

## **BILL ANALYSIS**

H.B. 360  
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Committee Report (Unamended)

### **BACKGROUND AND PURPOSE**

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 compensations and employer contributions determined annually by using generally accepted actuarial principles and practices within the parameters established by the TMRS Act.

H.B. 360 provides the necessary framework to allow the system to credit net investment income or losses to municipalities and, consequently, allows the system to continue diversifying its investment portfolio, mitigate increases in municipality contribution rates through higher investment returns, and enhance investment risk practices. The bill also sets a guaranteed floor of 5 percent for interest credits to employee accounts and the discount rate used in the annuity purchase rate.

### **RULEMAKING AUTHORITY**

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

### **ANALYSIS**

H.B. 360 amends the Government Code to require the Texas Municipal Retirement System board of trustees, in adopting rates and tables, to adopt a discount rate that is not less than five percent in developing an annuity purchase rate. The bill defines "annuity purchase rate" as the present value factor used to convert reserves to a monthly annuity based on the post-retirement discount rate assumption and the life expectancy of the retiree or beneficiary or both the retiree and the beneficiary at retirement under the selected form of payment. The bill defines "discount rate" as the interest rate used in determining the present value of future cash flows.

H.B. 360 specifies that, for periods after December 31, 2008, the rate of interest is five percent compounded annually, plus any other amounts the board of trustees is expressly authorized to provide, and removes provisions relating to the calculation of the current rate of interest. The bill prohibits interest credited from the interest fund to the employees saving fund in a calendar year from being less than five percent. The bill requires the amount in the interest fund of the retirement system to accurately reflect the determination and allocation of net investment income or loss, and it requires the retirement system to determine net investment income or loss annually as of December 31 and to allocate that determined amount each year to the system's various funds and accounts.

H.B. 360 requires the board of trustees, without regard to the amount of net investment income or loss for the calendar year, to first allocate interest to the current service annuity reserve fund, the supplemental disability benefits fund, the supplemental death benefits fund, and the

employees saving fund according to the prescribed procedures for the transfer of interest. The bill requires the board then to allocate the remaining net investment income or loss between the accounts in the municipality accumulation fund and the interest reserve account of the endowment fund in rates or amounts determined by the board in its sole discretion. The bill 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 to provide adequate reserves to mitigate the effects of future investment return volatility and insufficient net investment income and to provide reasonable rate stabilization for participating municipalities.

H.B. 360 repeals provisions of the Government Code that provide for adjusting stocks' book value if the aggregate market value of common stocks held by the retirement system exceed a certain threshold above the stock's book value.

H.B. 360 repeals Section 855.320, Government Code.

#### **EFFECTIVE DATE**

On passage, or, if the act does not receive the necessary vote, the act takes effect September 1, 2009.