MEMORANDUM OF UNDERSTANDING
REGARDING THE POLICE AND FIRE RETIREMENT SYSTEM
BETWEEN
THE CITY OF DETROIT
AND
THE DETROIT POLICE LIEUTENANTS AND SERGEANTS ASSOCIATION

This Memorandum of Understanding is made and entered into this 12th day of November, 2014, by and between the City of Detroit ("City") and the Detroit Police Lieutenants and Sergeants Association ("DPLSA" or the "Association").

WHEREAS, on July 18, 2013, the City filed for protection under Chapter 9 of the U.S. Bankruptcy Code, 11 U.S.C. §§ 101-1550; and

WHEREAS, on December 5, 2013, the U.S. Bankruptcy Court for the Eastern District of Michigan ("Bankruptcy Court") ruled that the City is eligible to be a debtor under Chapter 9 of the U.S. Bankruptcy Code; and

WHEREAS, the City's duty to bargain with the Association over changes to terms and conditions of employment has been suspended pursuant to Public Act 436, MCL § 141.1541 *et seq.*; and

WHEREAS, on August 16, 2013 the Bankruptcy Court ordered the City and the Association to participate in Court-supervised mediation regarding the terms of a successor collective bargaining agreement, including retirement benefits for current employees; and

WHEREAS, the City and the Association agree that it is in the best interests of the City and its employees for the City to provide fiscally responsible but high quality retirement benefits to its future retirees; and

WHEREAS, in connection with the mediation, the City and the Association have discussed ways to address the unfunded liabilities of the Police and Fire Retirement System ("PFRS") and to reach an agreement to provide sustainable retirement benefits to future retirees of the City; and

WHEREAS, benefit accruals under the PFRS ceased effective June 30, 2014, pursuant to Ordinance No. 12-14; and

WHEREAS, effective July 1, 2014, employees represented by certain City unions, including the DPLSA, became eligible to participate in the Combined Plan for the Police and Fire Retirement System of the City of Detroit, Michigan (the "Combined Plan"), which consists of provisions relating to benefits accrued by members under PFRS prior to July 1, 2014 ("Old PFRS") and provisions relating to benefits accrued by members under PFRS on and after July 1, 2014 ("New PFRS"); and

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WHEREAS, this Memorandum of Understanding supplements any collective bargaining agreements entered into between the City and the Association and/or any Act 312 Arbitration Award pertaining to the Association and the City until the expiration of this Memorandum of Understanding;

NOW, THEREFORE, it is agreed that the City and the Association have entered into this Memorandum of Understanding, and any proposals or counter-proposals made during related discussions by either the City or the Association, but not included in this Memorandum of Understanding, are hereby withdrawn. The City and the Association further agree as follows:

A. The Police and Fire Retirement System. During the term of this Memorandum of Understanding, pension benefits for eligible employees represented by the DPLSA shall be in accordance with this Memorandum of Understanding, as follows:

1. City Contribution. The City shall contribute to New PFRS (known in the PFRS plan document as Component I), on an annual basis, an amount equal to twelve and one-quarter percent (12.25%) of each eligible employee's base compensation (as defined in Component I). A portion of such contribution will be credited to a rate stabilization fund within New PFRS.

2. Employee Contribution. Eligible employees hired by the City on or before June 30, 2014 shall make pre-tax contributions equal to six percent (6%) of their base compensation to New PFRS (pre-risk shifting). Eligible employees hired or rehired by the City on and after July 1, 2014 shall make pre-tax contributions equal to eight percent (8%) of their base compensation to New PFRS (pre-risk shifting).

3. Plan Terms. Except as set forth herein, the following key terms relating to New PFRS shall apply to benefits accrued by eligible employees on and after July 1, 2014 and prior to January 1, 2024:

BENEFIT FORMULA	Final Average Compensation (average base compensation over last 5 consecutive years of employment) x Years of Service earned after June 30, 2014 x 2.0%. Average base compensation does not include overtime, unused sick leave, longevity payments, or any other form of bonus or additional compensation – just the employee's base salary.
	Actual time for benefit accrual is actual time served. For vesting service, an eligible employee must work 1,000 hours in a 12-month period to accrue a year of service.

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NORMAL RETIREMENT AGE	Age 50 with 25 years of service, with the following 7 year transition period for New PFRS benefits only: Fiscal Year — Age and Service 2015 — Age 43 and 20 years 2016 — Age 43 and 20 years 2017 — Age 44 and 21 years 2018 — Age 45 and 22 years 2019 — Age 46 and 23 years 2020 — Age 47 and 24 years 2021 and thereafter — Age 50 and 25 years Unreduced frozen Old PFRS benefits (Old PFRS being known in the PFRS Plan document as Component II) are payable in accordance with the requirements of PFRS as in effect on June 30, 2014 (that is, when an employee reaches 25 years of credited service), except as otherwise provided in Section A.3.c of this MOU.
	10 Years of Service for vesting.
	Deferred vested pension -- 10 years of service and age 55.
	Duty Disability - consistent with Old PFRS.
	Non-Duty Disability – consistent with Old PFRS.
	Non-Duty Death Benefit for Surviving Spouse – consistent with Old PFRS.
	Duty Death Benefit for Surviving Spouse – consistent with Old PFRS.
COLA	1% compounded, variable.
DROP ACCOUNTS	Available for frozen Old PFRS benefits and future accrued benefits under New PFRS for employees who are eligible to retire under concurrent eligibility requirements, except as provided in Section A.3.c. No more than 5 years of DROP participation (for both Old PFRS and NEW PFRS benefits) for employees not already in DROP as of June 30, 2014. DROP accounts will be managed by PFRS instead of ING, if administratively and legally feasible. If managed by PFRS, interest will be credited to DROP accounts at a rate equal to 75% of the actual net investment return of PFRS, but in no event lower than 0% or higher than 7.75%.
ANNUITY SAVINGS	Voluntary Annuity Savings Fund contributions up to 10% of after-tax pay. Interest will be credited at the actual net investment rate of return for PFRS, but will in no event be lower than 0% or higher than 5.25%. No in-service withdrawals permitted.

457(b) Plan	The City of Detroit Eligible Deferred Compensation Plan (established under section Existing 457(b) of the Internal Revenue Code Plan) will continues to be available in accordance with Detroit Code of Ordinance section 13-3-1, et seq. or its successor, for employee pre-tax voluntary contributions up to the then current federal limit.".
	Investment Return/Discount rate – 6.75%.
RISK SHIFTING	If the funding level is less than 90% (using the fair market value of assets), COLAs will be eliminated (to the extent applicable). If the funding level is 90% or lower (using the fair market value of assets and a 3-year look back period), the following corrective actions will be taken in the order listed below, until the PFRS actuaries can state that by virtue of the use of corrective action, and a 6.75% discount rate and return assumption, the funding level is projected to be 100% on a market value basis within the next 5 years: 1. eliminate COLAs (if applicable); 2. use amounts credited to the rate stabilization fund to fund accrued benefits; 3. increase employee contributions by 1% per year (6% to 7% for current actives and 8% to 9% for new employees in year 1) for up to 5 years; 4. increase employee contributions (active and new employees) by an additional 1% per year; 5. increase employee contributions (active and new employees) by an additional 1% per year; 6. implement a 1 year COLA fallback; 7. implement a second 1 year COLA fallback; 8. increase employee contributions by an additional 1% per year; and 9. increase City contributions consistent with applicable actuarial principles and PERSIA.

a) Employees in the DPLSA bargaining unit had the option prior to August 23, 2014 to participate in a one-time irrevocable "roll-in election" with respect to calculation of their frozen accrued benefits under Old PFRS. The purpose of this roll-in election was to give each eligible employee the option to allocate a portion of his or her unused sick pay bank to the employee's Average Final Compensation, which in turn will be used to determine the employee's frozen accrued benefits under Old PFRS as of June 30, 2014. If the employee elected to roll-in a portion of his or her unused sick pay, the employee's Average Final Compensation will include the portion of the employee's sick pay bank determined as of June 30, 2014 that would have been included in the employee's Average Final Compensation in accordance with the terms of Old PFRS, as though the employee had retired on June 30, 2014 with 25 years of service. In the event an employee terminates employment with the City prior to attaining 25 years of service, the employee's roll-in election will be nullified. If an

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employee made a roll-in election, the employee's unused sick leave bank will be reduced by the number of hours included in the employee's Average Final Compensation calculation and the employee may not use those hours for sick leave or receive the value in cash when the employee retires. The one-time roll-in election will have no impact on benefits accrued under New PFRS.

b) For avoidance of doubt, 'eligible to retire under concurrent eligibility requirements' of the Combined Plan means that an Association member with accrued benefits under Old PFRS may retire upon attaining 25 years of service, regardless of age; provided, however, that there shall be a special eligibility rule from 2015-2019 as provided for in Section A.3.c below. A member eligible to retire under the Old PFRS would immediately receive his or her frozen accrued pension under Old PFRS. A member can begin receiving an unreduced normal retirement benefit under New PFRS when he/she reaches age 55 with 10 years of service.

The age 50 and 25 years of service requirements of New PFRS apply only to New PFRS and are subject to the 7 year transition period set forth above. Years of service acquired under Old PFRS shall apply concurrently for purposes of determining eligibility for benefits under New PFRS. The transition applies as set forth below:

1. Under the transition, after July 1, 2014, an Association member who reaches 20 years of service and age 43 on or before June 30, 2015 can retire anytime after reaching 20 years of service and age 43, and he or she will immediately receive an unreduced accrued New PFRS benefit.

2. Beginning on July 1, 2015, an Association member who reaches 20 years of service and age 43 on or before June 30, 2016 can retire anytime after reaching 20 years of service and age 43, and he or she will immediately receive an unreduced accrued New PFRS benefit.

3. After June 30, 2020, an Association member must be at least 50 years old with 25 years of service to retire and immediately receive his or her unreduced accrued New PFRS benefit.

An Association member who does not meet these New PFRS requirements will not begin receiving his or her unreduced accrued New PFRS benefit until the Association member reaches age 55 and has been credited with 10 years of service.

c) Notwithstanding the fact that benefits and eligibility requirements under the Old PFRS are otherwise frozen, the following transition period

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will apply to DPLSA members for purposes of eligibility for frozen benefits under the Old PRFS only:

Fiscal Year	Age and Service
2015	Age 45 and 24 years
2016	Age 46 and 24 years
2017	Age 47 and 23 years
2018	Age 48 and 23 years
2019	Age 49 and 23 years
2020 and thereafter	25 years of service

Pursuant to the terms of this section, an employee will be eligible to retire or DROP for purposes of the Old PFRS upon attaining the age and service requirements set forth herein. Nothing in this section shall be construed to modify eligibility requirements with respect to participation in the New PFRS.

d) Section 1.4 (Board of Trustees – Membership; Appointment) of the New PFRS and Article III, Section 2 of the Old PFRS (Membership of Board) shall not be modified during the term of the 2014-2019 collective bargaining agreement between the City and DPLSA ("CBA").

e) The City will remit to the New PFRS all contributions withheld from employees' pay checks.

The City shall promptly transfer these employees' contributions to the new PFRS, but in no event shall such City transfers be made later than the 15th day of the month following the month of the pay dates when the employees' contributions are withheld by the City (hereinafter "Contribution Due Date"). (By way of illustration and example only, the City must transfer to the New PFRS by no later than February 15 all of the employees' contributions withheld on the pay dates of the immediately preceding January.)

If the City does not transfer the employees' withheld contributions to the New PFRS by the Contribution Due Date, these contributions shall be deemed delinquent contributions (hereinafter "Delinquent Contributions"). The City shall be liable to the New PFRS in the amount of the Delinquent Contributions and any Lost Earnings ("Lost Earnings") on the Delinquent Contributions, which would have been earned on the employees' contributions, had the City timely made the transfer of these employees' contributions.

Notwithstanding the above, the City shall be liable for Lost Earnings in an amount not less than the applicable corporate underpayment rate(s), effective during the delinquency, established under Section 6621(a)(2) of

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the Internal Revenue Code.

B. Reservation of Rights by City. This Memorandum of Understanding shall in no way be construed to interfere with, or add additional requirements with respect to, the City's rights to modify the terms of any pension plan document currently in effect, or that may be in effect during the term of this Memorandum of Understanding, including but not limited to the Combined Plan; provided, however, that the City shall not modify the terms of the applicable pension plan(s), in any manner that conflicts with those terms set forth in Section A above, unless the City is ordered to do so by the Bankruptcy Court in the plan of adjustment dated August 20, 2014 (as it may be amended, modified or supplemented, "Plan of Adjustment") in the case *In re: City of Detroit*, Case No. 13-53846 or as set forth in Section D below.

C. Compliance with Plan of Adjustment. The terms of this Memorandum of Understanding are subject to confirmation of the Plan of Adjustment and may be modified therein to achieve confirmation of the Plan of Adjustment. Any proposed modification to the Plan of Adjustment is subject to the rights of the DPLSA to object to same. During the term of this Memorandum of Understanding, the City shall not make any modifications to the terms of the Combined Plan that are contrary to the terms of the Plan of Adjustment as confirmed by the Bankruptcy Court.

D. Compliance with Public Act 183. Notwithstanding any provision of this Memorandum of Understanding that can be construed to the contrary, this Memorandum of Understanding will not be construed to require the City to fall out of compliance with the requirements of Public Act 183, House Bill 5568 ("PA 183"). In the event that the City determines that it has fallen out of compliance with, or is reasonably likely to fall out of compliance with PA 183, the City will provide written notice to the Association, and offer to meet and confer with the Association for a period not longer than thirty (30) days to discuss potential modifications to the terms of the Memorandum of Understanding in order to comply with the requirements of PA 183. To the extent that the City and the Association are unable to reach an agreement within thirty (30) days, the City may make any necessary modifications to ensure compliance with PA 183.

E. Duration. This Memorandum of Understanding will become effective upon approval by the Treasurer of the State of Michigan and shall remain in effect until December 31, 2023. The City and the Association hereby agree to waive any and all collective bargaining rights with respect to pension benefits, including but not limited to benefits provided under, and any other issues relating to, the Combined Plan (the "Waived Issues") from the date that this Memorandum of Understanding is executed through December 31, 2023. The parties acknowledge that they are enjoined from collective bargaining regarding the Waived Issues through June 30, 2023 and further agree to waive any right to raise any of the Waived Issues in any Act 312 arbitration proceeding. The City and the Association agree that they may engage in collective bargaining regarding the Waived Issues beginning June 30, 2023, but that no modifications may be made with respect to any Waived Issue until after December 31, 2023.

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F. Grievance and Arbitration: Any dispute pertaining to the provision of benefits pursuant to this Memorandum of Understanding shall be subject to the grievance and arbitration procedures set forth in Articles 8 and 9 of the CBA or any comparable provision set forth in a successor collective bargaining agreement entered into between the City and the DPLSA. In resolving any dispute pertaining to provision of benefits pursuant to this Memorandum of Understanding, the Arbitrator shall be bound by the terms of this Memorandum of Understanding, the Combined Plan, and the Plan of Adjustment, and shall have no authority to issue any award or order that is contrary to the terms of these documents.

IN WITNESS WHEREOF, the parties hereto have affixed their signatures below:

Dated this 12th day of November 2014.

DETROIT POLICE LIEUTENANTS AND SERGEANTS ASSOCIATION:

Mark Young, President

Rodney Sizemore, Vice President

Brian Harris, Secretary-Treasurer

9:46AM

John F. Kennedy, Sergeant at Arms

CITY OF DETROIT:

Michael E. Duggan, Mayor

Kevyn Orr, Emergency Manager

Michael A. Hall, Director of Labor Relations

James E. Craig, Chief of Police

Office of the State Treasurer, Michigan