

1-1 By: Zaffirini, Eckhardt, Flores S.B. No. 1444  
 1-2 (In the Senate - Filed March 2, 2023; March 16, 2023, read  
 1-3 first time and referred to Committee on Finance; March 30, 2023,  
 1-4 reported favorably by the following vote: Yeas 17, Nays 0;  
 1-5 March 30, 2023, sent to printer.)

1-6 COMMITTEE VOTE

|      | Yea | Nay | Absent | PNV |
|------|-----|-----|--------|-----|
| 1-7  |     |     |        |     |
| 1-8  | X   |     |        |     |
| 1-9  | X   |     |        |     |
| 1-10 | X   |     |        |     |
| 1-11 | X   |     |        |     |
| 1-12 | X   |     |        |     |
| 1-13 | X   |     |        |     |
| 1-14 | X   |     |        |     |
| 1-15 | X   |     |        |     |
| 1-16 | X   |     |        |     |
| 1-17 | X   |     |        |     |
| 1-18 | X   |     |        |     |
| 1-19 | X   |     |        |     |
| 1-20 | X   |     |        |     |
| 1-21 | X   |     |        |     |
| 1-22 | X   |     |        |     |
| 1-23 | X   |     |        |     |
| 1-24 | X   |     |        |     |

1-25 A BILL TO BE ENTITLED  
 1-26 AN ACT

1-27 relating to the public retirement systems for employees of certain  
 1-28 municipalities.

1-29 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

1-30 SECTION 1. Section 2, Chapter 451, Acts of the 72nd  
 1-31 Legislature, Regular Session, 1991 (Article 6243n, Vernon's Texas  
 1-32 Civil Statutes), is amended by adding Subdivisions (2A), (3A),  
 1-33 (5A), (5B), (10A), (10B), (13A), (13B), (13C), (19A), (19B), (19C),  
 1-34 (20A), (26A), (26B), (26C), (26D), (26E), (29A), (31A), (31B),  
 1-35 (33A), (33B), (35A), (44A), and (44B) to read as follows:

1-36 (2A) "Actuarial accrued liability" means the portion  
 1-37 of the actuarial present value of projected benefits of the  
 1-38 retirement system attributed to past periods of member service  
 1-39 based on the cost method used in the risk sharing valuation study  
 1-40 under Section 10B or 10C of this Act, as applicable.

1-41 (3A) "Actuarial value of assets" means the value of  
 1-42 the retirement system's assets as calculated using the asset  
 1-43 smoothing method used in the risk sharing valuation study under  
 1-44 Section 10B or 10C of this Act, as applicable.

1-45 (5A) "Amortization period" means:  
 1-46 (A) the period necessary to fully pay a liability  
 1-47 layer; or

1-48 (B) if referring to the amortization period of  
 1-49 the retirement system as a whole, the number of years incorporated  
 1-50 in a weighted average amortization factor for the sum of the legacy  
 1-51 liability and all liability layers as determined in each annual  
 1-52 actuarial valuation of assets and liabilities of the system.

1-53 (5B) "Amortization rate" means, for a given calendar  
 1-54 year, the percentage rate determined by:

1-55 (A) adding the scheduled amortization payments  
 1-56 required to pay off the then-existing liability layers;

1-57 (B) subtracting the city legacy contribution  
 1-58 amount for the same calendar year, as determined in the risk sharing  
 1-59 valuation study under Section 10B or 10C of this Act, as applicable,  
 1-60 from the sum under Paragraph (A); and

1-61 (C) dividing the difference under Paragraph (B)

- 2-1 by the projected pensionable payroll for the same calendar year.
- 2-2 (10A) "City" means a municipality described in Section
- 2-3 1 of this Act.
- 2-4 (10B) "City legacy contribution amount" means, for
- 2-5 each calendar year, a predetermined payment amount expressed in
- 2-6 dollars in accordance with a payment schedule amortizing the legacy
- 2-7 liability for the calendar year ending December 31, 2022, that is
- 2-8 included in the initial risk sharing valuation study under Section
- 2-9 10B of this Act.
- 2-10 (13A) "Corridor" means the range of employer
- 2-11 contribution rates that are:
- 2-12 (A) equal to or greater than the minimum employer
- 2-13 contribution rate; and
- 2-14 (B) equal to or less than the maximum employer
- 2-15 contribution rate.
- 2-16 (13B) "Corridor margin" means five percentage points.
- 2-17 (13C) "Corridor midpoint" means the projected
- 2-18 employer contribution rate specified for each calendar year for 30
- 2-19 years as provided by the initial risk sharing valuation study under
- 2-20 Section 10B of this Act, rounded to the nearest hundredths decimal
- 2-21 place.
- 2-22 (19A) "Employer contribution rate" means, for a given
- 2-23 calendar year, a percentage rate equal to the sum of the employer
- 2-24 normal cost rate and the amortization rate, as adjusted under
- 2-25 Section 10D or 10E of this Act, as applicable.
- 2-26 (19B) "Employer normal cost rate" means, for a given
- 2-27 calendar year, the normal cost rate minus the applicable member
- 2-28 contribution rate determined under Section 10 of this Act.
- 2-29 (19C) "Estimated employer contribution rate" means,
- 2-30 for a given calendar year, an employer contribution rate equal to
- 2-31 the sum of the employer normal cost rate and the amortization rate
- 2-32 of the liability layers, as applicable, excluding the legacy
- 2-33 liability layer, and before any adjustments under Section 10D or
- 2-34 10E of this Act.
- 2-35 (20A) "Funded ratio" means the ratio of the actuarial
- 2-36 value of assets divided by the actuarial accrued liability.
- 2-37 (26A) "Legacy liability" means the unfunded actuarial
- 2-38 accrued liability determined as of December 31, 2022, and for each
- 2-39 subsequent calendar year, adjusted as follows:
- 2-40 (A) reduced by the city legacy contribution
- 2-41 amount for the calendar year allocated to the amortization of the
- 2-42 legacy liability; and
- 2-43 (B) adjusted by the assumed rate of return
- 2-44 adopted by the retirement system for the calendar year;
- 2-45 (26B) "Level percent of payroll method" means the
- 2-46 amortization method that defines the amount of a liability layer
- 2-47 recognized each calendar year as a level percent of pensionable
- 2-48 payroll until the amount of the liability layer remaining is
- 2-49 reduced to zero.
- 2-50 (26C) "Liability gain layer" means a liability layer
- 2-51 that decreases the unfunded actuarial accrued liability.
- 2-52 (26D) "Liability layer" means:
- 2-53 (A) the legacy liability established in the
- 2-54 initial risk sharing valuation study under Section 10B or 10C of
- 2-55 this Act, as applicable; or
- 2-56 (B) for calendar years after December 31, 2022,
- 2-57 the amount that the retirement system's unfunded actuarial accrued
- 2-58 liability increases or decreases, as applicable, due to the
- 2-59 unanticipated change for the calendar year as determined in each
- 2-60 subsequent risk sharing valuation study under Section 10C of this
- 2-61 Act.
- 2-62 (26E) "Liability loss layer" means a liability layer
- 2-63 that increases the unfunded actuarial accrued liability. For
- 2-64 purposes of this Act, the legacy liability is a liability loss
- 2-65 layer.
- 2-66 (29A) "Maximum employer contribution rate" means, for
- 2-67 a given calendar year, the rate equal to the corridor midpoint plus
- 2-68 the corridor margin.
- 2-69 (31A) "Minimum employer contribution rate" means, for

3-1 a given calendar year, the rate equal to the corridor midpoint minus  
 3-2 the corridor margin.

3-3 (31B) "Normal cost rate" means, for a given calendar  
 3-4 year, the salary weighted average of the individual normal cost  
 3-5 rates determined for the current active member population, plus the  
 3-6 assumed administrative expenses determined in the most recent  
 3-7 actuarial experience study.

3-8 (33A) "Payoff year" means the year a liability layer  
 3-9 is fully amortized under the amortization period.

3-10 (33B) "Pensionable payroll" means the aggregate basic  
 3-11 hourly earnings of all active-contributory members for a calendar  
 3-12 year or pay period, as applicable.

3-13 (35A) "Projected pensionable payroll" means the  
 3-14 estimated pensionable payroll for the calendar year beginning 12  
 3-15 months after the date of any risk sharing valuation study under  
 3-16 Section 10B or 10C of this Act, as applicable, at the time of  
 3-17 calculation by:

3-18 (A) projecting the prior calendar year's  
 3-19 pensionable payroll forward two years using the current payroll  
 3-20 growth rate assumption adopted by the retirement board; and

3-21 (B) adjusting, if necessary, for changes in  
 3-22 population or other known factors, provided those factors would  
 3-23 have a material impact on the calculation, as determined by the  
 3-24 retirement board.

3-25 (44A) "Unanticipated change" means, with respect to  
 3-26 the unfunded actuarial accrued liability in each subsequent risk  
 3-27 sharing valuation study under Section 10B or 10C of this Act, as  
 3-28 applicable, the difference between:

3-29 (A) the remaining balance of all then-existing  
 3-30 liability layers as of the date of the risk sharing valuation study  
 3-31 that were created before the date of the study; and

3-32 (B) the actual unfunded actuarial accrued  
 3-33 liability as of the date of the study.

3-34 (44B) "Unfunded actuarial accrued liability" means  
 3-35 the difference between the actuarial accrued liability and the  
 3-36 actuarial value of assets.

3-37 SECTION 2. Section 3, Chapter 451, Acts of the 72nd  
 3-38 Legislature, Regular Session, 1991 (Article 6243n, Vernon's Texas  
 3-39 Civil Statutes), is amended to read as follows:

3-40 Sec. 3. ESTABLISHMENT AND APPLICABILITY. Subject to the  
 3-41 authority granted under ~~[the retirement board in Section 7(d) of]~~  
 3-42 this Act:

3-43 (1) members who retired, and the beneficiaries of  
 3-44 members who died, prior to October 1, 2011, shall continue to  
 3-45 receive the same retirement allowances or benefits they were  
 3-46 entitled to receive prior to that date, together with any benefit  
 3-47 increase authorized under this Act;

3-48 (2) members of the retirement system on or before  
 3-49 December 31, 2011, shall be enrolled as members of Group A; and

3-50 (3) persons that first become members of the  
 3-51 retirement system on or after January 1, 2012, shall be enrolled in  
 3-52 Group B.

3-53 SECTION 3. Section 4(b), Chapter 451, Acts of the 72nd  
 3-54 Legislature, Regular Session, 1991 (Article 6243n, Vernon's Texas  
 3-55 Civil Statutes), is amended to read as follows:

3-56 (b) The retirement board consists of 11 members as follows:

3-57 (1) place one: one member of the governing body,  
 3-58 designated by the governing body;

3-59 (2) place two: the city manager of the municipality or  
 3-60 the manager's designee;

3-61 (3) places three through five: three qualified voters  
 3-62 of the city who:

3-63 (A) have been city residents for the preceding  
 3-64 five years;

3-65 (B) have experience in the field of securities  
 3-66 investment, pension administration, pension law, or governmental  
 3-67 finance; and

3-68 (C) ~~who~~ are not employees, former employees, or  
 3-69 officers of an employer;

4-1 (4) place [places] six: the director of finance of the  
 4-2 municipality or the director's designee;

4-3 (5) places seven through nine: three [four]  
 4-4 active-contributory members elected by the active-contributory  
 4-5 members; and

4-6 (6) ~~[-5-]~~ places ten and eleven: two retired members  
 4-7 elected by the retired members.

4-8 SECTION 4. Section 4(c)(3), Chapter 451, Acts of the 72nd  
 4-9 Legislature, Regular Session, 1991 (Article 6243n, Vernon's Texas  
 4-10 Civil Statutes), is amended to read as follows:

4-11 (3) The places seven [six] through nine retirement  
 4-12 board members each serve on the retirement board for a four-year  
 4-13 term, unless service is earlier terminated by the death,  
 4-14 resignation, termination of employment, disability, retirement, or  
 4-15 removal of the retirement board member. The retirement board shall  
 4-16 appoint an active-contributory member to fill a vacancy in each of  
 4-17 places seven [six] through nine for the remainder of the unexpired  
 4-18 term if the remainder of the unexpired term is 364 days or fewer. If  
 4-19 the remainder of the unexpired term is 365 days or more, the vacancy  
 4-20 shall be filled by the active-contributory members voting at a  
 4-21 special election.

4-22 SECTION 5. Sections 4(d), (e), (f), (k), (t), and (w),  
 4-23 Chapter 451, Acts of the 72nd Legislature, Regular Session, 1991  
 4-24 (Article 6243n, Vernon's Texas Civil Statutes), are amended to read  
 4-25 as follows:

4-26 (d) Members for places seven [six] through eleven shall be  
 4-27 elected in accordance with Subsections (e)-(m) of this section.

4-28 (e) Only active-contributory members shall be eligible for  
 4-29 election for places seven [six] through nine. Only retired members  
 4-30 shall be eligible for election for places ten and eleven. Not more  
 4-31 than one active-contributory member shall be eligible for election  
 4-32 from any one department or office or similar organizational unit  
 4-33 that is established in the annual budget of an employer and is not  
 4-34 part of any department.

4-35 (f) Members for places seven [six] through nine shall be  
 4-36 elected to four-year ~~[staggered]~~ terms with the place seven term  
 4-37 beginning January 1, 2024, and the terms of places eight and nine  
 4-38 ~~[two of such retirement board members]~~ beginning January 1 of the  
 4-39 following [each] even-numbered year.

4-40 (k) Elections for places seven [six] through nine shall be  
 4-41 held in December of odd-numbered years. Elections for places 10 and  
 4-42 11 shall be held in December of every second even-numbered year.  
 4-43 The candidates receiving the highest number of eligible votes shall  
 4-44 be deemed elected. In case of a tie vote, selection shall be by lot  
 4-45 drawn by an existing member of the retirement board at a meeting of  
 4-46 the retirement board held after the election but before the first  
 4-47 day of January of the year after the election.

4-48 (t) The retirement board shall have charge of and administer  
 4-49 the fund as trustee of the fund and [r] shall order payments from the  
 4-50 fund in accordance with this Act ~~[, and may increase, under Section~~  
 4-51 ~~10(g) of this Act, the benefits and allowances the board pays from~~  
 4-52 ~~the fund].~~ If practicable, the retirement board shall collect  
 4-53 underpayments and refund overpayments. The retirement board shall  
 4-54 report annually to the members on the condition of the fund and the  
 4-55 receipts and disbursements on account of the fund.

4-56 (w) At least once every five years [From time to time on the  
 4-57 advice of the actuary and the direction of the retirement board],  
 4-58 the actuary shall make an actuarial investigation of the mortality,  
 4-59 service, and compensation experience of members, retired members,  
 4-60 surviving spouses, and beneficiaries of the retirement system and  
 4-61 shall make a valuation of the assets and liabilities of the funds of  
 4-62 the system. Taking into account the result of such investigation  
 4-63 and valuation, the retirement board shall adopt for the retirement  
 4-64 system such mortality, service, and other actuarial tables or rates  
 4-65 as are deemed necessary. On the basis of tables and rates adopted  
 4-66 by the retirement board, the actuary shall make a valuation at least  
 4-67 once every two years of the assets and liabilities of the funds of  
 4-68 the retirement system.

4-69 SECTION 6. Chapter 451, Acts of the 72nd Legislature,

5-1 Regular Session, 1991 (Article 6243n, Vernon's Texas Civil  
5-2 Statutes), is amended by adding Section 4A to read as follows:

5-3 Sec. 4A. EXPERIENCE STUDY AND DETERMINING ACTUARIAL  
5-4 ASSUMPTIONS. (a) At least once every five years, the retirement  
5-5 board shall cause the retirement system's actuary to conduct an  
5-6 experience study to review the actuarial assumptions and methods  
5-7 adopted by the retirement board for the purposes of determining the  
5-8 actuarial liabilities and actuarially determined contribution  
5-9 rates of the system. The system shall notify the city at the  
5-10 beginning of an upcoming experience study by the system's actuary.

5-11 (b) In connection with the retirement system's experience  
5-12 study, the city may:

5-13 (1) conduct a separate experience study using an  
5-14 actuary chosen by the city;

5-15 (2) have the city's actuary review the experience  
5-16 study prepared by the system's actuary; or

5-17 (3) accept the experience study prepared by the  
5-18 system's actuary.

5-19 (c) If the city conducts a separate experience study using  
5-20 the city's actuary, the city shall complete the study not later than  
5-21 the 91st day after the date the retirement system notified the city  
5-22 of the system's intent to conduct an experience study.

5-23 (d) If the city elects to have the city's actuary review the  
5-24 retirement system's experience study, the city shall complete the  
5-25 review not later than the 31st day after the date the preliminary  
5-26 results of the experience study are presented to the retirement  
5-27 board.

5-28 (e) If the city chooses to have the city's own experience  
5-29 study performed or to have the city's actuary review the system's  
5-30 experience study, the system's actuary and the city's actuary shall  
5-31 determine what the hypothetical employer contribution rate would be  
5-32 using the proposed actuarial assumptions from the experience  
5-33 studies and data from the most recent actuarial valuation.

5-34 (f) If the difference between the hypothetical employer  
5-35 contribution rates determined by the retirement system's actuary  
5-36 and the city's actuary:

5-37 (1) is less than or equal to two percent of pensionable  
5-38 payroll, no further action is needed and the retirement board shall  
5-39 use the experience study performed by the retirement system's  
5-40 actuary in determining assumptions; or

5-41 (2) is greater than two percent of pensionable  
5-42 payroll, the system's actuary and the city's actuary shall have 20  
5-43 days to reconcile the difference in actuarial assumptions or  
5-44 methods causing the different hypothetical employer contribution  
5-45 rates, and if:

5-46 (A) as a result of the reconciliation efforts  
5-47 under this subdivision, the difference between the employer  
5-48 contribution rates determined by the system's actuary and the  
5-49 city's actuary is reduced to less than or equal to two percentage  
5-50 points, no further action is needed and the retirement board shall  
5-51 use the experience study performed by the system's actuary in  
5-52 determining actuarial assumptions; or

5-53 (B) after the 20th business day, the system's  
5-54 actuary and the city's actuary are not able to reach a  
5-55 reconciliation that reduces the difference in the hypothetical  
5-56 employer contribution rates to an amount less than or equal to two  
5-57 percentage points, a third-party actuary shall be retained to opine  
5-58 on the differences in the assumptions made and actuarial methods  
5-59 used by the system's actuary and the city's actuary.

5-60 (g) The independent third-party actuary retained under this  
5-61 section must be chosen by the city from a list of three actuarial  
5-62 firms provided by the retirement system.

5-63 (h) If a third-party actuary is retained under this section,  
5-64 the third-party actuary's findings must be presented to the  
5-65 retirement board with the experience study conducted by the  
5-66 system's actuary and, if applicable, the city's actuary. If the  
5-67 retirement board adopts actuarial assumptions or methods contrary  
5-68 to the third-party actuary's findings:

5-69 (1) the system shall provide a formal letter

6-1 describing the rationale for the retirement board's action to the  
 6-2 governing body and State Pension Review Board; and

6-3 (2) the system's actuary and executive director shall  
 6-4 be made available at the request of the governing body or the State  
 6-5 Pension Review Board to present in person the rationale for the  
 6-6 retirement board's action.

6-7 (i) If the retirement board proposes a change to actuarial  
 6-8 assumptions or methods that is not in connection with an experience  
 6-9 study described by this section, the retirement system and the city  
 6-10 shall follow the same process prescribed by this section with  
 6-11 respect to an experience study in connection with the proposed  
 6-12 change.

6-13 SECTION 7. Effective January 1, 2024, Section 5(e), Chapter  
 6-14 451, Acts of the 72nd Legislature, Regular Session, 1991 (Article  
 6-15 6243n, Vernon's Texas Civil Statutes), is amended to read as  
 6-16 follows:

6-17 (e) Any person who has ceased to be a member and has received  
 6-18 a distribution of the person's accumulated deposits may have the  
 6-19 person's membership service in the original group in which the  
 6-20 membership service was earned reinstated if the person is  
 6-21 reemployed as a regular full-time employee and deposits into the  
 6-22 system the accumulated deposits withdrawn by that person, together  
 6-23 with an interest payment equal to the amount withdrawn multiplied  
 6-24 by an interest factor. The interest factor is equal to the annually  
 6-25 compounded interest rate assumed to have been earned by the fund  
 6-26 beginning with the month and year in which the person withdrew the  
 6-27 person's accumulated deposits and ending with the month and year in  
 6-28 which the deposit under this subsection is made. The interest rate  
 6-29 assumed to have been earned by the fund for any period is equal to  
 6-30 the actuarial assumed [interest] rate of return in effect on the  
 6-31 date of purchase [credited for that period to the accumulated  
 6-32 deposits of members, divided by 0.75].

6-33 SECTION 8. Section 6(b), Chapter 451, Acts of the 72nd  
 6-34 Legislature, Regular Session, 1991 (Article 6243n, Vernon's Texas  
 6-35 Civil Statutes), is amended to read as follows:

6-36 (b) The retirement board shall determine by  
 6-37 nondiscriminatory rules and regulations consistently applied,  
 6-38 subject to the provisions of this Act, in case of absence, illness,  
 6-39 or other temporary interruption in service as a regular full-time  
 6-40 employee, the portion of each calendar year to be allowed as  
 6-41 creditable service. No credit shall be allowed as creditable  
 6-42 service for any period exceeding one month during which an employee  
 6-43 was absent continuously without pay, except for an authorized leave  
 6-44 of absence as provided in this Act. Subject [The retirement board  
 6-45 shall verify the records for creditable service claims filed by the  
 6-46 members of the retirement system, subject] to the provisions of  
 6-47 this Act and in accordance with such administrative rules and  
 6-48 regulations as the retirement board may from time to time adopt, the  
 6-49 retirement board shall:

6-50 (1) verify the records for creditable service claims  
 6-51 filed by the members of the retirement system; and

6-52 (2) establish time frames during which a member must  
 6-53 act to ensure that the purchase of creditable service or the  
 6-54 conversion of sick leave to creditable service coincides with the  
 6-55 member's retirement.

6-56 SECTION 9. Effective January 1, 2024, Section 6(c)(3),  
 6-57 Chapter 451, Acts of the 72nd Legislature, Regular Session, 1991  
 6-58 (Article 6243n, Vernon's Texas Civil Statutes), is amended to read  
 6-59 as follows:

6-60 (3) A member may establish uniformed creditable  
 6-61 service for active federal duty service in the armed forces of the  
 6-62 United States, other than service as a student at a service academy,  
 6-63 as a member of the reserves, or any continuous active military  
 6-64 service lasting less than 90 days, performed before the first day of  
 6-65 employment of the member's most recent membership in the retirement  
 6-66 system or its predecessor system. To establish creditable service  
 6-67 under this subdivision, the member must contribute at retirement a  
 6-68 lump-sum payment equal to [25 percent of] the full actuarial cost of  
 6-69 the additional creditable service, as determined by the retirement

7-1 board acting on the advice of the actuary [~~estimated cost of the~~  
 7-2 ~~retirement benefits the member will be entitled to receive~~]. The  
 7-3 retirement board will determine the required contribution based on  
 7-4 a procedure recommended by the actuary and approved by the  
 7-5 retirement board.

7-6 SECTION 10. Effective January 1, 2024, Sections 6(e),  
 7-7 (e-1), and (e-2), Chapter 451, Acts of the 72nd Legislature,  
 7-8 Regular Session, 1991 (Article 6243n, Vernon's Texas Civil  
 7-9 Statutes), are amended to read as follows:

7-10 (e) At [~~any time before a member's actual~~] retirement  
 7-11 [~~date~~], the member may purchase noncontributory creditable service  
 7-12 equal in amount to the period the member:

7-13 (1) was on verifiable workers' compensation leave due  
 7-14 to an injury sustained in the course and scope of employment by an  
 7-15 employer;

7-16 (2) was on an authorized leave of absence from an  
 7-17 employer; or

7-18 (3) performed service for an employer in a position  
 7-19 the service for which is not otherwise creditable in the retirement  
 7-20 system.

7-21 (e-1) An active contributory member that is eligible for  
 7-22 retirement may file a written application to convert to creditable  
 7-23 service at retirement all or part of the member's sick leave accrued  
 7-24 with the employer that is eligible for conversion. The application  
 7-25 must be approved by the retirement board. The member may not  
 7-26 convert sick leave for which the member is entitled to be paid by  
 7-27 the employer. Sick leave hours may be converted in pay period  
 7-28 increments for the purpose of increasing creditable service that is  
 7-29 used in the calculation of benefits. Sick leave hours may not be  
 7-30 used to reach retirement eligibility. The [~~Both the employer and~~  
 7-31 ~~the~~] member must make the equivalent amount of retirement  
 7-32 contributions that would have been made had the sick hours been  
 7-33 exercised and used as sick leave hours. The employer's cost for  
 7-34 sick leave conversions must be funded through the contribution  
 7-35 rates.

7-36 (e-2) Nonqualified permissive creditable service may be  
 7-37 purchased only as provided by this subsection. At retirement, a [A]  
 7-38 member may purchase nonqualified permissive creditable service:

7-39 (1) only to the extent permitted under both this  
 7-40 subsection and Section 415(n) of the code;

7-41 (2) in an amount that:

7-42 (A) for each purchase, is not less than one  
 7-43 month; and

7-44 (B) when all amounts purchased under this  
 7-45 subsection are combined, is not more than 60 months; and

7-46 (3) only if the member has reinstated all prior  
 7-47 membership service in:

7-48 (A) Groups A and B if the member was initially  
 7-49 enrolled as a member of Group A, but ceased to be a member of Group  
 7-50 A, by:

7-51 (i) first reinstating all prior membership  
 7-52 service in Group A;

7-53 (ii) next reinstating all prior membership  
 7-54 service in Group B; and

7-55 (iii) then purchasing the nonqualified  
 7-56 permissive creditable service; or

7-57 (B) Group B, if the member was initially enrolled  
 7-58 as a member of Group B, by:

7-59 (i) first reinstating all prior membership  
 7-60 service in Group B; and

7-61 (ii) then purchasing the nonqualified  
 7-62 permissive creditable service.

7-63 SECTION 11. Sections 7(h) and (hh), Chapter 451, Acts of the  
 7-64 72nd Legislature, Regular Session, 1991 (Article 6243n, Vernon's  
 7-65 Texas Civil Statutes), are amended to read as follows:

7-66 (h) Before a cost of living [~~Prior to the retirement board's~~  
 7-67 ~~authorizing the payment of an~~] adjustment or additional payment to  
 7-68 retirees, beneficiaries, or other payees may be provided:

7-69 (1) [~~7~~] the retirement system's actuary must

8-1 ~~[recommend such an adjustment or additional payment to the~~  
 8-2 ~~retirement board and]~~ certify in writing that, based on the sound  
 8-3 application of actuarial assumptions and methods consistent with  
 8-4 sound actuarial principles and standards, it is demonstrable that  
 8-5 the fund has and likely will continue to have the ability to pay  
 8-6 such an amount ~~[out of its realized income]~~ after all other  
 8-7 obligations of the fund have been paid;

8-8 (2) the retirement board must approve the adjustment  
 8-9 or additional payment;

8-10 (3) the governing body must approve the adjustment or  
 8-11 additional payment; and

8-12 (4) this Act must be amended to provide for the  
 8-13 adjustment or additional payment.

8-14 (hh) Forfeitures that may result from the termination of any  
 8-15 right of a member may not be used to increase benefits to remaining  
 8-16 members. This subsection shall not preclude an increase in  
 8-17 benefits by amendment to this Act, including by amendment ~~[or~~  
 8-18 ~~action of the retirement board]~~ in accordance with Subsection (h)  
 8-19 ~~[(d)]~~ of this section, if applicable, that is made possible by  
 8-20 forfeitures or for any other reason.

8-21 SECTION 12. Chapter 451, Acts of the 72nd Legislature,  
 8-22 Regular Session, 1991 (Article 6243n, Vernon's Texas Civil  
 8-23 Statutes), is amended by amending Section 10 and adding Sections  
 8-24 10A through 10G to read as follows:

8-25 Sec. 10. MEMBER CONTRIBUTIONS ~~[METHOD OF FINANCING]~~.

8-26 (a) Subject to adjustment under this Act and except as provided by  
 8-27 Subsection (a-2) of this section, each ~~[Each]~~ active-contributory  
 8-28 member shall make deposits to the retirement system at a rate equal  
 8-29 to:

8-30 (1) beginning with the first pay period of:

8-31 (A) the 2024 calendar year, nine ~~[eight]~~ percent  
 8-32 of the member's base ~~[compensation,]~~ pay, ~~[or salary,]~~ exclusive of  
 8-33 overtime, incentive, or terminal pay; and

8-34 (B) the 2025 calendar year, 10 percent of the  
 8-35 member's base pay exclusive of overtime, incentive, or terminal  
 8-36 pay; or

8-37 (2) the member contribution rate otherwise prescribed  
 8-38 by this section ~~[at a higher contribution rate approved by a~~  
 8-39 ~~majority vote of regular full-time employee members].~~

8-40 (a-1) Deposits shall be made by payroll deduction each pay  
 8-41 period. If a regular full-time employee works at least 75 percent  
 8-42 of a normal 40-hour work week but less than the full 40 hours, the  
 8-43 employee shall make deposits as though working a normal 40-hour  
 8-44 work week even though the rate of contribution may exceed the member  
 8-45 contribution prescribed by this section ~~[eight percent of the~~  
 8-46 ~~employee's actual compensation, pay, or salary]~~, and the employee's  
 8-47 average final compensation shall be computed on the basis of the  
 8-48 compensation, pay, or salary for a normal 40-hour work week. No  
 8-49 deposits may be made nor membership service credit received for  
 8-50 periods during which an employee's authorized normal work week is  
 8-51 less than 75 percent of a normal 40-hour work week. A person who is  
 8-52 eligible for inactive-contributory membership status and who  
 8-53 chooses to be an inactive-contributory member shall make deposits  
 8-54 to the retirement system each pay period in an amount that is equal  
 8-55 to the amount of the member's deposit for the last complete pay  
 8-56 period that the member was a regular full-time employee.

8-57 (a-2) The contribution rate of active-contributory ~~[regular~~  
 8-58 ~~full-time employee]~~ members may be increased ~~[increase,]~~ by a  
 8-59 majority vote of all such members voting at an election to consider  
 8-60 an increase in contributions to a rate ~~[, each member's~~  
 8-61 ~~contributions]~~ above 10 ~~[eight]~~ percent or a ~~[above the]~~ higher  
 8-62 rate than the rate that was in effect at the time of the election  
 8-63 ~~[and approved by majority vote in whatever amount the retirement~~  
 8-64 ~~board recommends].~~

8-65 Sec. 10A. EMPLOYER CONTRIBUTIONS. (a) Beginning with the  
 8-66 first pay period of:

8-67 (1) calendar year 2024, and before the first pay  
 8-68 period of calendar year 2025, the ~~[Each]~~ employer shall contribute  
 8-69 an amount ~~[amounts]~~ equal to the sum of:



9-1 (A) the employer contribution rate, as  
 9-2 determined in the initial risk sharing valuation study as of  
 9-3 December 31, 2022, multiplied by the pensionable payroll for the  
 9-4 applicable pay period; and

9-5 (B) 1/26 of the city's legacy contribution amount  
 9-6 for the 2024 calendar year, as determined and adjusted in the  
 9-7 initial risk sharing valuation study conducted under Section 10B of  
 9-8 this Act; and

9-9 (2) calendar year 2025, and for each subsequent  
 9-10 calendar year, the employer shall contribute an amount equal to the  
 9-11 sum of:

9-12 (A) the employer's contribution rate for the  
 9-13 applicable calendar year, as determined in a subsequent risk  
 9-14 sharing valuation study conducted and adjusted under Section 10C of  
 9-15 this Act, as applicable, multiplied by the pensionable payroll for  
 9-16 the applicable pay period; and

9-17 (B) 1/26 of the city's legacy contribution amount  
 9-18 for the applicable calendar year, as determined and adjusted in the  
 9-19 initial risk sharing valuation study conducted under Section 10B of  
 9-20 this Act [~~eight percent of the compensation, pay, or salary of each~~  
 9-21 ~~active-contributory member and each inactive-contributory member~~  
 9-22 ~~employed by the employer, exclusive of overtime, incentive, or~~  
 9-23 ~~terminal pay, or a higher contribution rate agreed by the~~  
 9-24 ~~employer].~~

9-25 (b) If the employer elects to change the employer's payroll  
 9-26 period to a period other than a biweekly payroll period, the  
 9-27 fractional amounts of the employer's legacy contribution stated in  
 9-28 Subsections (a)(1)(B) and (a)(2)(B) of this section must be  
 9-29 adjusted such that the employer's calendar year contribution equals  
 9-30 the contribution required under Subsection (a)(1) or (a)(2), as  
 9-31 applicable.

9-32 Sec. 10B. INITIAL RISK SHARING VALUATION STUDY. (a) The  
 9-33 retirement system's actuary shall prepare an initial risk sharing  
 9-34 valuation study as of December 31, 2022. The initial risk sharing  
 9-35 valuation study must:

9-36 (1) except as otherwise provided by this section, be  
 9-37 prepared in accordance with the requirements of Section 10C of this  
 9-38 Act;

9-39 (2) be based on the actuarial assumptions that were  
 9-40 used by the system's actuary in the valuation completed for the year  
 9-41 ended December 31, 2022;

9-42 (3) project the corridor midpoint for the next 30  
 9-43 calendar years beginning with the calendar year that begins on  
 9-44 January 1, 2024;

9-45 (4) include a schedule of city legacy contribution  
 9-46 amounts for 30 calendar years beginning with the calendar year that  
 9-47 begins on January 1, 2024; and

9-48 (5) include an employer contribution:

9-49 (A) for the calendar years under Sections  
 9-50 10A(a)(1) and (2) of this Act that begin on January 1, 2024, and  
 9-51 January 1, 2025, that must be adjusted to reflect the impact of the  
 9-52 phase-in prescribed by Subsection (b) of this section; and

9-53 (B) for each calendar year under Section  
 9-54 10A(a)(2) of this Act that begins on January 1, 2026, through  
 9-55 January 1, 2053, that must reflect a city legacy contribution  
 9-56 amount that is three percent greater than the city legacy  
 9-57 contribution amount for the preceding calendar year.

9-58 (b) The schedule of city legacy contribution amounts under  
 9-59 Subsection (a)(4) of this section must be determined such that the  
 9-60 total annual city legacy contribution amount for the first two  
 9-61 calendar years results in a phase-in of the anticipated increase in  
 9-62 the employer's contribution rate from the calendar year that begins  
 9-63 on January 1, 2023, to the rate equal to the sum of the estimated  
 9-64 contribution rate for the calendar year that begins on January 1,  
 9-65 2024, and the rate of pensionable payroll equal to the city legacy  
 9-66 contribution amount for January 1, 2024, determined as if there was  
 9-67 no phase-in of the increase to the city legacy contribution amount.  
 9-68 The phase-in must reflect approximately one-half of the increase  
 9-69 each year over the two-year phase-in period.

10-1 (c) The estimated employer contribution rate for the  
 10-2 calendar year that begins on January 1, 2024, must be based on the  
 10-3 projected pensionable payroll, as determined under the initial risk  
 10-4 sharing valuation study required by this section, assuming a  
 10-5 payroll growth rate adopted by the retirement board.

10-6 Sec. 10C. SUBSEQUENT RISK SHARING VALUATION  
 10-7 STUDIES. (a) For each calendar year beginning with January 1, 2024,  
 10-8 the retirement system shall cause the system's actuary to prepare a  
 10-9 risk sharing valuation study in accordance with this section and  
 10-10 actuarial standards of practice. Each risk sharing valuation study  
 10-11 must:

10-12 (1) be dated as of the last day of the calendar year  
 10-13 for which the study is required to be prepared;

10-14 (2) calculate the unfunded actuarial accrued  
 10-15 liability of the system as of the last day of the applicable  
 10-16 calendar year, including the liability layer, if any, associated  
 10-17 with the most recently completed calendar year;

10-18 (3) calculate the estimated employer contribution  
 10-19 rate for the following calendar year;

10-20 (4) determine the employer contribution rate and the  
 10-21 member contribution rate for the following calendar year, taking  
 10-22 into account any adjustments required under this section, as  
 10-23 applicable; and

10-24 (5) except as provided by Subsection (d) of this  
 10-25 section, be based on the assumptions and methods adopted by the  
 10-26 retirement board, if applicable, and be consistent with actuarial  
 10-27 standards of practice and the following principles:

10-28 (A) closed layered amortization of liability  
 10-29 layers to ensure that the amortization period for each liability  
 10-30 layer begins 12 months after the date of the risk sharing valuation  
 10-31 study in which the liability layer is first recognized;

10-32 (B) each liability layer is assigned an  
 10-33 amortization period;

10-34 (C) each liability loss layer is amortized at the  
 10-35 remaining amortization period of the legacy liability but not less  
 10-36 than 20 years from the first day of the calendar year beginning 12  
 10-37 months after the date of the risk sharing valuation study in which  
 10-38 the liability loss layer is first recognized, except that the  
 10-39 legacy liability must be amortized over a 30-year period beginning  
 10-40 January 1, 2024;

10-41 (D) each liability gain layer is amortized over:  
 10-42 (i) a period equal to the remaining  
 10-43 amortization period on the largest remaining liability loss layer;  
 10-44 or

10-45 (ii) if there is no liability loss layer, a  
 10-46 period of 20 years from the first day of the calendar year beginning  
 10-47 12 months after the date of the risk sharing valuation study in  
 10-48 which the liability gain layer is first recognized;

10-49 (E) liability layers are funded according to the  
 10-50 level percent of payroll method;

10-51 (F) payroll for purposes of determining the  
 10-52 corridor midpoint, employer contribution rate, and city legacy  
 10-53 contribution amount must be projected using the annual payroll  
 10-54 growth rate assumption adopted by the retirement board; and

10-55 (G) the employer contribution rate is calculated  
 10-56 each calendar year without inclusion of the legacy liability.

10-57 (b) The city may contribute an amount in addition to the  
 10-58 scheduled city legacy contribution amounts to reduce the number or  
 10-59 amount of scheduled future city legacy contribution payments. If  
 10-60 the city contributes an additional amount under this subsection,  
 10-61 the retirement system's actuary shall create a new schedule of city  
 10-62 legacy contribution amounts that reflects payment of the additional  
 10-63 contribution.

10-64 (c) The city and the retirement board may agree on a written  
 10-65 transition plan for resetting the corridor midpoint, member  
 10-66 contribution rates, or employer contribution rates:

10-67 (1) if at any time the funded ratio of the retirement  
 10-68 system is equal to or greater than 100 percent; or

10-69 (2) for any calendar year after the payoff year of the

11-1 legacy liability.

11-2 (d) The retirement board may, by rule, adopt actuarial  
11-3 principles other than those required under this section, provided  
11-4 the actuarial principles:

11-5 (1) are consistent with actuarial standards of  
11-6 practice;

11-7 (2) are approved by the retirement system's actuary;  
11-8 and

11-9 (3) do not operate to change the city legacy  
11-10 contribution amount.

11-11 Sec. 10D. ADJUSTMENT TO EMPLOYER CONTRIBUTION RATE IF  
11-12 ESTIMATED EMPLOYER CONTRIBUTION RATE LOWER THAN CORRIDOR  
11-13 MIDPOINT. (a) Subject to Subsection (b) of this section, for the  
11-14 calendar year beginning January 1, 2024, and for each subsequent  
11-15 calendar year, if the estimated employer contribution rate is lower  
11-16 than the corridor midpoint, the employer contribution rate for the  
11-17 applicable year is:

11-18 (1) the corridor midpoint if the funded ratio is less  
11-19 than 90 percent; or

11-20 (2) the estimated employer contribution rate if the  
11-21 funded ratio is 90 percent or greater.

11-22 (b) The employer contribution rate may not be lower than the  
11-23 minimum employer contribution rate.

11-24 (c) If the funded ratio is equal to or greater than 100  
11-25 percent:

11-26 (1) all existing liability layers, including the  
11-27 legacy liability, are considered fully amortized and paid; and

11-28 (2) the city legacy contribution amount may no longer  
11-29 be included in the employer contribution.

11-30 Sec. 10E. ADJUSTMENT TO EMPLOYER CONTRIBUTION RATE IF  
11-31 ESTIMATED EMPLOYER CONTRIBUTION RATE EQUAL TO OR GREATER THAN  
11-32 CORRIDOR MIDPOINT. For the calendar year beginning January 1,  
11-33 2024, and for each subsequent calendar year, if the estimated  
11-34 employer contribution rate is equal to or greater than the corridor  
11-35 midpoint and:

11-36 (1) less than or equal to the maximum employer  
11-37 contribution rate for the corresponding calendar year, the employer  
11-38 contribution rate is the estimated employer contribution rate; or

11-39 (2) greater than the maximum employer contribution  
11-40 rate for the corresponding calendar year, the employer contribution  
11-41 rate is the maximum employer contribution rate.

11-42 Sec. 10F. ADJUSTMENT TO MEMBER CONTRIBUTION RATE IF  
11-43 ESTIMATED EMPLOYER CONTRIBUTION RATE GREATER THAN CORRIDOR  
11-44 MAXIMUM. (a) Except as provided by Subsection (b) of this  
11-45 section, if the estimated employer contribution rate is ever  
11-46 greater than the corridor maximum, the member contribution rate  
11-47 will increase by an amount equal to the difference between the  
11-48 estimated employer contribution rate and the maximum employer  
11-49 contribution rate.

11-50 (b) The member contribution rate may not be increased by  
11-51 more than two percentage points under Subsection (a) of this  
11-52 section.

11-53 (c) If the estimated employer contribution rate is more than  
11-54 two percentage points above the maximum employer contribution rate,  
11-55 the city and the retirement board shall enter into discussions to  
11-56 determine additional funding solutions.

11-57 Sec. 10G. ADDITIONAL EMPLOYER CONTRIBUTIONS; OTHER  
11-58 PROVISIONS GOVERNING METHODS OF FINANCING. (a) If a regular  
11-59 full-time employee of the employer works at least 75 percent of a  
11-60 normal 40-hour work week but less than the full 40 hours, the  
11-61 employer shall make contributions for that employee as though that  
11-62 employee works a normal 40-hour work week even though the rate of  
11-63 contribution may exceed the member contribution rate required by  
11-64 Section 10 of this Act [eight percent of that employee's actual  
11-65 compensation, pay, or salary]. The governing body of the city may  
11-66 authorize the city to make additional contributions to the system  
11-67 in whatever amount the governing body may determine. If the  
11-68 governing body authorizes additional contributions to the system by  
11-69 the city for city employees, the board of each other employer shall

12-1 increase the contributions for such employer's respective  
 12-2 employees by the same percentage. Employer contributions shall be  
 12-3 made each pay period.

12-4 (b) In addition to the contributions [~~by the city~~] required  
 12-5 by Section 10A of this Act [~~Subsection (a) of this section~~], the  
 12-6 city shall contribute to the retirement fund each month two-thirds  
 12-7 of such amounts as are required for the payment of prior service  
 12-8 pensions that are payable during that month, and one-third of each  
 12-9 prior service pension payable that month shall be made from Fund  
 12-10 No. 2.

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

12-14 (d) Expenses for administration and operation of the  
 12-15 retirement system that are approved by the retirement board shall  
 12-16 be paid by the retirement board from funds of the retirement  
 12-17 system. Such expenses shall include salaries of retirement board  
 12-18 employees and fees for actuarial services, legal counsel services,  
 12-19 physician services, accountant services, annual audits by  
 12-20 independent certified public accountants, investment manager  
 12-21 services, investment consultant services, preparation of annual  
 12-22 reports, and staff assistance.

12-23 (e) Each employer shall pick up the contributions required  
 12-24 to be made to the fund by its respective employees. Active  
 12-25 contributory member deposits will be picked up by each employer by a  
 12-26 reduction in each such employee's monetary compensation. All such  
 12-27 employee contributions shall be treated as employer contributions  
 12-28 in accordance with Section 414(h)(2) of the code for the purpose of  
 12-29 determining tax treatment of the amounts under the code. Such  
 12-30 contributions are not includable in the gross income of the  
 12-31 employee until such time as they are distributed or made available  
 12-32 to the employee. Each employee deposit picked up as provided by  
 12-33 this subsection shall be credited to the individual accumulated  
 12-34 deposits account of each such employee and shall be treated as  
 12-35 compensation of the employee for all other purposes of this Act and  
 12-36 for the purpose of determining contributions to social  
 12-37 security. The provisions of this subsection shall remain in effect  
 12-38 as long as the plan covering employees of the employers is a  
 12-39 qualified retirement plan under Section 401(a) of the code and its  
 12-40 related trust is tax exempt under Section 501(a) of the code.

12-41 (f) Under no circumstances and in no event may any of the  
 12-42 contributions and income of the retirement system revert to the  
 12-43 employer or otherwise be diverted to or used for any purpose other  
 12-44 than the exclusive benefit of the members, retirees and their  
 12-45 beneficiaries. It shall be impossible for the diversion or use  
 12-46 prohibited by the preceding sentence to occur, whether by operation  
 12-47 or natural termination of the retirement system, by power of  
 12-48 revocation or amendment, by the happening of a contingency, by  
 12-49 collateral arrangement, or by any other means.

12-50 SECTION 13. Sections 7(d), (e), (f), (g), (i), and (j),  
 12-51 Chapter 451, Acts of the 72nd Legislature, Regular Session, 1991  
 12-52 (Article 6243n, Vernon's Texas Civil Statutes), are repealed.

12-53 SECTION 14. (a) In this section, "retirement board" has the  
 12-54 meaning assigned by Section 2, Chapter 451, Acts of the 72nd  
 12-55 Legislature, Regular Session, 1991 (Article 6243n, Vernon's Texas  
 12-56 Civil Statutes).

12-57 (b) Section 4, Chapter 451, Acts of the 72nd Legislature,  
 12-58 Regular Session, 1991 (Article 6243n, Vernon's Texas Civil  
 12-59 Statutes), as amended by this Act, does not affect the term of a  
 12-60 member of the retirement board appointed or elected under that  
 12-61 section, as that section existed immediately before the effective  
 12-62 date of this Act, and serving on the board on the effective date of  
 12-63 this Act.

12-64 (c) When the terms of the members serving in place six and  
 12-65 place seven of the retirement board elected under Section 4(b)(4),  
 12-66 Chapter 451, Acts of the 72nd Legislature, Regular Session, 1991  
 12-67 (Article 6243n, Vernon's Texas Civil Statutes), as that section  
 12-68 existed immediately before the effective date of this Act, who have  
 12-69 terms that expire in December 2023, expire:

13-1 (1) the resulting vacancy in place six on the  
13-2 retirement board shall be filled by the director of finance of the  
13-3 municipality or the director's designee in accordance with Section  
13-4 4(b)(4), Chapter 451, Acts of the 72nd Legislature, Regular  
13-5 Session, 1991 (Article 6243n, Vernon's Texas Civil Statutes), as  
13-6 amended by this Act; and

13-7 (2) the resulting vacancy in place seven on the board  
13-8 shall be filled by election of the active-contributory members in  
13-9 accordance with Section 4, Chapter 451, Acts of the 72nd  
13-10 Legislature, Regular Session, 1991 (Article 6243n, Vernon's Texas  
13-11 Civil Statutes), as amended by this Act.

13-12 SECTION 15. Section 5(e), Chapter 451, Acts of the 72nd  
13-13 Legislature, Regular Session, 1991 (Article 6243n, Vernon's Texas  
13-14 Civil Statutes), as amended by this Act, applies only to a person  
13-15 who applies to reinstate membership service on or after the  
13-16 effective date of this Act. A person who applies to reinstate  
13-17 membership service before the effective date of this Act is  
13-18 governed by the law in effect immediately before the effective date  
13-19 of this Act, and the former law is continued in effect for that  
13-20 purpose.

13-21 SECTION 16. Section 6, Chapter 451, Acts of the 72nd  
13-22 Legislature, Regular Session, 1991 (Article 6243n, Vernon's Texas  
13-23 Civil Statutes), as amended by this Act, applies to a person who  
13-24 retires on or after the effective date of this Act. A person who  
13-25 retires before the effective date of this Act is governed by the law  
13-26 in effect immediately before that date, and the former law is  
13-27 continued in effect for that purpose.

13-28 SECTION 17. This Act takes effect September 1, 2023.

13-29 \* \* \* \* \*