

BILL ANALYSIS

Senate Research Center
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H.B. 360
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Engrossed

AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

The Texas Municipal Retirement System (TMRS) is a statewide system established in 1947 to provide cities in Texas voluntary access to retirement, disability, and death benefits for their employees. Each participating city chooses a plan of benefits from the various options available under TMRS. The plan of benefits selected is funded separately for each city through a combination of employee contributions as a set percentage of compensation and employer contributions determined annually utilizing generally accepted actuarial principles and practices within the parameters established by the TMRS Act.

The intent of this legislation is to provide the necessary framework to allow the system to credit unrealized investment income or losses to municipalities, which allows the system to continue diversifying its investment portfolio, mitigate increases in municipality contributions through higher investment returns, and reduce investment risk. This bill also sets a guaranteed floor of five percent for interest credits to employee accounts and the discount rate in the annuity purchase rate calculation.

H.B. 360 requires TMRS to credit unrealized gains or losses, establishes a five percent floor for interest credits for active employees and a five percent floor for the annuity purchase rate for retirees, and allows city accounts to receive annual interest at a rate different from the member rate, including negative interest.

RULEMAKING AUTHORITY

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Section 855.110, Government Code, by amending Subsection (a) and adding Subsection (d), as follows:

(a) Requires the board of trustees (board) of the Texas Municipal Retirement System (TMRS), in adopting rates and tables, to adopt a discount rate that is not less than five percent in developing an annuity purchase rate.

(d) Defines "annuity purchase rate" and "discount rate."

SECTION 2. Amends Section 855.111(a), Government Code, to delete existing text requiring the board to certify the current interest rate computed in accordance with Section 855.316(c) [*repealed*] and approved in writing by the actuary. Makes nonsubstantive changes.

SECTION 3. Amends Section 855.205(d), Government Code, to delete existing text requiring the actuary, on the basis of rates and tables adopted by the board, to compute the current interest rate in accordance with Section 855.316(b) (relating to the current interest rate). Makes nonsubstantive changes.

SECTION 4. Amends Section 855.307(a), Government Code, to require TMRS to credit or charge to, rather than to deposit in, the account of a participating municipality in the municipality accumulation fund, among other money, net investment income or loss allocated to the fund

under Section 855.317 (Transfer of Assets from Interest Fund), rather than interest allowed as provided by this subtitle on money in the fund.

SECTION 5. Amends Section 855.308(a), Government Code, to require TMRS, in addition to amounts credited or charged, rather than deposited, as provided by Section 855.307 (Municipality Accumulation Fund: Current Service), to credit to, rather than deposit in, the account of a participating municipality in the municipality accumulation fund all prior service contributions made by the municipality to the retirement system.

SECTION 6. Amends Section 855.310, Government Code, as follows:

Sec. 855.310. INTEREST FUND. (a) Requires that the amount in the interest fund accurately reflect the determination and allocation of net investment income or loss. Deletes existing text requiring TMRS to deposit in the interest fund all income, interest, and dividends from deposits and investments authorized by this chapter, and requiring TMRS to credit the amount of an adjustment made in accordance with Section 855.320 (Adjusting Stocks' Book Value) to the interest fund.

(b) Requires TMRS to determine net investment income or loss annually as of December 31 in accordance with generally accepted accounting principles and to allocate that amount each year in accordance with Section 855.317. Deletes existing text requiring TMRS, on December 31 of each year, to transfer money from the interest fund.

SECTION 7. Amends Sections 855.311(c) and (e), Government Code, as follows:

(c) Requires TMRS to credit or charge to the interest reserve account, general reserves account, and distributive benefits account amounts allocated, rather than interest, in accordance with Section 855.317.

(e) Authorizes the board by resolution, if the board determines that the amount credited to the distributive benefits account on December 31 of any year is sufficient to do so, to authorize certain distributions including the distribution of all or part of the amount credited to the account to each member's individual account in the employees saving fund as supplemental interest in the ratio of the amount of interest, rather than current interest, paid on the individual's account to the interest, rather than current interest, paid to all individual accounts for the year. Deletes existing text authorizing the board to authorize a distribution of all or part of the amount credited to the account to each participating municipality's account in the municipality accumulation fund as supplemental interest in the ratio of the current interest allowed on the account of the municipality to the total current interest paid to all municipalities' accounts for the year. Makes nonsubstantive changes.

SECTION 8. Amends Section 855.312(b), Government Code, to require the board by resolution recorded in its minutes to transfer from the interest reserve account of the endowment fund to the expense fund the amount that exceeds the amount needed to provide adequate reserves as provided by Section 855.317, rather than against insufficient earnings on investments and against special and contingency requirements of other funds of the system, and that is needed to pay the system's estimated expenses for the fiscal year.

SECTION 9. Amends Section 855.316, Government Code, as follows:

Sec. 855.316. INTEREST RATES. Provides that unless this subtitle expressly specifies another rate of interest, for periods after December 31, 2008, the rate of interest is five percent compounded annually, plus any other amounts the board is expressly authorized to provide. Prohibits the interest credited to the employees saving fund in a calendar year, notwithstanding any other provision in this chapter, from being less than five percent as allocated under Section 855.317(a). Deletes existing text providing that unless this subtitle expressly states that interest is computed using the current interest rate or another specified rate of interest, interest is computed using certain rates. Deletes

existing Subsection (b) relating to the computation of the current interest rate. Makes a nonsubstantive change.

SECTION 10. Amends the heading to Section 855.317, Government Code, to read as follows:

Sec. 855.317. ANNUAL ALLOCATION OF NET INVESTMENT INCOME OR LOSS FROM INTEREST FUND.

SECTION 11. Amends Sections 855.317(a) and (b), Government Code, as follows:

(a) Requires the board, effective as of December 31 of each year, to make certain allocations from the interest fund that in the aggregate equal the net investment income or loss for the year, including, to the accounts in the municipality accumulation fund, an amount derived by applying a positive or negative rate, as determined by the board in its sole discretion to the January 1 balances of that year for each of those accounts; and to the interest reserve account of the endowment fund, a positive or negative amount as determined by the board in its sole discretion. Deletes existing text requiring the board on December 31 of each year to transfer from the interest fund certain amounts, including to the municipality accumulation fund, current interest on the amount in the municipality accumulation fund on January 1 of that year; to the interest reserve account of the endowment fund, current interest on the amount in the endowment fund on January 1 of that year; and to the employees saving fund, current interest on the sum of the accumulated contributions in the employees saving fund credited on January 1 of that year to all persons who are members on December 31 of that year before any transfers for retirement effective December 31 of that year are made.

(b) Requires the board, in making allocations under this section, without regard to the amount of net investment income or loss for the calendar year, to first allocate interest as specified in Section 855.316 to those funds or accounts referenced in Subsections (a)(1) (relating to the current service annuity reserve fund), (2) (relating to the supplemental disability benefits fund), (3) (relating to the supplemental death benefits fund), and (6) (relating to relating to the employees saving fund). Requires the board to then allocate the remaining net investment income or loss between the funds or accounts referenced in Subsections (a)(4) (relating to the accounts in the municipality accumulation) and (5) (relating to the interest reserve account of the endowment fund) in rates or amounts determined by the board in its sole discretion. Requires the board to accumulate the amount of assets in the interest reserve account of the endowment fund that the board in its sole discretion determines is necessary for certain circumstances, including to provide adequate reserves to mitigate the effects of future investment return volatility and insufficient net investment income and provide reasonable rate stabilization for participating municipalities. Deletes existing text requiring the board to transfer to the interest reserve account of the endowment fund the portion of the amount remaining in the interest fund after the transfers required by Subsection (a) are made that the board determines is necessary for certain circumstances, including to provide adequate reserves against insufficient future earnings on investments to allow interest on TMRS's funds.

SECTION 12. Repealer: Section 855.320 (Adjusting Stocks' Book Value), Government Code.

SECTION 13. Effective date: upon passage or September 1, 2009.