made after the year 2017 effective date
Third, accelerate the payoff year of the legacy liability by offsetting the remaining legacy liability by the amount of the new liability loss layer, provided that during the accelerated period the city will continue to pay the city contribution amount as scheduled in the initial RSVS
Fourth, accelerate the payoff year of existing liability loss layers, excluding the legacy liability, by accelerating the oldest liability loss layers first, to an amortization period not less than 20 years from the first day of the fiscal year beginning 12 months after the date of the RSVS in which the liability loss layer is first recognized
Fifth, under a written agreement (not later than the 30th day before the first day of the next fiscal year), the city and pension board may agree to reduce the assumed rate of return</td></tr>
<tr><td>If funded ratio is equal to or greater than 100%</td><td>All existing liability layers, including the legacy liability, are considered fully amortized and paid
The city contribution amount may no longer be included in the city contribution under 8A
The city and the pension system may mutually agree to change assumptions in a written agreement</td></tr>
<tr><td>If funded ratio is greater than 100%</td><td>In a written agreement between the city and the board, the fund may reduce member contributions or increase pension benefits if, as a result of the action:
the funded ratio is not less than 100 percent, and
the city contribution rate is not more than the minimum contribution rate</td></tr>
</table>

Appendix C2

SB 2190

<table>
<tr><th colspan="2">HFRRF – Municipal Contribution Rate When Estimated Municipal Contribution Rate Equal to or Greater than Corridor Midpoint, Authorization for Certain Adjustments (Sec 13F)</th></tr>
<tr><td>If estimated municipal contribution rate is less than or equal to maximum contribution rate</td><td>Estimated Municipal Contribution Rate = Municipal Contribution Rate</td></tr>
<tr><td>If municipal contribution rate is greater than maximum contribution rate for corresponding fiscal year</td><td>Municipal Contribution Rate = Corridor Midpoint Achieved in accordance with Subsection (c).

Subsection (c) (Adjustments):
First, if payoff year of the legacy liability was accelerated previously (falling cost scenario), extend the payoff year of existing liability loss layers, by extending the most recent loss layers first, to a payoff year not later than 30 years for the first day of the fiscal year beginning 12 months after the date of the RSVS in which the liability loss layer first recognized
Second, adjust AVA to current MVA, if making the adjustment causes the municipal contribution rate to decrease</td></tr>
<tr><td>If municipal contribution rate after adjustment by Subsection (c) is greater than the third quarter line rate</td><td>Municipal Contribution Rate = Third Quarter Line Rate
To the extent necessary to comply with the statute, the City and System shall enter into a written agreement to increase member contributions and make other benefit or plan changes not otherwise prohibited by applicable federal law or regulations
If an agreement is not reached on/before April 30 before the first day of the next fiscal year, before the start of the next fiscal year to which the municipal contribution rate would apply, the board, to the extent necessary to set the municipal contribution rate equal to the third quarter line, shall:
Increase member contributions and decrease cost-of-living adjustments;
Increase normal retirement age; or
Any combination of the two</td></tr>
<tr><td>If municipal contribution rate remains greater than corridor midpoint in the third fiscal year after adjustments</td><td>In third fiscal year,
Municipal Contribution Rate = Corridor Midpoint achieved in accordance with Subsection (g).

Subsection (g):
Municipal contribution rate must be set at corridor midpoint by:
In RSVS for third fiscal year, adjust AVA to MVA, if making the</td></tr>
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<tr><td></td><td>adjustment causes the municipal contribution rate to decrease
Under written agreement between City and board:
Increase member contributions
Make any other benefit or plan changes not otherwise prohibited by applicable federal law or regulations
If an agreement is not reached on/before April 30 before the first day of the next fiscal year, before the start of the next fiscal year, the board, to the extent necessary to set the municipal contribution rate equal to the corridor midpoint, shall:
Increase member contributions and decrease cost-of-living adjustments;
Increase normal retirement age; or
Any combination of the two</td></tr>
<tr><td colspan="2">HPOPS – City Contribution Rate When Estimated City Contribution Rate Equal to or Greater Than Corridor Midpoint, Authorization for Certain Adjustments (Sec 9F)</td></tr>
<tr><td>If estimated City contribution rate is less than or equal to maximum contribution rate</td><td>Estimated City Contribution Rate = City Contribution Rate</td></tr>
<tr><td>If City contribution rate is greater than maximum contribution rate for corresponding fiscal year</td><td>City Contribution Rate = Corridor Midpoint achieved in accordance with Subsection (c).

Subsection (c) (Adjustments):
First, if payoff year of the legacy liability was accelerated previously (falling cost scenario), extend the payoff year of existing liability loss layers, by extending the most recent loss layers first, to a payoff year not later than 30 years for the first day of the fiscal year beginning 12 months after the date of the RSVS in which the liability loss layer first recognized
Second, adjust AVA to current MVA, if making the adjustment causes the city contribution rate to decrease</td></tr>
<tr><td>If city contribution rate after adjustment by Subsection (c) is greater than the third quarter line rate</td><td>City Contribution Rate = Third Quarter Line Rate
To the extent necessary to comply with the statute, the City and board shall enter into a written agreement to increase member contributions and make other benefit or plan changes not otherwise prohibited by applicable federal law or regulations
If an agreement is not reached on/before April 30 before the first day of the next fiscal year, before the start of the next fiscal year to which the city contribution rate would apply, the board, to the extent necessary to set the city contribution rate equal to the third</td></tr>
</table>

<table>
<tr><td></td><td>quarter line, shall:
Increase member contributions and decrease cost-of-living adjustments;
Increase normal retirement age; or
Any combination of the two</td></tr>
<tr><td>If city contribution rate remains greater than corridor midpoint in the third fiscal year after adjustments</td><td>In third fiscal year,
City Contribution Rate = Corridor Midpoint achieved in accordance with Subsection (g).

Subsection (g):
City contribution rate must be set at corridor midpoint by:
In RSVS for third fiscal year, adjust AVA to MVA, if making the adjustment causes the city contribution rate to decrease
Under written agreement between City and board:
Increase member contributions
Make any other benefit or plan changes not otherwise prohibited by applicable federal law or regulations
If an agreement is not reached on/before April 30 before the first day of the next fiscal year, before the start of the next fiscal year, the board, to the extent necessary to set the city contribution rate equal to the corridor midpoint, shall:
Increase member contributions and decrease cost-of-living adjustments;
Increase normal retirement age; or
Any combination of the two</td></tr>
<tr><td colspan="2">HMEPS – City Contribution Rate When Estimated City Contribution Rate Equal to or Greater Than Corridor Midpoint, Authorization for Certain Adjustments (Sec 8F)</td></tr>
<tr><td>If estimated City contribution rate is less than or equal to maximum contribution rate</td><td>Estimated City Contribution Rate = City Contribution Rate</td></tr>
<tr><td>If City contribution rate is greater than maximum contribution rate for corresponding fiscal year</td><td>City Contribution Rate = Corridor Midpoint achieved in accordance with Subsection (c).

Subsection (c) (Adjustments):
First, adjust AVA to current MVA, if making the adjustment causes the city contribution rate to decrease
Second, if payoff year of the legacy liability was accelerated previously (falling cost scenario),
extend the payoff year of the legacy liability by the amount of the new liability gain layer to a maximum amount
during extended period, the city shall continue to pay the city contribution amount for the extended period</td></tr>
</table>

<table>
<tr><td></td><td>Third, if the payoff year of a liability loss layer other than legacy liability was previously accelerated(falling cost scenario), extend the payoff year of existing liability loss layers, excluding legacy liability, by extending the most recent loss layers first, to a payoff year not later than 30 years from the first day of the fiscal year beginning 12 months after the date of the RSVS in which the liability loss layer first recognized</td></tr>
<tr><td>If city contribution rate after adjustment by Subsection (c) is greater than the third quarter line rate</td><td>City Contribution Rate = Third Quarter Line Rate
To the extent necessary to comply with the statute, the City and board shall enter into a written agreement to increase member contributions and make other benefit or plan changes not otherwise prohibited by applicable federal law or regulations
Gains resulting from adjustments made as the result of a written agreement may not be used as a direct offset against the city contribution amount in any fiscal year
If an agreement is not reached on/before the 30th day before the first day of the next fiscal year, before the start of the next fiscal year to which the city contribution rate would apply, the board, to the extent necessary to set the city contribution rate equal to the third quarter line, shall:
Increase member contributions and decrease cost-of-living adjustments;
Increase normal retirement age</td></tr>
<tr><td>If city contribution rate remains greater than corridor midpoint in the third fiscal year after adjustments</td><td>In third fiscal year,
City Contribution Rate = Corridor Midpoint achieved in accordance with Subsection (h).

Subsection (h):
City contribution rate must be set at corridor midpoint by:
In RSVS for third fiscal year, adjust AVA to MVA, if making the adjustment causes the city contribution rate to decrease
Under written agreement between City and board:
Increase member contributions
Make any other benefit or plan changes not otherwise prohibited by applicable federal law or regulations
If an agreement is not reached on/before the 30th day before the first day of the next fiscal year, before the start of the next fiscal year, the board, to the extent necessary to set the city contribution rate equal to the corridor midpoint, shall:
Increase member contributions
decrease cost-of-living adjustments</td></tr>
</table>