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Flores

S.B. No. 1444

A BILL TO BE ENTITLED

AN ACT

relating to the public retirement systems for employees of certain municipalities.

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

SECTION 1. Section 2, Chapter 451, Acts of the 72nd Legislature, Regular Session, 1991 (Article 6243n, Vernon's Texas Civil Statutes), is amended by adding Subdivisions (2A), (3A), (5A), (5B), (10A), (10B), (13A), (13B), (13C), (19A), (19B), (19C), (20A), (26A), (26B), (26C), (26D), (26E), (29A), (31A), (31B), (33A), (33B), (35A), (44A), and (44B) to read as follows:

(2A) "Actuarial accrued liability" means the portion of the actuarial present value of projected benefits of the retirement system attributed to past periods of member service based on the cost method used in the risk sharing valuation study under Section 10B or 10C of this Act, as applicable.

(3A) "Actuarial value of assets" means the value of the retirement system's assets as calculated using the asset smoothing method used in the risk sharing valuation study under Section 10B or 10C of this Act, as applicable.

(5A) "Amortization period" means:

(A) the period necessary to fully pay a liability layer; or

(B) if referring to the amortization period of the retirement system as a whole, the number of years incorporated

1 in a weighted average amortization factor for the sum of the legacy
2 liability and all liability layers as determined in each annual
3 actuarial valuation of assets and liabilities of the system.

4 (5B) "Amortization rate" means, for a given calendar
5 year, the percentage rate determined by:

6 (A) adding the scheduled amortization payments
7 required to pay off the then-existing liability layers;

8 (B) subtracting the city legacy contribution
9 amount for the same calendar year, as determined in the risk sharing
10 valuation study under Section 10B or 10C of this Act, as applicable,
11 from the sum under Paragraph (A); and

12 (C) dividing the difference under Paragraph (B)
13 by the projected pensionable payroll for the same calendar year.

14 (10A) "City" means a municipality described in Section
15 1 of this Act.

16 (10B) "City legacy contribution amount" means, for
17 each calendar year, a predetermined payment amount expressed in
18 dollars in accordance with a payment schedule amortizing the legacy
19 liability for the calendar year ending December 31, 2022, that is
20 included in the initial risk sharing valuation study under Section
21 10B of this Act.

22 (13A) "Corridor" means the range of employer
23 contribution rates that are:

24 (A) equal to or greater than the minimum employer
25 contribution rate; and

26 (B) equal to or less than the maximum employer
27 contribution rate.

1 (13B) "Corridor margin" means five percentage points.

2 (13C) "Corridor midpoint" means the projected
3 employer contribution rate specified for each calendar year for 30
4 years as provided by the initial risk sharing valuation study under
5 Section 10B of this Act, rounded to the nearest hundredths decimal
6 place.

7 (19A) "Employer contribution rate" means, for a given
8 calendar year, a percentage rate equal to the sum of the employer
9 normal cost rate and the amortization rate, as adjusted under
10 Section 10D or 10E of this Act, as applicable.

11 (19B) "Employer normal cost rate" means, for a given
12 calendar year, the normal cost rate minus the applicable member
13 contribution rate determined under Section 10 of this Act.

14 (19C) "Estimated employer contribution rate" means,
15 for a given calendar year, an employer contribution rate equal to
16 the sum of the employer normal cost rate and the amortization rate
17 of the liability layers, as applicable, excluding the legacy
18 liability layer, and before any adjustments under Section 10D or
19 10E of this Act.

20 (20A) "Funded ratio" means the ratio of the actuarial
21 value of assets divided by the actuarial accrued liability.

22 (26A) "Legacy liability" means the unfunded actuarial
23 accrued liability determined as of December 31, 2022, and for each
24 subsequent calendar year, adjusted as follows:

25 (A) reduced by the city legacy contribution
26 amount for the calendar year allocated to the amortization of the
27 legacy liability; and

1 (B) adjusted by the assumed rate of return
2 adopted by the retirement system for the calendar year;

3 (26B) "Level percent of payroll method" means the
4 amortization method that defines the amount of a liability layer
5 recognized each calendar year as a level percent of pensionable
6 payroll until the amount of the liability layer remaining is
7 reduced to zero.

8 (26C) "Liability gain layer" means a liability layer
9 that decreases the unfunded actuarial accrued liability.

10 (26D) "Liability layer" means:

11 (A) the legacy liability established in the
12 initial risk sharing valuation study under Section 10B or 10C of
13 this Act, as applicable; or

14 (B) for calendar years after December 31, 2022,
15 the amount that the retirement system's unfunded actuarial accrued
16 liability increases or decreases, as applicable, due to the
17 unanticipated change for the calendar year as determined in each
18 subsequent risk sharing valuation study under Section 10C of this
19 Act.

20 (26E) "Liability loss layer" means a liability layer
21 that increases the unfunded actuarial accrued liability. For
22 purposes of this Act, the legacy liability is a liability loss
23 layer.

24 (29A) "Maximum employer contribution rate" means, for
25 a given calendar year, the rate equal to the corridor midpoint plus
26 the corridor margin.

27 (31A) "Minimum employer contribution rate" means, for

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

3 (31B) "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 (33A) "Payoff year" means the year a liability layer
9 is fully amortized under the amortization period.

10 (33B) "Pensionable payroll" means the aggregate basic
11 hourly earnings of all active-contributory members for a calendar
12 year or pay period, as applicable.

13 (35A) "Projected pensionable payroll" means the
14 estimated pensionable payroll for the calendar year beginning 12
15 months after the date of any risk sharing valuation study under
16 Section 10B or 10C of this Act, as applicable, at the time of
17 calculation by:

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

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

25 (44A) "Unanticipated change" means, with respect to
26 the unfunded actuarial accrued liability in each subsequent risk
27 sharing valuation study under Section 10B or 10C of this Act, as

1 applicable, the difference between:

2 (A) the remaining balance of all then-existing
3 liability layers as of the date of the risk sharing valuation study
4 that were created before the date of the study; and

5 (B) the actual unfunded actuarial accrued
6 liability as of the date of the study.

7 (44B) "Unfunded actuarial accrued liability" means
8 the difference between the actuarial accrued liability and the
9 actuarial value of assets.

10 SECTION 2. Section 3, Chapter 451, Acts of the 72nd
11 Legislature, Regular Session, 1991 (Article 6243n, Vernon's Texas
12 Civil Statutes), is amended to read as follows:

13 Sec. 3. ESTABLISHMENT AND APPLICABILITY. Subject to the
14 authority granted under [~~the retirement board in Section 7(d) of~~]
15 this Act:

16 (1) members who retired, and the beneficiaries of
17 members who died, prior to October 1, 2011, shall continue to
18 receive the same retirement allowances or benefits they were
19 entitled to receive prior to that date, together with any benefit
20 increase authorized under this Act;

21 (2) members of the retirement system on or before
22 December 31, 2011, shall be enrolled as members of Group A; and

23 (3) persons that first become members of the
24 retirement system on or after January 1, 2012, shall be enrolled in
25 Group B.

26 SECTION 3. Section 4(b), Chapter 451, Acts of the 72nd
27 Legislature, Regular Session, 1991 (Article 6243n, Vernon's Texas

1 Civil Statutes), is amended to read as follows:

2 (b) The retirement board consists of 11 members as follows:

3 (1) place one: one member of the governing body,
4 designated by the governing body;

5 (2) place two: the city manager of the municipality or
6 the manager's designee;

7 (3) places three through five: three qualified voters
8 of the city who:

9 (A) have been city residents for the preceding
10 five years;

11 (B) have experience in the field of securities
12 investment, pension administration, pension law, or governmental
13 finance; and

14 (C) [who] are not employees, former employees, or
15 officers of an employer;

16 (4) place [places] six: the director of finance of the
17 municipality or the director's designee;

18 (5) places seven through nine: three [~~four~~]
19 active-contributory members elected by the active-contributory
20 members; and

21 (6) [~~5~~] places ten and eleven: two retired members
22 elected by the retired members.

23 SECTION 4. Section 4(c)(3), Chapter 451, Acts of the 72nd
24 Legislature, Regular Session, 1991 (Article 6243n, Vernon's Texas
25 Civil Statutes), is amended to read as follows:

26 (3) The places seven [~~six~~] through nine retirement
27 board members each serve on the retirement board for a four-year

1 term, unless service is earlier terminated by the death,
2 resignation, termination of employment, disability, retirement, or
3 removal of the retirement board member. The retirement board shall
4 appoint an active-contributory member to fill a vacancy in each of
5 places seven [~~six~~] through nine for the remainder of the unexpired
6 term if the remainder of the unexpired term is 364 days or fewer. If
7 the remainder of the unexpired term is 365 days or more, the vacancy
8 shall be filled by the active-contributory members voting at a
9 special election.

10 SECTION 5. Sections 4(d), (e), (f), (k), (t), and (w),
11 Chapter 451, Acts of the 72nd Legislature, Regular Session, 1991
12 (Article [6243n](#), Vernon's Texas Civil Statutes), are amended to read
13 as follows:

14 (d) Members for places seven [~~six~~] through eleven shall be
15 elected in accordance with Subsections (e)-(m) of this section.

16 (e) Only active-contributory members shall be eligible for
17 election for places seven [~~six~~] through nine. Only retired members
18 shall be eligible for election for places ten and eleven. Not more
19 than one active-contributory member shall be eligible for election
20 from any one department or office or similar organizational unit
21 that is established in the annual budget of an employer and is not
22 part of any department.

23 (f) Members for places seven [~~six~~] through nine shall be
24 elected to four-year [~~staggered~~] terms with the place seven term
25 beginning January 1, 2024, and the terms of places eight and nine
26 [~~two of such retirement board members~~] beginning January 1 of the
27 following [~~each~~] even-numbered year.

1 (k) Elections for places seven [~~six~~] through nine shall be
2 held in December of odd-numbered years. Elections for places 10 and
3 11 shall be held in December of every second even-numbered year.
4 The candidates receiving the highest number of eligible votes shall
5 be deemed elected. In case of a tie vote, selection shall be by lot
6 drawn by an existing member of the retirement board at a meeting of
7 the retirement board held after the election but before the first
8 day of January of the year after the election.

9 (t) The retirement board shall have charge of and administer
10 the fund as trustee of the fund and [~~and~~] shall order payments from the
11 fund in accordance with this Act [~~, and may increase, under Section~~
12 ~~10(g) of this Act, the benefits and allowances the board pays from~~
13 ~~the fund~~]. If practicable, the retirement board shall collect
14 underpayments and refund overpayments. The retirement board shall
15 report annually to the members on the condition of the fund and the
16 receipts and disbursements on account of the fund.

17 (w) At least once every five years [~~From time to time on the~~
18 ~~advice of the actuary and the direction of the retirement board~~],
19 the actuary shall make an actuarial investigation of the mortality,
20 service, and compensation experience of members, retired members,
21 surviving spouses, and beneficiaries of the retirement system and
22 shall make a valuation of the assets and liabilities of the funds of
23 the system. Taking into account the result of such investigation
24 and valuation, the retirement board shall adopt for the retirement
25 system such mortality, service, and other actuarial tables or rates
26 as are deemed necessary. On the basis of tables and rates adopted
27 by the retirement board, the actuary shall make a valuation at least

1 once every two years of the assets and liabilities of the funds of
2 the retirement system.

3 SECTION 6. Chapter 451, Acts of the 72nd Legislature,
4 Regular Session, 1991 (Article 6243n, Vernon's Texas Civil
5 Statutes), is amended by adding Section 4A to read as follows:

6 Sec. 4A. EXPERIENCE STUDY AND DETERMINING ACTUARIAL
7 ASSUMPTIONS. (a) At least once every five years, the retirement
8 board shall cause the retirement system's actuary to conduct an
9 experience study to review the actuarial assumptions and methods
10 adopted by the retirement board for the purposes of determining the
11 actuarial liabilities and actuarially determined contribution
12 rates of the system. The system shall notify the city at the
13 beginning of an upcoming experience study by the system's actuary.

14 (b) In connection with the retirement system's experience
15 study, the city may:

16 (1) conduct a separate experience study using an
17 actuary chosen by the city;

18 (2) have the city's actuary review the experience
19 study prepared by the system's actuary; or

20 (3) accept the experience study prepared by the
21 system's actuary.

22 (c) If the city conducts a separate experience study using
23 the city's actuary, the city shall complete the study not later than
24 the 91st day after the date the retirement system notified the city
25 of the system's intent to conduct an experience study.

26 (d) If the city elects to have the city's actuary review the
27 retirement system's experience study, the city shall complete the

1 review not later than the 31st day after the date the preliminary
2 results of the experience study are presented to the retirement
3 board.

4 (e) If the city chooses to have the city's own experience
5 study performed or to have the city's actuary review the system's
6 experience study, the system's actuary and the city's actuary shall
7 determine what the hypothetical employer contribution rate would be
8 using the proposed actuarial assumptions from the experience
9 studies and data from the most recent actuarial valuation.

10 (f) If the difference between the hypothetical employer
11 contribution rates determined by the retirement system's actuary
12 and the city's actuary:

13 (1) is less than or equal to two percent of pensionable
14 payroll, no further action is needed and the retirement board shall
15 use the experience study performed by the retirement system's
16 actuary in determining assumptions; or

17 (2) is greater than two percent of pensionable
18 payroll, the system's actuary and the city's actuary shall have 20
19 days to reconcile the difference in actuarial assumptions or
20 methods causing the different hypothetical employer contribution
21 rates, and if:

22 (A) as a result of the reconciliation efforts
23 under this subdivision, the difference between the employer
24 contribution rates determined by the system's actuary and the
25 city's actuary is reduced to less than or equal to two percentage
26 points, no further action is needed and the retirement board shall
27 use the experience study performed by the system's actuary in

1 determining actuarial assumptions; or

2 (B) after the 20th business day, the system's
3 actuary and the city's actuary are not able to reach a
4 reconciliation that reduces the difference in the hypothetical
5 employer contribution rates to an amount less than or equal to two
6 percentage points, a third-party actuary shall be retained to opine
7 on the differences in the assumptions made and actuarial methods
8 used by the system's actuary and the city's actuary.

9 (g) The independent third-party actuary retained under this
10 section must be chosen by the city from a list of three actuarial
11 firms provided by the retirement system.

12 (h) If a third-party actuary is retained under this section,
13 the third-party actuary's findings must be presented to the
14 retirement board with the experience study conducted by the
15 system's actuary and, if applicable, the city's actuary. If the
16 retirement board adopts actuarial assumptions or methods contrary
17 to the third-party actuary's findings:

18 (1) the system shall provide a formal letter
19 describing the rationale for the retirement board's action to the
20 governing body and State Pension Review Board; and

21 (2) the system's actuary and executive director shall
22 be made available at the request of the governing body or the State
23 Pension Review Board to present in person the rationale for the
24 retirement board's action.

25 (i) If the retirement board proposes a change to actuarial
26 assumptions or methods that is not in connection with an experience
27 study described by this section, the retirement system and the city

1 shall follow the same process prescribed by this section with
2 respect to an experience study in connection with the proposed
3 change.

4 SECTION 7. Effective January 1, 2024, Section 5(e), Chapter
5 451, Acts of the 72nd Legislature, Regular Session, 1991 (Article
6 6243n, Vernon's Texas Civil Statutes), is amended to read as
7 follows:

8 (e) Any person who has ceased to be a member and has received
9 a distribution of the person's accumulated deposits may have the
10 person's membership service in the original group in which the
11 membership service was earned reinstated if the person is
12 reemployed as a regular full-time employee and deposits into the
13 system the accumulated deposits withdrawn by that person, together
14 with an interest payment equal to the amount withdrawn multiplied
15 by an interest factor. The interest factor is equal to the annually
16 compounded interest rate assumed to have been earned by the fund
17 beginning with the month and year in which the person withdrew the
18 person's accumulated deposits and ending with the month and year in
19 which the deposit under this subsection is made. The interest rate
20 assumed to have been earned by the fund for any period is equal to
21 the actuarial assumed ~~[interest]~~ rate of return in effect on the
22 date of purchase ~~[credited for that period to the accumulated~~
23 ~~deposits of members, divided by 0.75].~~

24 SECTION 8. Section 6(b), Chapter 451, Acts of the 72nd
25 Legislature, Regular Session, 1991 (Article 6243n, Vernon's Texas
26 Civil Statutes), is amended to read as follows:

27 (b) The retirement board shall determine by

1 nondiscriminatory rules and regulations consistently applied,
2 subject to the provisions of this Act, in case of absence, illness,
3 or other temporary interruption in service as a regular full-time
4 employee, the portion of each calendar year to be allowed as
5 creditable service. No credit shall be allowed as creditable
6 service for any period exceeding one month during which an employee
7 was absent continuously without pay, except for an authorized leave
8 of absence as provided in this Act. Subject [~~The retirement board~~
9 ~~shall verify the records for creditable service claims filed by the~~
10 ~~members of the retirement system, subject]~~ to the provisions of
11 this Act and in accordance with such administrative rules and
12 regulations as the retirement board may from time to time adopt, the
13 retirement board shall:

14 (1) verify the records for creditable service claims
15 filed by the members of the retirement system; and

16 (2) establish time frames during which a member must
17 act to ensure that the purchase of creditable service or the
18 conversion of sick leave to creditable service coincides with the
19 member's retirement.

20 SECTION 9. Effective January 1, 2024, Section 6(c)(3),
21 Chapter 451, Acts of the 72nd Legislature, Regular Session, 1991
22 (Article 6243n, Vernon's Texas Civil Statutes), is amended to read
23 as follows:

24 (3) A member may establish uniformed creditable
25 service for active federal duty service in the armed forces of the
26 United States, other than service as a student at a service academy,
27 as a member of the reserves, or any continuous active military

1 service lasting less than 90 days, performed before the first day of
2 employment of the member's most recent membership in the retirement
3 system or its predecessor system. To establish creditable service
4 under this subdivision, the member must contribute at retirement a
5 lump-sum payment equal to ~~[25 percent of]~~ the full actuarial cost of
6 the additional creditable service, as determined by the retirement
7 board acting on the advice of the actuary ~~[estimated cost of the~~
8 ~~retirement benefits the member will be entitled to receive]~~. The
9 retirement board will determine the required contribution based on
10 a procedure recommended by the actuary and approved by the
11 retirement board.

12 SECTION 10. Effective January 1, 2024, Sections 6(e),
13 (e-1), and (e-2), Chapter 451, Acts of the 72nd Legislature,
14 Regular Session, 1991 (Article [6243n](#), Vernon's Texas Civil
15 Statutes), are amended to read as follows:

16 (e) At ~~[any time before a member's actual]~~ retirement
17 ~~[date]~~, the member may purchase noncontributory creditable service
18 equal in amount to the period the member:

19 (1) was on verifiable workers' compensation leave due
20 to an injury sustained in the course and scope of employment by an
21 employer;

22 (2) was on an authorized leave of absence from an
23 employer; or

24 (3) performed service for an employer in a position
25 the service for which is not otherwise creditable in the retirement
26 system.

27 (e-1) An active contributory member that is eligible for

1 retirement may file a written application to convert to creditable
2 service at retirement all or part of the member's sick leave accrued
3 with the employer that is eligible for conversion. The application
4 must be approved by the retirement board. The member may not
5 convert sick leave for which the member is entitled to be paid by
6 the employer. Sick leave hours may be converted in pay period
7 increments for the purpose of increasing creditable service that is
8 used in the calculation of benefits. Sick leave hours may not be
9 used to reach retirement eligibility. The [~~Both the employer and~~
10 ~~the~~] member must make the equivalent amount of retirement
11 contributions that would have been made had the sick hours been
12 exercised and used as sick leave hours. The employer's cost for
13 sick leave conversions must be funded through the contribution
14 rates.

15 (e-2) Nonqualified permissive creditable service may be
16 purchased only as provided by this subsection. At retirement, a [A]
17 member may purchase nonqualified permissive creditable service:

18 (1) only to the extent permitted under both this
19 subsection and Section 415(n) of the code;

20 (2) in an amount that:

21 (A) for each purchase, is not less than one
22 month; and

23 (B) when all amounts purchased under this
24 subsection are combined, is not more than 60 months; and

25 (3) only if the member has reinstated all prior
26 membership service in:

27 (A) Groups A and B if the member was initially

1 enrolled as a member of Group A, but ceased to be a member of Group
2 A, by:

3 (i) first reinstating all prior membership
4 service in Group A;

5 (ii) next reinstating all prior membership
6 service in Group B; and

7 (iii) then purchasing the nonqualified
8 permissive creditable service; or

9 (B) Group B, if the member was initially enrolled
10 as a member of Group B, by:

11 (i) first reinstating all prior membership
12 service in Group B; and

13 (ii) then purchasing the nonqualified
14 permissive creditable service.

15 SECTION 11. Sections 7(h) and (hh), Chapter 451, Acts of the
16 72nd Legislature, Regular Session, 1991 (Article 6243n, Vernon's
17 Texas Civil Statutes), are amended to read as follows:

18 (h) Before a cost of living [~~Prior to the retirement board's~~
19 ~~authorizing the payment of an~~] adjustment or additional payment to
20 retirees, beneficiaries, or other payees may be provided:

21 (1) [~~7~~] the retirement system's actuary must
22 [~~recommend such an adjustment or additional payment to the~~
23 ~~retirement board and~~] certify in writing that, based on the sound
24 application of actuarial assumptions and methods consistent with
25 sound actuarial principles and standards, it is demonstrable that
26 the fund has and likely will continue to have the ability to pay
27 such an amount [~~out of its realized income~~] after all other

1 obligations of the fund have been paid;

2 (2) the retirement board must approve the adjustment
3 or additional payment;

4 (3) the governing body must approve the adjustment or
5 additional payment; and

6 (4) this Act must be amended to provide for the
7 adjustment or additional payment.

8 (hh) Forfeitures that may result from the termination of any
9 right of a member may not be used to increase benefits to remaining
10 members. This subsection shall not preclude an increase in
11 benefits by amendment to this Act, including by amendment [~~or~~
12 ~~action of the retirement board~~] in accordance with Subsection (h)
13 [(d)] of this section, if applicable, that is made possible by
14 forfeitures or for any other reason.

15 SECTION 12. Chapter 451, Acts of the 72nd Legislature,
16 Regular Session, 1991 (Article 6243n, Vernon's Texas Civil
17 Statutes), is amended by amending Section 10 and adding Sections
18 10A through 10G to read as follows:

19 Sec. 10. MEMBER CONTRIBUTIONS [~~METHOD OF FINANCING~~].

20 (a) Subject to adjustment under this Act and except as provided by
21 Subsection (a-2) of this section, each [~~Each~~] active-contributory
22 member shall make deposits to the retirement system at a rate equal
23 to:

24 (1) beginning with the first pay period of:

25 (A) the 2024 calendar year, nine [~~eight~~] percent
26 of the member's base [~~compensation~~] pay, [~~or salary~~], exclusive of
27 overtime, incentive, or terminal pay; and

1 (B) the 2025 calendar year, 10 percent of the
2 member's base pay exclusive of overtime, incentive, or terminal
3 pay; or

4 (2) the member contribution rate otherwise prescribed
5 by this section [~~at a higher contribution rate approved by a~~
6 ~~majority vote of regular full-time employee members~~].

7 (a-1) Deposits shall be made by payroll deduction each pay
8 period. If a regular full-time employee works at least 75 percent
9 of a normal 40-hour work week but less than the full 40 hours, the
10 employee shall make deposits as though working a normal 40-hour
11 work week even though the rate of contribution may exceed the member
12 contribution prescribed by this section [~~eight percent of the~~
13 ~~employee's actual compensation, pay, or salary~~], and the employee's
14 average final compensation shall be computed on the basis of the
15 compensation, pay, or salary for a normal 40-hour work week. No
16 deposits may be made nor membership service credit received for
17 periods during which an employee's authorized normal work week is
18 less than 75 percent of a normal 40-hour work week. A person who is
19 eligible for inactive-contributory membership status and who
20 chooses to be an inactive-contributory member shall make deposits
21 to the retirement system each pay period in an amount that is equal
22 to the amount of the member's deposit for the last complete pay
23 period that the member was a regular full-time employee.

24 (a-2) The contribution rate of active-contributory [~~regular~~
25 ~~full-time employee~~] members may be increased [~~increase,~~] by a
26 majority vote of all such members voting at an election to consider
27 an increase in contributions to a rate [~~, each member's~~

1 ~~contributions]~~ above 10 [~~eight~~] percent or a [~~above the~~] higher
2 rate than the rate that was in effect at the time of the election
3 [~~and approved by majority vote in whatever amount the retirement~~
4 ~~board recommends]~~.

5 Sec. 10A. EMPLOYER CONTRIBUTIONS. (a) Beginning with the
6 first pay period of:

7 (1) calendar year 2024, and before the first pay
8 period of calendar year 2025, the [~~Each~~] employer shall contribute
9 an amount [~~amounts~~] equal to the sum of:

10 (A) the employer contribution rate, as
11 determined in the initial risk sharing valuation study as of
12 December 31, 2022, multiplied by the pensionable payroll for the
13 applicable pay period; and

14 (B) 1/26 of the city's legacy contribution amount
15 for the 2024 calendar year, as determined and adjusted in the
16 initial risk sharing valuation study conducted under Section 10B of
17 this Act; and

18 (2) calendar year 2025, and for each subsequent
19 calendar year, the employer shall contribute an amount equal to the
20 sum of:

21 (A) the employer's contribution rate for the
22 applicable calendar year, as determined in a subsequent risk
23 sharing valuation study conducted and adjusted under Section 10C of
24 this Act, as applicable, multiplied by the pensionable payroll for
25 the applicable pay period; and

26 (B) 1/26 of the city's legacy contribution amount
27 for the applicable calendar year, as determined and adjusted in the

1 initial risk sharing valuation study conducted under Section 10B of
2 this Act [eight percent of the compensation, pay, or salary of each
3 active-contributory member and each inactive-contributory member
4 employed by the employer, exclusive of overtime, incentive, or
5 terminal pay, or a higher contribution rate agreed by the
6 employer].

7 (b) If the employer elects to change the employer's payroll
8 period to a period other than a biweekly payroll period, the
9 fractional amounts of the employer's legacy contribution stated in
10 Subsections (a)(1)(B) and (a)(2)(B) of this section must be
11 adjusted such that the employer's calendar year contribution equals
12 the contribution required under Subsection (a)(1) or (a)(2), as
13 applicable.

14 Sec. 10B. INITIAL RISK SHARING VALUATION STUDY. (a) The
15 retirement system's actuary shall prepare an initial risk sharing
16 valuation study as of December 31, 2022. The initial risk sharing
17 valuation study must:

18 (1) except as otherwise provided by this section, be
19 prepared in accordance with the requirements of Section 10C of this
20 Act;

21 (2) be based on the actuarial assumptions that were
22 used by the system's actuary in the valuation completed for the year
23 ended December 31, 2022;

24 (3) project the corridor midpoint for the next 30
25 calendar years beginning with the calendar year that begins on
26 January 1, 2024;

27 (4) include a schedule of city legacy contribution

1 amounts for 30 calendar years beginning with the calendar year that
2 begins on January 1, 2024; and

3 (5) include an employer contribution:

4 (A) for the calendar years under Sections
5 10A(a)(1) and (2) of this Act that begin on January 1, 2024, and
6 January 1, 2025, that must be adjusted to reflect the impact of the
7 phase-in prescribed by Subsection (b) of this section; and

8 (B) for each calendar year under Section
9 10A(a)(2) of this Act that begins on January 1, 2026, through
10 January 1, 2053, that must reflect a city legacy contribution
11 amount that is three percent greater than the city legacy
12 contribution amount for the preceding calendar year.

13 (b) The schedule of city legacy contribution amounts under
14 Subsection (a)(4) of this section must be determined such that the
15 total annual city legacy contribution amount for the first two
16 calendar years results in a phase-in of the anticipated increase in
17 the employer's contribution rate from the calendar year that begins
18 on January 1, 2023, to the rate equal to the sum of the estimated
19 contribution rate for the calendar year that begins on January 1,
20 2024, and the rate of pensionable payroll equal to the city legacy
21 contribution amount for January 1, 2024, determined as if there was
22 no phase-in of the increase to the city legacy contribution amount.
23 The phase-in must reflect approximately one-half of the increase
24 each year over the two-year phase-in period.

25 (c) The estimated employer contribution rate for the
26 calendar year that begins on January 1, 2024, must be based on the
27 projected pensionable payroll, as determined under the initial risk

1 sharing valuation study required by this section, assuming a
2 payroll growth rate adopted by the retirement board.

3 Sec. 10C. SUBSEQUENT RISK SHARING VALUATION
4 STUDIES. (a) For each calendar year beginning with January 1, 2024,
5 the retirement system shall cause the system's actuary to prepare a
6 risk sharing valuation study in accordance with this section and
7 actuarial standards of practice. Each risk sharing valuation study
8 must:

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

11 (2) calculate the unfunded actuarial accrued
12 liability of the system as of the last day of the applicable
13 calendar year, including the liability layer, if any, associated
14 with the most recently completed calendar year;

15 (3) calculate the estimated employer contribution
16 rate for the following calendar year;

17 (4) determine the employer contribution rate and the
18 member contribution rate for the following calendar year, taking
19 into account any adjustments required under this section, as
20 applicable; and

21 (5) except as provided by Subsection (d) of this
22 section, be based on the assumptions and methods adopted by the
23 retirement board, if applicable, and be consistent with actuarial
24 standards of practice and the following principles:

25 (A) closed layered amortization of liability
26 layers to ensure that the amortization period for each liability
27 layer begins 12 months after the date of the risk sharing valuation

- 1 study in which the liability layer is first recognized;
2 (B) each liability layer is assigned an
3 amortization period;
4 (C) each liability loss layer is amortized at the
5 remaining amortization period of the legacy liability but not less
6 than 20 years from the first day of the calendar year beginning 12
7 months after the date of the risk sharing valuation study in which
8 the liability loss layer is first recognized, except that the
9 legacy liability must be amortized over a 30-year period beginning
10 January 1, 2024;
11 (D) each liability gain layer is amortized over:
12 (i) a period equal to the remaining
13 amortization period on the largest remaining liability loss layer;
14 or
15 (ii) if there is no liability loss layer, a
16 period of 20 years from the first day of the calendar year beginning
17 12 months after the date of the risk sharing valuation study in
18 which the liability gain layer is first recognized;
19 (E) liability layers are funded according to the
20 level percent of payroll method;
21 (F) payroll for purposes of determining the
22 corridor midpoint, employer contribution rate, and city legacy
23 contribution amount must be projected using the annual payroll
24 growth rate assumption adopted by the retirement board; and
25 (G) the employer contribution rate is calculated
26 each calendar year without inclusion of the legacy liability.
27 (b) The city may contribute an amount in addition to the

1 scheduled city legacy contribution amounts to reduce the number or
2 amount of scheduled future city legacy contribution payments. If
3 the city contributes an additional amount under this subsection,
4 the retirement system's actuary shall create a new schedule of city
5 legacy contribution amounts that reflects payment of the additional
6 contribution.

7 (c) The city and the retirement board may agree on a written
8 transition plan for resetting the corridor midpoint, member
9 contribution rates, or employer contribution rates:

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

12 (2) for any calendar year after the payoff year of the
13 legacy liability.

14 (d) The retirement board may, by rule, adopt actuarial
15 principles other than those required under this section, provided
16 the actuarial principles:

17 (1) are consistent with actuarial standards of
18 practice;

19 (2) are approved by the retirement system's actuary;
20 and

21 (3) do not operate to change the city legacy
22 contribution amount.

23 Sec. 10D. ADJUSTMENT TO EMPLOYER CONTRIBUTION RATE IF
24 ESTIMATED EMPLOYER CONTRIBUTION RATE LOWER THAN CORRIDOR
25 MIDPOINT. (a) Subject to Subsection (b) of this section, for the
26 calendar year beginning January 1, 2024, and for each subsequent
27 calendar year, if the estimated employer contribution rate is lower

1 than the corridor midpoint, the employer contribution rate for the
2 applicable year is:

3 (1) the corridor midpoint if the funded ratio is less
4 than 90 percent; or

5 (2) the estimated employer contribution rate if the
6 funded ratio is 90 percent or greater.

7 (b) The employer contribution rate may not be lower than the
8 minimum employer contribution rate.

9 (c) If the funded ratio is equal to or greater than 100
10 percent:

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

13 (2) the city legacy contribution amount may no longer
14 be included in the employer contribution.

15 Sec. 10E. ADJUSTMENT TO EMPLOYER CONTRIBUTION RATE IF
16 ESTIMATED EMPLOYER CONTRIBUTION RATE EQUAL TO OR GREATER THAN
17 CORRIDOR MIDPOINT. For the calendar year beginning January 1,
18 2024, and for each subsequent calendar year, if the estimated
19 employer contribution rate is equal to or greater than the corridor
20 midpoint and:

21 (1) less than or equal to the maximum employer
22 contribution rate for the corresponding calendar year, the employer
23 contribution rate is the estimated employer contribution rate; or

24 (2) greater than the maximum employer contribution
25 rate for the corresponding calendar year, the employer contribution
26 rate is the maximum employer contribution rate.

27 Sec. 10F. ADJUSTMENT TO MEMBER CONTRIBUTION RATE IF

1 ESTIMATED EMPLOYER CONTRIBUTION RATE GREATER THAN CORRIDOR
2 MAXIMUM. (a) Except as provided by Subsection (b) of this
3 section, if the estimated employer contribution rate is ever
4 greater than the corridor maximum, the member contribution rate
5 will increase by an amount equal to the difference between the
6 estimated employer contribution rate and the maximum employer
7 contribution rate.

8 (b) The member contribution rate may not be increased by
9 more than two percentage points under Subsection (a) of this
10 section.

11 (c) If the estimated employer contribution rate is more than
12 two percentage points above the maximum employer contribution rate,
13 the city and the retirement board shall enter into discussions to
14 determine additional funding solutions.

15 Sec. 10G. ADDITIONAL EMPLOYER CONTRIBUTIONS; OTHER
16 PROVISIONS GOVERNING METHODS OF FINANCING. (a) If a regular
17 full-time employee of the employer works at least 75 percent of a
18 normal 40-hour work week but less than the full 40 hours, the
19 employer shall make contributions for that employee as though that
20 employee works a normal 40-hour work week even though the rate of
21 contribution may exceed the member contribution rate required by
22 Section 10 of this Act [~~eight percent of that employee's actual~~
23 ~~compensation, pay, or salary~~]. The governing body of the city may
24 authorize the city to make additional contributions to the system
25 in whatever amount the governing body may determine. If the
26 governing body authorizes additional contributions to the system by
27 the city for city employees, the board of each other employer shall

1 increase the contributions for such employer's respective
2 employees by the same percentage. Employer contributions shall be
3 made each pay period.

4 (b) In addition to the contributions [~~by the city~~] required
5 by Section 10A of this Act [~~Subsection (a) of this section~~], the
6 city shall contribute to the retirement fund each month two-thirds
7 of such amounts as are required for the payment of prior service
8 pensions that are payable during that month, and one-third of each
9 prior service pension payable that month shall be made from Fund
10 No. 2.

11 (c) Employer contributions shall be paid to the retirement
12 system after appropriation by the respective governing body or
13 board.

14 (d) Expenses for administration and operation of the
15 retirement system that are approved by the retirement board shall
16 be paid by the retirement board from funds of the retirement
17 system. Such expenses shall include salaries of retirement board
18 employees and fees for actuarial services, legal counsel services,
19 physician services, accountant services, annual audits by
20 independent certified public accountants, investment manager
21 services, investment consultant services, preparation of annual
22 reports, and staff assistance.

23 (e) Each employer shall pick up the contributions required
24 to be made to the fund by its respective employees. Active
25 contributory member deposits will be picked up by each employer by a
26 reduction in each such employee's monetary compensation. All such
27 employee contributions shall be treated as employer contributions

1 in accordance with Section 414(h)(2) of the code for the purpose of
2 determining tax treatment of the amounts under the code. Such
3 contributions are not includable in the gross income of the
4 employee until such time as they are distributed or made available
5 to the employee. Each employee deposit picked up as provided by
6 this subsection shall be credited to the individual accumulated
7 deposits account of each such employee and shall be treated as
8 compensation of the employee for all other purposes of this Act and
9 for the purpose of determining contributions to social
10 security. The provisions of this subsection shall remain in effect
11 as long as the plan covering employees of the employers is a
12 qualified retirement plan under Section 401(a) of the code and its
13 related trust is tax exempt under Section 501(a) of the code.

14 (f) Under no circumstances and in no event may any of the
15 contributions and income of the retirement system revert to the
16 employer or otherwise be diverted to or used for any purpose other
17 than the exclusive benefit of the members, retirees and their
18 beneficiaries. It shall be impossible for the diversion or use
19 prohibited by the preceding sentence to occur, whether by operation
20 or natural termination of the retirement system, by power of
21 revocation or amendment, by the happening of a contingency, by
22 collateral arrangement, or by any other means.

23 SECTION 13. Sections 7(d), (e), (f), (g), (i), and (j),
24 Chapter 451, Acts of the 72nd Legislature, Regular Session, 1991
25 (Article 6243n, Vernon's Texas Civil Statutes), are repealed.

26 SECTION 14. (a) In this section, "retirement board" has the
27 meaning assigned by Section 2, Chapter 451, Acts of the 72nd

1 Legislature, Regular Session, 1991 (Article 6243n, Vernon's Texas
2 Civil Statutes).

3 (b) Section 4, Chapter 451, Acts of the 72nd Legislature,
4 Regular Session, 1991 (Article 6243n, Vernon's Texas Civil
5 Statutes), as amended by this Act, does not affect the term of a
6 member of the retirement board appointed or elected under that
7 section, as that section existed immediately before the effective
8 date of this Act, and serving on the board on the effective date of
9 this Act.

10 (c) When the terms of the members serving in place six and
11 place seven of the retirement board elected under Section 4(b)(4),
12 Chapter 451, Acts of the 72nd Legislature, Regular Session, 1991
13 (Article 6243n, Vernon's Texas Civil Statutes), as that section
14 existed immediately before the effective date of this Act, who have
15 terms that expire in December 2023, expire:

16 (1) the resulting vacancy in place six on the
17 retirement board shall be filled by the director of finance of the
18 municipality or the director's designee in accordance with Section
19 4(b)(4), Chapter 451, Acts of the 72nd Legislature, Regular
20 Session, 1991 (Article 6243n, Vernon's Texas Civil Statutes), as
21 amended by this Act; and

22 (2) the resulting vacancy in place seven on the board
23 shall be filled by election of the active-contributory members in
24 accordance with Section 4, Chapter 451, Acts of the 72nd
25 Legislature, Regular Session, 1991 (Article 6243n, Vernon's Texas
26 Civil Statutes), as amended by this Act.

27 SECTION 15. Section 5(e), Chapter 451, Acts of the 72nd

1 Legislature, Regular Session, 1991 (Article [6243n](#), Vernon's Texas
2 Civil Statutes), as amended by this Act, applies only to a person
3 who applies to reinstate membership service on or after the
4 effective date of this Act. A person who applies to reinstate
5 membership service before the effective date of this Act is
6 governed by the law in effect immediately before the effective date
7 of this Act, and the former law is continued in effect for that
8 purpose.

9 SECTION 16. Section 6, Chapter 451, Acts of the 72nd
10 Legislature, Regular Session, 1991 (Article [6243n](#), Vernon's Texas
11 Civil Statutes), as amended by this Act, applies to a person who
12 retires on or after the effective date of this Act. A person who
13 retires before the effective date of this Act is governed by the law
14 in effect immediately before that date, and the former law is
15 continued in effect for that purpose.

16 SECTION 17. This Act takes effect September 1, 2023.