

By: Rodriguez

H.B. No. 4368

A BILL TO BE ENTITLED

AN ACT

relating to the administration of certain municipal police retirement systems.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Section 1.02, Article 6243n-1, Revised Statutes, is amended by amending Subdivisions (2), (4), and (18) and adding Subdivisions (1-a), (2-a), (3-a), (3-b), (6-a), (6-b), (6-c), (6-d), (6-e), (10-a), (11-a), (13-a), (13-b), (13-c), (15-a), (15-b), (15-c), (15-d), (15-e), (17-a), (18-a), (18-b), (19-a), (19-b), (23-a), (29-a), and (29-b) to read as follows:

(1-a) "Actuarial accrued liability" means the portion of the actuarial present value of projected benefits of the system attributed to past periods of member service based on the cost method used in the risk sharing valuation study prepared under Section 8.03 or 8.04 of this Act, as applicable.

(2) "Actuarial equivalent" means any benefit of equal present value to a standard benefit when computed as specified by this Act, based on the actuarial assumptions adopted by the board for such purpose.

(2-a) "Actuarial value of assets" means the value of the system's investments as calculated using the asset smoothing method used in the risk sharing valuation study prepared under Section 8.03 or 8.04 of this Act, as applicable.

(3-a) "Amortization period" means the time period

1 necessary to fully pay a liability layer, or when referring to the  
2 amortization period of the system as a whole, the number of years  
3 incorporated in a weighted average amortization factor for all  
4 components combined, including the legacy liability.

5 (3-b) "Amortization rate" means, for a given calendar  
6 year, the percent equal to the ratio of (A) divided by (B) where:

7 (A) is equal to the sum of the scheduled  
8 amortization payments required to pay off the then-existing  
9 liability layers, less the city legacy contribution amount for such  
10 calendar year, as determined in the risk sharing valuation prepared  
11 under Section 8.03 or 8.04 of this Act, as applicable; and

12 (B) is equal to the projected pensionable payroll  
13 for the same calendar year.

14 (4) "Average final compensation" means the monthly  
15 average of basic hourly earnings of a member during, as applicable:

16 (A) if the member has 120 months or more of  
17 service during which the member made contributions to the system or  
18 the predecessor system, the 36 months for a Group A member, or 60  
19 months for a Group B member, which yielded the highest average  
20 during the last 120 months of membership service during which the  
21 member contributed to the system or the predecessor system;

22 (B) if the member has less than 120 months of  
23 membership service during which the member contributed to the  
24 system or the predecessor system, but has at least 36 months of  
25 membership service for a Group A member, or 60 months of membership  
26 service for a Group B member, during which the member made  
27 contributions to the system or the predecessor system, the average

1 of the 36 months, or 60 months, as applicable, which yielded the  
2 highest average; or

3 (C) if the member does not have 36 months of  
4 membership service for a Group A member, or 60 months of membership  
5 service for a Group B member, during which the member contributed to  
6 the system or the predecessor system, the average of the member's  
7 months of membership service during which the member made  
8 contributions to the system or the predecessor system.

9 (6-a) "City contribution rate" means, for a given  
10 calendar year, a percent equal to the sum of the employer normal  
11 cost rate and the amortization rate, as adjusted under Section 8.05  
12 or 8.06 of this Act, if applicable.

13 (6-b) "City legacy contribution amount" means, for  
14 each calendar year, a predetermined payment amount expressed in  
15 dollars in accordance with a payment schedule amortizing the legacy  
16 liability for the calendar year ending December 31, 2020 using the  
17 level percent of payroll method and the amortization period and  
18 payoff year that is included in the initial risk sharing valuation  
19 study under Section 8.03 of this Act.

20 (6-c) "Corridor" means the range of city contribution  
21 rates that are:

22 (A) equal to or greater than the minimum city  
23 contribution rate; and

24 (B) equal to or less than the maximum city  
25 contribution rate.

26 (6-d) "Corridor margin" means five percentage points.

27 (6-e) "Corridor midpoint" means the projected city

1 contribution rate specified for each calendar year for 30 years as  
2 provided in the initial risk sharing valuation study under Section  
3 8.03 of this Act, and as may be adjusted in accordance with Section  
4 8.04(b)(4) of this Act in connection with a subsequent risk sharing  
5 valuation study or Section 8.04(c) of this Act, and in each case  
6 rounded to the nearest hundredths decimal place.

7 (10-a) "Employer normal cost rate" means, for a given  
8 calendar year, the normal cost rate minus the applicable member  
9 contribution rate determined under Section 8.01 of this Act.

10 (11-a) "Estimated city contribution rate" means, for a  
11 given calendar year, the city contribution rate that would be  
12 required to maintain an amortization period for the system as a  
13 whole of no more than 30 years as determined by the system's actuary  
14 in a risk sharing valuation study under Section 8.03 or 8.04 of this  
15 Act, as applicable, and prior to any adjustment to such rate under  
16 Section 8.05 or 8.06 of this Act, as applicable.

17 (13-a) "Funded ratio" means the ratio of the actuarial  
18 value of assets divided by the actuarial accrued liability.

19 (13-b) "Group A member" means a member who:

20 (A) first became a member of the system on or  
21 before December 31, 2021 and has remained in continuous employment  
22 with the city or the system through December 31, 2021; or

23 (B) returned to full-time employment on or after  
24 January 1, 2022, and:

25 (i) was previously a member of the System  
26 prior to January 1, 2022; and

27 (ii) either:

1                   (a) did not withdraw the member's  
2 accumulated deposits from the police retirement system; or

3                   (b) received a distribution of the  
4 member's accumulated deposits, but has reinstated all of the  
5 member's prior membership service credit.

6           (13-c) "Group B member" means a member who:

7                   (A) first became a member of the system on or  
8 after January 1, 2022; or

9                   (B) returned to full-time employment on or after  
10 January 1, 2022, and:

11                           (i) was previously a Group A member;

12                           (ii) received a distribution of the  
13 member's accumulated deposits; and

14                           (iii) has not reinstated all of the member's  
15 prior membership service credit.

16           (15-a) "Legacy liability" means the unfunded  
17 actuarial accrued liability determined as of December 31, 2020, and  
18 for each subsequent calendar year, adjusted as follows:

19                   (A) reduced by the city legacy contribution  
20 amount for such year allocated to the amortization of the legacy  
21 liability; and

22                   (B) adjusted by the assumed rate of return  
23 adopted by the board for such year.

24           (15-b) "Level percent of payroll method" means the  
25 amortization method that defines the amount of the liability layer  
26 recognized each calendar year as a level percent of pensionable  
27 payroll until the amount of the liability layer remaining is

1 reduced to zero.

2 (15-c) "Liability gain layer" means a liability layer  
3 that decreases the unfunded actuarial accrued liability.

4 (15-d) "Liability layer" means:

5 (A) the legacy liability established in the  
6 initial risk sharing valuation study under Section 8.03 of this  
7 Act; or

8 (B) for calendar years after December 31, 2020,  
9 the amount that the system's unfunded actuarial accrued liability  
10 increases or decreases, as applicable, due to the unanticipated  
11 change for such calendar year as determined in each subsequent risk  
12 sharing valuation study prepared under Section 8.04 of this Act.

13 (15-e) "Liability loss layer" means a liability layer  
14 that increases the unfunded actuarial accrued liability. For  
15 purposes of this Act, the legacy liability is a liability loss  
16 layer.

17 (17-a) "Maximum city contribution rate" means, for a  
18 given calendar year, the rate equal to the corridor midpoint plus  
19 the corridor margin.

20 (18) "Member" means any police officer or employee of  
21 the police retirement system included in the system under this Act  
22 and approved for membership by the police retirement board. Each  
23 member shall be a Group A member or a Group B member, as applicable.

24 In any case of doubt regarding the eligibility of an employee to  
25 become or remain a member of the system, the decision of the police  
26 retirement board shall be final.

27 (18-a) "Minimum city contribution rate" means, for a

1 given calendar year, the rate equal to the corridor midpoint minus  
2 the corridor margin.

3 (18-b) "Normal cost rate" means, for a given calendar  
4 year, the salary weighted average of the individual normal cost  
5 rates determined for the current active member population, plus the  
6 assumed administrative expenses determined in the most recent  
7 actuarial experience study.

8 (19-a) "Payoff year" means the year a liability layer  
9 is fully amortized under the amortization period. A payoff year may  
10 not be extended or accelerated for a period that is less than one  
11 month.

12 (19-b) "Pensionable payroll" means the aggregate  
13 basic hourly earnings of all members in active service for a  
14 calendar year or pay period, as applicable.

15 (23-a) "Projected pensionable payroll" means the  
16 estimated pensionable payroll for the calendar year beginning 12  
17 months after the date of the risk sharing valuation study prepared  
18 under Section 8.03 or 8.04 of this Act, at the time of calculation  
19 by:

20 (A) projecting the prior calendar year's  
21 pensionable payroll forward two years using the current payroll  
22 growth rate assumption adopted by the board; and

23 (B) adjusting, if necessary, for changes in  
24 population or other known factors, provided those factors would  
25 have a material impact on the calculation, as determined by the  
26 board.

27 (29-a) "Unfunded actuarial accrued liability" means

1 the difference between the actuarial accrued liability and the  
2 actuarial value of assets.

3 (29-b) "Unanticipated change" means, with respect to  
4 the unfunded actuarial accrued liability in each subsequent risk  
5 sharing valuation study prepared under Section 8.04 of this Act,  
6 the difference between:

7 (A) the remaining balance of all then-existing  
8 liability layers as of the date of the risk sharing valuation study;  
9 and

10 (B) the actual unfunded actuarial accrued  
11 liability as of the date of the risk sharing valuation study.

12 SECTION 2. Section 3.10, Article 6243n-1, Revised Statutes,  
13 is amended to read as follows:

14 Sec. 3.10. INVESTMENT MANAGERS. The police retirement  
15 board may hire an investment manager or investment managers who  
16 shall have full authority to invest the assets and manage any  
17 portion of the portfolio of the system, as specified by the  
18 manager's ~~[employment]~~ contract.

19 SECTION 3. Section 4.01, Article 6243n-1, Revised Statutes,  
20 is amended by amending Subsections (c) and (e) to read as follows:

21 (c) Any person who becomes an employee of the city or the  
22 system, if eligible for membership, shall become a member as a  
23 condition of employment and shall make the required deposits  
24 commencing with the first pay period following a probationary  
25 period of six continuous months from date of employment, if  
26 applicable, or eligibility, if later.

27 (e)(1) Membership in the police retirement system shall

1 consist of the following groups:

2 (A) Active--Contributory: the member who is in a  
3 status which allows payroll contributions to the police retirement  
4 system (working a normal work week, holding a full-time position,  
5 and, if applicable, having completed a continuous period of six  
6 months of service initially, to attain membership).

7 (B) Active--Noncontributory: the member whose  
8 current employment status does not allow contributions to the  
9 system (working less than a normal work week or on a leave of  
10 absence under Subsection (f)(6)(A) of this section) and on return  
11 to working a normal work week, the member will again be given  
12 creditable service, with contributions resumed at time of status  
13 change.

14 (C) Inactive--Contributory: the member who is on  
15 a uniformed service leave of absence under Subsection (f)(6)(B) of  
16 this section, who is allowed to make deposits to the system during  
17 the member's absence.

18 (D) Vested--Noncontributory: the terminated  
19 member who, being vested, leaves the member's accumulated deposits  
20 in the system.

21 (E) Retired: the member who is receiving a  
22 service or disability retirement annuity.

23 (2) It shall be the duty of the police retirement board  
24 to determine the membership group to which each police officer or  
25 employee of the system who becomes a member of the police retirement  
26 system properly belongs.

27 SECTION 4. Section 5.03, Article 6243n-1, Revised Statutes,

1 is amended by amending Subsection (a) to read as follows:

2 (a) An eligible member or eligible surviving spouse may  
3 establish creditable service for probationary service performed as  
4 provided under this section according to the following conditions,  
5 limitations, and restrictions:

6 (1) Probationary service creditable in the system is  
7 any probationary service following the member's commission date or  
8 the member's first date of employment with the system for which the  
9 member does not have creditable service.

10 (2) An eligible member or eligible surviving spouse  
11 may establish creditable service under this section by contributing  
12 to the system a single payment equal to the contribution the member  
13 would have made to the system for that service at the time the  
14 service was performed and an interest charge based on the  
15 contribution amount to be repaid times an interest factor. The  
16 interest factor is eight percent per year for the period that begins  
17 with the beginning of the month and year at the end of the  
18 probationary period for which creditable service is being  
19 established to the beginning of the month and year payment is made  
20 to the system for the purpose of establishing said service.

21 (3) After the eligible member or eligible surviving  
22 spouse makes the deposit required by Subdivision (2) of this  
23 subsection, the system shall grant the member one month of  
24 creditable service for each month of probationary service  
25 established under this section.

26 SECTION 5. Section 5.04(a), Article 6243n-1, Revised  
27 Statutes, is amended to read as follows:

1           (a) Pursuant to irrevocable action taken by the city council  
2 on February 12, 1998, police [~~This section does not take effect~~  
3 ~~unless the city council authorizes the city to begin making~~  
4 ~~contributions to the police retirement system in accordance with~~  
5 ~~Section 8.01(a) of this Act for police cadets during their~~  
6 ~~employment as cadets while members of a cadet class. Police]~~ cadets  
7 whose cadet class begins after April 1, 1998, [~~the city council~~  
8 ~~makes the authorization]~~ shall make deposits to the police  
9 retirement system in accordance with Section 8.01(a) of this Act,  
10 and those cadets shall be members of the police retirement system  
11 and shall receive creditable service for employment as cadets while  
12 members of a cadet class, notwithstanding Sections 1.02(7), (18),  
13 and (21) of this Act.

14           SECTION 6. Section 6.01, Article 6243n-1, Revised Statutes,  
15 is amended by amending Subsections (a), (d), and (f) and adding  
16 Subsections (a-1), (a-2), (c-1), and (c-2) to read as follows:

17           (a) On retirement after having reached the member's normal  
18 retirement date, members entitled thereto shall receive a service  
19 retirement benefit in the form of a life annuity (modified cash  
20 refund). Each monthly payment of the life annuity (modified cash  
21 refund) shall be equal to one-twelfth of:

22                   (1) for a Group A member, the product of 3.2 [2.88]  
23 percent of a member's average final compensation multiplied by the  
24 number of months of creditable service; or

25                   (2) for a Group B member, the product of 2.5 percent of  
26 a member's average final compensation multiplied by the number of  
27 months of creditable service.

1        (a-1) The retirement benefit percent specified by this  
2 section to calculate the amount of the monthly payment of the life  
3 annuity (modified cash refund) may be changed [~~after 1997~~] if:

4            (1) the change is approved by the board's actuary;

5            (2) the change is adopted by the board as a board rule;

6            (3) [~~the change applies to all present members, all~~  
7 ~~retired members, and all who become members after the effective~~  
8 ~~date of the change in the retirement benefit percent;~~]

9            [~~(4)~~] a member's vested interest as of the last day of  
10 the month immediately preceding the effective date of the change in  
11 the retirement benefit percent is not reduced; and

12            (4) ~~[(5)]~~ a retirement annuity being paid by the police  
13 retirement system to members or to the surviving spouses or  
14 beneficiaries of members who retired before the effective date of  
15 the change in the retirement benefit percent is changed as  
16 prescribed by Subsection (d)(6) of this section, except that a  
17 reduction in annuities may not cause the member's, surviving  
18 spouse's, or beneficiary's annuity payment to be reduced below the  
19 base retirement amount calculated under this Act.

20        (a-2) A change to the retirement benefit percentage under  
21 this section:

22            (1) may be applied to different groups of members or  
23 may apply to all members, or

24            (2) may be applied to all creditable service of a  
25 member or only to creditable service of a member acquired during a  
26 specified period.

27        (c-1) In lieu of the annual adjustment for a given calendar

1 year, before January 1 of such year, the board may authorize an  
2 additional benefit payment be paid in a single lump-sum to retirees  
3 or the surviving spouse or beneficiaries of members who became  
4 entitled to benefits on or before December 31 of the preceding year.  
5 The additional benefit payment shall be paid on or before January 1  
6 of the succeeding calendar year.

7 (c-2) An annual adjustment granted under Subsection (c) or  
8 an additional benefit payment granted under Subsection (c-1), as  
9 applicable, may be applied to different groups of members or may  
10 apply to all members.

11 (d) In determining whether to authorize the payment and the  
12 amount of any annual adjustment or additional benefit payment, the  
13 board shall be governed by the following conditions,  
14 considerations, limitations, and restrictions:

15 (1) Any and all determinations to authorize the  
16 payment of any amount must be based on the ability of the system to  
17 pay such an amount and shall not be based upon the individual needs  
18 of any particular retired members, surviving spouses, or  
19 beneficiaries.

20 (2) Prior to the board's authorizing the payment of an  
21 annual adjustment or additional benefit payment, the actuary must  
22 approve and recommend such an adjustment or payment to the board and  
23 certify in writing to the board that based on the sound application  
24 of actuarial assumptions and methods consistent with sound  
25 actuarial principles and standards, it is demonstrable that the  
26 system has and will continue to have the ability to pay such an  
27 amount out of its realized income after all other obligations of the

1 system have been paid.

2 (3) The amount of the adjustment payment to the  
3 retirement benefit for each retired member, surviving spouse, or  
4 beneficiary shall be increased or decreased by an amount, not to  
5 exceed six percent, determined by the board and the actuary based on  
6 the consumer price index, actuarial experience of the system,  
7 investment experience of the system, and cost-of-living increases  
8 granted in the past. Such increases shall be prorated for a member  
9 who retired during the year in the ratio that the number of the  
10 member's completed months after the member's retirement in that  
11 year bears to 12. The cost-of-living increase presented for  
12 approval by the board must be approved by the system's actuary.

13 (4) The board shall have the authority and the duty, at  
14 any and all times and without notice to anyone, to decrease the  
15 amount of the adjustment payment as much as is necessary to protect  
16 the continuity of the police retirement system and to protect the  
17 corpus of the system should the ability of the system to continue to  
18 pay the adjustment be threatened by a change in the economic  
19 situation of the United States, the State of Texas, the city, or the  
20 system itself such as would dictate that a prudent trustee should  
21 authorize such a decrease; provided that if the threatened change  
22 should prove not to have had the predicted harmful effect on the  
23 system, then the board shall have the authority to reinstate the  
24 payment of all or any portion of the amount of the previously  
25 decreased adjustment payments. If at any time the actuary in the  
26 actuary's discretion shall deem the continuity of the system to be  
27 threatened by whatever cause, the actuary shall have the power and

1 authority to order the board to make no further adjustment payments  
2 and the board shall have the power and authority to see to it that no  
3 further adjustment payments are made unless and until the actuary  
4 shall order either that the same adjustment payments which were  
5 discontinued by the actuary's order be reinstated retroactively, or  
6 that the adjustment payments (of the same amount as those which were  
7 discontinued) be reinstated prospectively from the date of the  
8 actuary's order to reinstate or the actuary may recommend to the  
9 board that the adjustment payments be decreased by whatever amount  
10 the actuary may deem to be sufficient to protect the continuity of  
11 the system. The board shall not have the power or authority to  
12 authorize or permit the payment of any adjustment payments in  
13 excess of that recommended by the actuary.

14 (5) Provided that the adjustment payments, if any,  
15 shall be in addition to the benefits to which a retired member,  
16 surviving spouse, or beneficiary is otherwise entitled under this  
17 Act, and in no event shall a reduction in the adjustment payments  
18 cause the retired member's, surviving spouse's, or beneficiary's  
19 benefits to be reduced below the actual base retirement amount  
20 calculated under the provisions of this Act.

21 (6) If a change to the retirement benefit percentage  
22 under Subsection (a) applies to retired members and beneficiaries,  
23 service [~~Service~~] and disability retirement annuities and survivor  
24 benefits being paid by the police retirement system to members or to  
25 the surviving spouses or beneficiaries of members who retire before  
26 the effective date of any change in the retirement benefit percent  
27 under this section [~~that occurs after 1995~~] shall be changed

1 beginning with the first payment due after the effective date of the  
2 change in the retirement benefit percent. The amount of the change  
3 for a member or the surviving spouse or beneficiary of the member is  
4 equal to a percentage multiplied by the annuity payment otherwise  
5 due. The percentage is equal to the new retirement benefit  
6 percentage divided by the retirement benefit percent in effect  
7 immediately before the effective date of the new retirement benefit  
8 percent, minus one, and multiplied by 100.

9 (f) For purposes of this section, compensation of each  
10 noneligible member taken into account under this Act may not exceed  
11 the maximum amount allowed under [~~\$200,000 per calendar year,~~  
12 ~~indexed pursuant to~~] Section 401(a)(17) of the Internal Revenue  
13 Code of 1986 (26 U.S.C. Section 401). The Section 401(a)(17)  
14 [~~\$200,000~~] limit described above does not apply to an eligible  
15 member. For purposes of this subsection, an eligible member is any  
16 individual who first became a member before January 1, 1996. For  
17 purposes of this subsection, a noneligible member is any other  
18 member.

19 SECTION 7. Section 6.02, Article 6243n-1, Revised Statutes,  
20 is amended by amending Subsections (a) and (b) and adding  
21 Subsections (a-1) and (b-1) to read as follows:

22 (a) A Group A [~~Any~~] member shall be eligible for service  
23 retirement if the member has attained the age of 55 years and  
24 completed at least 20 years of creditable service with the city, or  
25 has completed 23 years of creditable service, excluding any  
26 military service established under Section 5.02 of this Act.

27 (a-1) A Group B member shall be eligible for service

1 retirement if the member has attained the age of 50 years and  
2 completed at least 25 years of creditable service with the city,  
3 excluding any military service established under Section 5.02 of  
4 this Act.

5 (b) Except as provided by Subsection (c) of this section,  
6 the age and length-of-service requirements for service retirement  
7 may be changed if the change:

8 (1) is approved by the board's actuary;

9 (2) is adopted by the board as a board rule; and

10 (3) [~~applies to all persons who are members on the~~  
11 ~~effective date of the change and all persons who become members~~  
12 ~~after the effective date of the change, and]~~

13 [~~(4)~~] does not increase the requirements for a  
14 person who already is eligible for service retirement on the  
15 effective date of the change.

16 (b-1) A change to the age and length-of-service  
17 requirements under Subsection (b) may be applied to different  
18 groups of members or may apply to all members.

19 SECTION 8. Section 6.04, Article 6243n-1, Revised Statutes,  
20 is amended by amending Subsection (b) to read as follows:

21 (b) If a member who has attained age 72 (or such later age as  
22 required under Section 401(a)(9) of the Internal Revenue Code of  
23 1986 (26 U.S.C. Section 401)) [~~70-1/2~~] separates or has separated  
24 from service without applying for retirement or a refund of  
25 accumulated deposits, the police retirement system shall attempt to  
26 send to that member a written notice as soon as practicable after  
27 the later of the date the member attains such age [~~70-1/2~~] or the

1 date the member separates from service. The written notice must  
2 advise the member of the requirement under Section 401(a)(9) of the  
3 Internal Revenue Code of 1986 (26 U.S.C. Section 401) to retire and  
4 begin receiving a monthly retirement benefit. If, before the 91st  
5 day after the date the police retirement system sends the notice,  
6 the member has not filed an application for retirement or a refund,  
7 the member is considered to have retired on the last day of the  
8 third month following the later of the two dates specified by this  
9 subsection. If applicable, the retirement option shall be  
10 determined in accordance with the member's written selection of  
11 optional benefit and designation of beneficiary under Section  
12 6.06(a)(1) of this Act. Otherwise, the member shall receive the  
13 life annuity under Section 6.01 of this Act.

14 SECTION 9. Section 7.02, Article 6243n-1, Revised Statutes,  
15 is amended by amending Subsection (a) and adding Subsection (a-1)  
16 to read as follows:

17 (a) On award of disability retirement benefits, the member  
18 shall receive a disability retirement benefit computed in the same  
19 manner that a service retirement benefit would be computed at the  
20 member's normal retirement date, based on average final  
21 compensation and creditable service at date of disability  
22 retirement without reduction for early retirement. If the  
23 disability is a direct or proximate result of the performance of the  
24 member's employment duties with the system or the city, then the  
25 disability retirement benefit will be subject to a minimum benefit  
26 based on:

27 (1) average final compensation at date of disability

1 retirement;

2 (2) the applicable retirement benefit percentage  
3 under Section 6.01; and

4 (3) the following years of creditable service:

5 (A) for a Group A member, 20 years of creditable  
6 service; or

7 (B) for a Group B member, 25 years of creditable  
8 service.

9 (a-1) The options allowed under this section are life  
10 annuity or its actuarial equivalent payable in the form described  
11 as Option I, Option II, Option III, Option IV, or Option V in  
12 Section 6.03 of this Act. The disability benefits paid to the member  
13 will be paid from Fund No. 1 until the amount received equals the  
14 member's accumulated deposits; thereafter the benefits will be paid  
15 from Fund No. 2.

16 SECTION 10. Article VIII, Article 6243n-1, Revised  
17 Statutes, is amended by amending Section 8.01 and adding Sections  
18 8.02, 8.03, 8.04, 8.05, 8.06, 8.07, and 8.08 to read as follows:

19 Sec. 8.01. MEMBER CONTRIBUTIONS [~~METHOD OF FINANCING~~].

20 (a) [~~(1)~~] For pay periods beginning prior to January 1, 2022,  
21 deposits [~~Deposits~~] by the members to the police retirement system  
22 shall be made at a rate of at least 13 percent of the basic hourly  
23 earnings of each member. For pay periods beginning on or after  
24 January 1, 2022, deposits by the members to the police retirement  
25 system shall be made at a rate of at least 15 percent of the basic  
26 hourly earnings of each member. Deposits required to be made by  
27 members shall be deducted from payroll each pay period.

1        (b) On recommendation of the board, the  
 2 Active--Contributory members may by a majority of those voting  
 3 increase the rate of member deposits above the applicable [~~13~~]  
 4 percent set forth above to whatever amount the board has  
 5 recommended. If the deposit rate for members has been increased to a  
 6 rate above 15 [~~13~~] percent, the rate may be decreased if the board  
 7 recommends the decrease, the board's actuary approves the decrease,  
 8 and a majority of the Active-Contributory members voting on the  
 9 matter approve the decrease.

10        Sec. 8.02. CITY CONTRIBUTIONS. (a) [~~(2)~~ ~~The city shall~~  
 11 ~~contribute amounts equal to 18 percent of the basic hourly earnings~~  
 12 ~~of each member employed by the city for all periods on or before~~  
 13 ~~September 30, 2010, subject to additional amounts as provided by~~  
 14 ~~Subdivision (3) of this subsection. The city shall contribute~~  
 15 ~~amounts equal to 19 percent of the basic hourly earnings of each~~  
 16 ~~member employed by the city for all periods after September 30,~~  
 17 ~~2010, and before October 1, 2011, subject to additional amounts as~~  
 18 ~~provided by Subdivision (3) of this subsection. The city shall~~  
 19 ~~contribute amounts equal to 20 percent of the basic hourly earnings~~  
 20 ~~of each member employed by the city for all periods after September~~  
 21 ~~30, 2011, and before October 1, 2012, subject to additional amounts~~  
 22 ~~as provided by Subdivision (3) of this subsection.] The city shall  
 23 contribute amounts equal to 21 percent of the basic hourly earnings  
 24 of each member employed by the city for all pay periods beginning  
 25 after September 30, 2012, and before January 1, 2022, subject to  
 26 additional amounts as provided by Section 8.07 of this Act  
 27 [~~Subdivision (3) of this subsection~~]. For all pay periods beginning~~

1 on or after January 1, 2022, the city shall make contributions to  
2 the police retirement system in accordance with Subsections (b) and  
3 (c) and Sections 8.03, 8.04, 8.05, and 8.06 of this Act, as  
4 applicable, and subject to additional amounts as provided by  
5 Section 8.07 of this Act. The city council may also authorize the  
6 city to make additional contributions to the police retirement  
7 system in whatever amount the city council may determine.  
8 Contributions by the city shall be made each pay period.

9 (b) For each pay period that begins on or after January 1,  
10 2022, and on or before December 31, 2022, the city shall contribute  
11 an amount equal to the sum of:

12 (1) the city contribution rate, as determined in the  
13 initial risk sharing valuation study conducted under Section 8.03  
14 of this Act, multiplied by the pensionable payroll for the  
15 applicable pay period; and

16 (2) one twenty-sixth of the city legacy contribution  
17 amount for the 2022 calendar year, as determined in the initial risk  
18 sharing valuation study conducted under Section 8.03 of this Act.

19 (c) For each pay period that begins on or after January 1,  
20 2023, the city shall contribute an amount equal to the sum of:

21 (1) the city contribution rate for the applicable  
22 calendar year, as determined in a subsequent risk sharing valuation  
23 study conducted under Section 8.04 of this Act and adjusted under  
24 Section 8.05 or 8.06 of this Act, as applicable, multiplied by the  
25 pensionable payroll for the applicable pay period; and

26 (2) one twenty-sixth of the city legacy contribution  
27 amount for the applicable calendar year, as determined in the

1 initial risk sharing valuation study conducted under Section 8.03  
2 of this Act.

3 Sec. 8.03. INITIAL RISK SHARING VALUATION STUDY. (a) The  
4 police retirement system shall cause its actuary to prepare an  
5 initial risk sharing valuation study that is dated as of December  
6 31, 2020, in accordance with this section.

7 (b) The initial risk sharing valuation study must:

8 (1) except as otherwise provided by this section, be  
9 prepared in accordance with Section 8.04 of this Act;

10 (2) project the corridor midpoint for the next 30  
11 calendar years beginning with the calendar year that begins on  
12 January 1, 2022; and

13 (3) include a schedule of city legacy contribution  
14 amounts for 30 calendar years beginning with the calendar year that  
15 begins on January 1, 2022.

16 Sec. 8.04. SUBSEQUENT RISK SHARING VALUATION STUDIES. (a)  
17 For each calendar year beginning after December 31, 2020, the  
18 police retirement system shall cause its actuary to prepare a risk  
19 sharing valuation study in accordance with this section and  
20 actuarial standards of practice.

21 (b) Each risk sharing valuation study must:

22 (1) be dated as of the last day of the calendar year  
23 for which the study is required to be prepared;

24 (2) calculate the unfunded actuarial accrued  
25 liability of the system as of such date, including the liability  
26 layer, if any, associated with the most recently completed calendar  
27 year;

1           (3) calculate the estimated city contribution rate for  
2 the following calendar year;

3           (4) determine whether any increase to the corridor  
4 midpoint is to be made for any change in the estimated city  
5 contribution rate due to the covered payroll of the system growing  
6 at a rate different than that assumed in the most recently completed  
7 risk sharing valuation;

8           (5) determine the city contribution rate for the  
9 following calendar year, taking into account any adjustments  
10 required under Section 8.05 or 8.06, as applicable; and

11           (6) be based on the assumptions and methods adopted by  
12 the board that are consistent with actuarial standards of practice  
13 and the following principles:

14           (A) closed layered amortization of liability  
15 layers to ensure that the amortization period for each liability  
16 layer begins 12 months after the date of the risk sharing valuation  
17 study in which the liability layer is first recognized;

18           (B) each liability layer is assigned an  
19 amortization period;

20           (C) each liability loss layer will be amortized  
21 over a period of 30 years from the first day of the calendar year  
22 beginning 12 months after the date of the risk sharing valuation  
23 study in which the liability loss layer is first recognized, except  
24 that the legacy liability must be amortized over a 30-year period  
25 beginning January 1, 2022;

26           (D) each liability gain layer will be amortized  
27 over:

1           (i) a period equal to the remaining  
2 amortization period on the largest remaining liability loss layer  
3 and the two layers must be treated as one layer such that if the  
4 payoff year of the liability loss layer is accelerated or extended,  
5 the payoff year of the liability gain layer is also accelerated or  
6 extended; or

7           (ii) if there is no liability loss layer, a  
8 period of 30 years from the first day of the calendar year beginning  
9 12 months after the date of the risk sharing valuation study in  
10 which the liability gain layer is first recognized;

11           (E) liability layers, including the legacy  
12 liability, will be funded according to the level percent of payroll  
13 method;

14           (F) payroll for purposes of determining the  
15 corridor midpoint, city contribution rate, and city legacy  
16 contribution amount must be projected using the annual payroll  
17 growth rate assumption adopted by the board; and

18           (G) the city contribution rate will be calculated  
19 each calendar year without inclusion of the legacy liability.

20           (c) The city and the board may agree on a written transition  
21 plan for resetting the corridor midpoint (other than an adjustment  
22 to the corridor midpoint in accordance with Subsection (b)(4)  
23 above):

24           (1) if at any time the funded ratio of the system is  
25 equal to or greater than 100 percent; or

26           (2) for any calendar year after the payoff year of the  
27 legacy liability.

1        (d) Notwithstanding as otherwise provided in Subsection  
2 (b)(6) above, the board may adopt through rule actuarial principles  
3 other than those set forth in Subsections (b)(6)(A)-(G), provided  
4 that such actuarial principles are consistent with actuarial  
5 standards of practice, are approved by the system's actuary, and do  
6 not operate to change the city legacy contribution amount.

7        Sec. 8.05. ADJUSTMENT TO CITY CONTRIBUTION RATE IF LOWER  
8 THAN CORRIDOR MIDPOINT. (a) This section governs the determination  
9 of the city contribution rate applicable in a calendar year under  
10 Section 8.04(b)(5) of this Act if the estimated city contribution  
11 rate determined under Section 8.04(b)(3) of this Act is lower than  
12 the corridor midpoint.

13        (b) If the estimated city contribution rate is lower than  
14 the corridor midpoint and the funded ratio is less than 90 percent,  
15 the city contribution rate for the applicable year equals the  
16 corridor midpoint.

17        (c) If the estimated city contribution rate is lower than  
18 the corridor midpoint and the funded ratio is equal to or greater  
19 than 90 percent and the city contribution rate is:

20            (1) equal to or greater than the minimum city  
21 contribution rate, the estimated city contribution rate is the city  
22 contribution rate for the calendar year; or

23            (2) less than the minimum city contribution rate for  
24 the corresponding calendar year, the city contribution rate for the  
25 calendar year equals the minimum city contribution rate.

26        (d) If the funded ratio is equal to or greater than 100  
27 percent:

1           (1) all existing liability layers, including the  
2 legacy liability, are considered fully amortized and paid; and

3           (2) the city legacy contribution amount may no longer  
4 be included in the city contribution under Section 8.02 of this Act.

5           Sec. 8.06. ADJUSTMENT TO CITY CONTRIBUTION RATE IF EQUAL TO  
6 OR GREATER THAN CORRIDOR MIDPOINT. (a) This section governs the  
7 determination of the city contribution rate applicable in a  
8 calendar year under Section 8.04(b)(5) of this Act if the estimated  
9 city contribution rate determined under Section 8.04(b)(3) of this  
10 Act is equal to or greater than the corridor midpoint.

11           (b) If the estimated city contribution rate is equal to or  
12 greater than the corridor midpoint and:

13           (1) less than or equal to the maximum city  
14 contribution rate for the corresponding calendar year, the  
15 estimated city contribution rate is the city contribution rate; or

16           (2) greater than the maximum city contribution rate  
17 for the corresponding calendar year, the city contribution rate is  
18 the maximum city contribution rate, and the city and the board shall  
19 enter into discussions to determine additional funding solutions.

20           Sec 8.07. ADDITIONAL CITY CONTRIBUTIONS FOR PROPORTIONATE  
21 RETIREMENT PROGRAM PARTICIPATION. [~~3~~](a) The city shall  
22 contribute amounts in addition to the amounts described by Section  
23 8.02 of this Act [~~Subdivision (2) of this subsection~~] as required by  
24 Section 803.101(h), Government Code, to fund the additional  
25 liabilities incurred by the police retirement system as a result of  
26 participating in the proportionate retirement program. The rate at  
27 which the city shall contribute additional amounts under this

1 subdivision is equal to 0.737 percent of the basic hourly earnings  
2 of each member employed by the city for all periods on and after  
3 October 1, 2020, subject to adjustment under Subsection (b). [~~The~~  
4 ~~rate at which the city shall contribute additional amounts under~~  
5 ~~this subdivision is equal to 0.25 percent of the basic hourly~~  
6 ~~earnings of each member employed by the city for all periods from~~  
7 ~~January 4, 2009, through September 30, 2009. The rate at which the~~  
8 ~~city shall contribute additional amounts under this subdivision is~~  
9 ~~equal to 0.63 percent of the basic hourly earnings of each member~~  
10 ~~employed by the city for all periods after September 30, 2009,~~  
11 ~~subject to adjustment under Subdivision (4) of this subsection.~~]

12       **(b)** [~~(4)~~] The additional contribution rate under Subsection  
13 (a) [~~Subdivision (3) of this subsection~~] shall increase or decrease  
14 as considered necessary by the actuary for the police retirement  
15 system after each five-year period of participation by the system  
16 in the proportionate retirement program in order to update the  
17 amount necessary to fund the additional liabilities incurred by the  
18 system as a result of participating in the proportionate retirement  
19 program and of the consolidation of the city's public safety and  
20 emergency management department with the police department on  
21 January 4, 2009. The system's actuary shall perform an experience  
22 study that shall be the basis for a contribution rate adjustment  
23 under this subsection [~~subdivision~~]. The effective date of the  
24 initial contribution rate adjustment under this subsection  
25 [~~subdivision~~] is October 1, 2015. Each later contribution rate  
26 adjustment under this subsection [~~subdivision~~] takes effect  
27 October 1 of every fifth year after the effective date of the

1 initial contribution rate adjustment. The system's actuary shall  
2 present to the police retirement board the experience study on  
3 which any contribution rate adjustment under this subsection  
4 [~~subdivision~~] is based not later than 45 days before the effective  
5 date of the adjustment, and the city's actuary shall have the  
6 opportunity to review and comment on the study. An adjustment in the  
7 additional contribution rate under this subsection [~~subdivision~~]  
8 may not cause the additional contribution rate under Subsection (a)  
9 [~~Subdivision (3) of this subsection~~] to be less than zero.

10 Sec. 8.08. GENERAL FINANCING PROVISIONS. (a) [~~(b)~~] Any  
11 change of the rates of deposit and the rates of contribution shall  
12 be published when approved by the board.

13 (b) [~~(c)~~] Contributions by the city shall be paid to the  
14 system after appropriation by the city council.

15 (c) [~~(d)~~] Expenses involved in administration and operation  
16 of the police retirement system shall be paid from the assets of the  
17 police retirement system subject to approval by the board. Such  
18 expenses shall include actuarial valuations of the system no less  
19 frequently than on a biennial basis, annual audits and/or actuarial  
20 studies, preparation of annual reports, and staff assistance.  
21 Additional consulting may be authorized by the board and paid for  
22 from the assets of the police retirement system as deemed necessary  
23 from time to time by the board.

24 (d) [~~(e)~~] Expenses incurred from investment advice,  
25 counsel, and management shall be paid from the assets of the police  
26 retirement system.

27 (e) [~~(f)~~] The city shall make the police officer

1 contributions to the system required by Section 8.02 of this Act  
2 [~~Subsection (a) of this section~~]. The system shall make the  
3 administrative staff's contributions to the system. Member  
4 contributions will be made by a reduction in their monetary  
5 compensation. Contributions made shall be treated as employer  
6 contributions in accordance with Section 414(h)(2), Internal  
7 Revenue Code (26 U.S.C. Section 414(h)(2)), for the purpose of  
8 determining tax treatment of the amounts under the federal Internal  
9 Revenue Code. These contributions are not includible in the gross  
10 income of the member until such time as they are distributed or made  
11 available to the member. Member contributions made as provided by  
12 this subsection shall be deposited to the individual account of  
13 each affected member and shall be treated as compensation of  
14 members for all other purposes of this Act and for the purpose of  
15 determining contributions to the federal Old-Age, Survivors, and  
16 Disability Insurance System (Social Security). The provisions of  
17 this subsection shall remain in effect as long as the plan covering  
18 members is a qualified retirement plan under Section 401(a),  
19 Internal Revenue Code (26 U.S.C. Section 401(a)), and its related  
20 trust is tax exempt under Section 501(a), Internal Revenue Code (26  
21 U.S.C. Section 501(a)).

22 (f) [~~(g)~~] If the police retirement system is terminated,  
23 further contributions may not be made by the city or the system, and  
24 further deposits may not be made by the members for service after  
25 the date of termination. Members do not accrue any additional  
26 benefits after the date of termination. The benefit accrued by each  
27 member on the termination of the plan or the complete

1 discontinuance of contributions under the plan and the benefit of  
2 any affected member on the partial termination of the plan, to the  
3 extent funded, become nonforfeitable notwithstanding the length of  
4 a member's service. The benefit accrued by a member also becomes  
5 nonforfeitable, if not already nonforfeitable, at the normal  
6 retirement date.

7 (g) [~~(h)~~] A forfeiture from a member terminating employment  
8 and withdrawing the member's accumulated deposits may not be  
9 applied to increase the benefit that any other member would receive  
10 from the system. The actuary shall anticipate the effect of  
11 forfeitures in determining the costs under the system.

12 (h) [~~(i)~~] The assets of the police retirement system shall  
13 be held in trust for the exclusive benefit of the members and their  
14 beneficiaries. The corpus or income may not be used for or diverted  
15 to a purpose other than the exclusive benefit of members or their  
16 beneficiaries, whether by operation or natural termination of the  
17 system, by power of revocation or amendment, by the happening of a  
18 contingency, by collateral arrangement, or by other means.

19 SECTION 11. Section 13.02, Article 6243n-1, Revised  
20 Statutes, is amended to read as follows:

21 Sec. 13.02. MANDATORY DISTRIBUTIONS PROHIBITED. A member  
22 or former member who has separated from service may not be required  
23 to receive an eligible rollover distribution, as defined in Section  
24 13.01(b)(1) of this Act, without the member's consent unless the  
25 member or former member is:

- 26 (1) at least 72 [~~70-1/2~~] years of age; or  
27 (2) a later age, as required under Section 401(a)(9)

1 of the Internal Revenue Code of 1986 (26 U.S.C. Section 401).

2 SECTION 12. The following sections of law are repealed:

3 (1) Section 5.04(b), Article 6243n-1, Revised  
4 Statutes; and

5 (2) Section 7.02(b), Article 6243n-1, Revised  
6 Statutes.

7 SECTION 13. Except as otherwise provided by this Act, this  
8 Act takes effect September 1, 2021.