

BILL ANALYSIS

C.S.H.B. 3310
By: Paul
Pensions
Committee Report (Substituted)

BACKGROUND AND PURPOSE

Concern over the ability of public retirement systems to meet their long-term obligations has grown in recent years. Interested parties note that in conducting a study on the financial health of Texas public retirement systems, the State Pension Review Board actively involved retirement systems and industry representatives in its meetings. The study highlighted key findings and provided the board's recommendations on mitigating a retirement system's risk of not meeting those obligations. In support of findings of the study, C.S.H.B. 3310 seeks to assist public retirement systems in meeting their long-term obligations by increasing transparency and providing a way for the system and its sponsoring entity to work together to ensure continued actuarial soundness.

CRIMINAL JUSTICE IMPACT

It is the committee's opinion that this bill does not expressly create a criminal offense, increase the punishment for an existing criminal offense or category of offenses, or change the eligibility of a person for community supervision, parole, or mandatory supervision.

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

C.S.H.B. 3310 amends the Government Code to require a public retirement system to notify the associated governmental entity in writing if the system receives an actuarial valuation indicating that the system's actual contributions are not sufficient to amortize the unfunded actuarial accrued liability within 40 years. The bill requires the governing body of the public retirement system and the associated governmental entity, if the system's actuarial valuation shows that the system's amortization period has exceeded 40 years for three consecutive annual actuarial valuations, or two consecutive actuarial valuations in the case of a system that conducts the valuations every two or three years, to formulate a funding soundness restoration plan in accordance with the system's governing statute. The bill requires the governing body of a public retirement system and the associated governmental entity that have formulated a funding soundness restoration plan to formulate a revised funding soundness restoration plan, in accordance with the system's governing statute, if the system conducts an actuarial valuation showing that the system's amortization period exceeds 40 years and that the previously formulated funding soundness restoration plan has not been adhered to.

C.S.H.B. 3310 requires a funding soundness restoration plan to be developed by the public retirement system and the associated governmental entity in accordance with the system's governing statute and to be designed to achieve a contribution rate that will be sufficient to amortize the unfunded actuarial accrued liability within 40 years not later than the 10th anniversary of the date on which the final version of a funding soundness restoration plan is agreed to. The bill requires a public retirement system and the associated governmental entity

that formulate a funding soundness restoration plan to report any updates of progress made by the entities toward improved actuarial soundness to the State Pension Review Board every two years.

C.S.H.B. 3310 requires a public retirement system required to formulate a funding soundness restoration plan to formulate the plan not later than November 1, 2016, based on the most recent actuarial valuation study and requires the first actuarial valuation study that is conducted for or by a public retirement system on or after the bill's effective date to include a recommended contribution rate. The bill requires a public retirement system that formulates a funding soundness restoration plan to submit to the board a copy of that plan and any change to the plan not later than the 31st day after the date on which the plan or the change is agreed to. The bill requires the board to post on the board's website or on a publicly available website that is linked to the board's website the most recent data from reports received under the bill's provisions relating to funding soundness restoration plans.

C.S.H.B. 3310 requires the actuarial valuation of the assets and liabilities of certain public retirement systems to include a recommended contribution rate needed for the system to achieve and maintain an amortization period that does not exceed 30 years. The bill requires a certain public retirement system that has assets of at least \$100 million to conduct an actuarial experience study once every five years, with the first such study to be conducted not later than September 1, 2016, and to submit a copy of the study to the board before the 31st day after the date of the study's adoption. The bill requires such a public retirement system that conducted an actuarial experience study after August 31, 2011, and on or before the bill's effective date, to conduct the first actuarial experience study required by the bill's provisions not later than the fifth anniversary of the date of that preceding study.

EFFECTIVE DATE

On passage, or, if the bill does not receive the necessary vote, September 1, 2015.

COMPARISON OF ORIGINAL AND SUBSTITUTE

While C.S.H.B. 3310 may differ from the original in minor or nonsubstantive ways, the following comparison is organized and formatted in a manner that indicates the substantial differences between the introduced and committee substitute versions of the bill.

INTRODUCED	HOUSE COMMITTEE SUBSTITUTE
<p>SECTION 1. Section 802.002(a), Government Code, is amended to read as follows:</p> <p>(a) Except as provided by Subsection (b), the Employees Retirement System of Texas, the Teacher Retirement System of Texas, the Texas County and District Retirement System, the Texas Municipal Retirement System, and the Judicial Retirement System of Texas Plan Two are exempt from Sections 802.101(a), 802.101(b), 802.101(d), 802.102, 802.103(a), 802.103(b), <u>802.2015</u>, 802.202, 802.203, 802.204, 802.205, 802.206, and 802.207. The Judicial Retirement System of Texas Plan One is exempt from all of Subchapters B and C except Sections 802.104 and 802.105. The optional retirement program</p>	No equivalent provision.

governed by Chapter 830 is exempt from all of Subchapters B and C except Section 802.106.

No equivalent provision.

SECTION 2. Section 802.101(a), Government Code, is amended to read as follows:

(a) The governing body of a public retirement system shall employ an actuary, as a full-time or part-time employee or as a consultant, to make a valuation at least once every three years of the assets and liabilities of the system on the basis of assumptions and methods that are reasonable in the aggregate, considering the experience of the program and reasonable expectations, and that, in combination, offer the actuary's best estimate of anticipated experience under the program. The valuation must include an actuarially determined contribution.

SECTION 3. Section 802.1014(b), Government Code, is amended to read as follows:

(b) Except as provided by Subsection (c), a public retirement system that has assets of at least \$100 million shall conduct once every five years ~~conducts~~ an actuarial experience study and shall submit to the board a copy of the actuarial experience study before the 31st day after the date of the study's adoption.

No equivalent provision.

(But see SECTION 3 above.)

SECTION 1. Section 801.209(a), Government Code, is amended to read as follows:

(a) For each public retirement system, the board shall post on the board's Internet website, or on a publicly available website that is linked to the board's website, the most recent data from reports received under Sections 802.101, 802.103, 802.104, 802.105, ~~and~~ 802.108, and 802.2015.

SECTION 2. Section 802.101(a), Government Code, is amended to read as follows:

(a) The governing body of a public retirement system shall employ an actuary, as a full-time or part-time employee or as a consultant, to make a valuation at least once every three years of the assets and liabilities of the system on the basis of assumptions and methods that are reasonable in the aggregate, considering the experience of the program and reasonable expectations, and that, in combination, offer the actuary's best estimate of anticipated experience under the program. The valuation must include a recommended contribution rate needed for the system to achieve and maintain an amortization period that does not exceed 30 years.

No equivalent provision.

(But see SECTION 3 below.)

SECTION 3. Section 802.1014, Government Code, is amended by adding Subsection (b-1) to read as follows:

(b-1) Except as provided by Subsection (c), a public retirement system that has assets of at least \$100 million shall conduct once every five years an actuarial experience study and shall submit to the board a copy of the actuarial experience study before the

31st day after the date of the study's adoption.

SECTION 4. Subchapter B, Chapter 802, Government Code, is amended by adding Section 802.2015 to read as follows:
Sec. 802.2015. FUNDING POLICY.

(a) In this section, "governmental entity" has the meaning assigned by Section 802.1012.

(b) The governing body of a public retirement system and the associated governmental entity shall cooperate in formulating and adopting a funding policy for the retirement system to enable the retirement system to achieve and maintain actuarial soundness.

(c) A funding policy adopted under this section must establish a funding level based on the actuarially determined contribution. The public retirement system and the governmental entity, in consultation with the system's actuary, shall develop the actuarially determined contribution needed to achieve and maintain an amortization period that is in accordance with the board's Guidelines for Actuarial Soundness.

(d) Each public retirement system shall adopt a funding policy as provided by this section and submit a copy of that policy to the board. A public retirement system shall provide the board with a copy of any change to the adopted policy not later than the 31st day after the date on which the change is adopted.

(e) A public retirement system shall notify the associated governmental entity in writing if the retirement system receives an actuarial valuation indicating that the system's actual contributions are not sufficient to achieve and maintain the amortization period applicable to the retirement system as established in the retirement system's adopted funding policy.

SECTION 4. Subchapter C, Chapter 802, Government Code, is amended by adding Section 802.2015 to read as follows:
Sec. 802.2015. FUNDING SOUNDNESS RESTORATION PLAN.

(a) In this section, "governmental entity" has the meaning assigned by Section 802.1012.

No equivalent provision.
(But see Subsection (b) below.)

No equivalent provision.
(But see Subsection (d) below.)

(f) Each public retirement system that formulates a funding soundness restoration plan as provided by this section shall submit a copy of that plan to the board and any change to the plan not later than the 31st day after the date on which the plan or the change is agreed to.

(b) A public retirement system shall notify the associated governmental entity in writing if the retirement system receives an actuarial valuation indicating that the system's actual contributions are not sufficient to amortize the unfunded actuarial accrued liability within 40 years. If a public retirement system's actuarial valuation shows that the system's amortization period has exceeded 40 years for three consecutive annual actuarial valuations, or two consecutive actuarial valuations in the case of a system that conducts the valuations every two or three years, the governing body of the public retirement system and the

associated governmental entity shall formulate a funding soundness restoration plan under Subsection (d) in accordance with the system's governing statute.

(f) If a public retirement system receives three consecutive annual actuarial valuations, or two consecutive actuarial valuations in the case of a system that conducts the valuations every two or three years, indicating that the funding level is not sufficient to meet the requirements of the system's funding policy, the retirement system and the associated governmental entity shall develop a written plan with specific measures reasonably designed to restore funding to a level adequate to achieve and maintain the amortization period applicable to the retirement system as established in the retirement system's adopted funding policy. The public retirement system shall submit a copy of the plan developed under this subsection to the board.

No equivalent provision.

No equivalent provision.
(But see Subsection (c) above.)

No equivalent provision.

No equivalent provision.
(But see Subsection (b) above.)

(c) The governing body of a public retirement system and the associated governmental entity that have formulated a funding soundness restoration plan under Subsection (d) shall formulate a revised funding soundness restoration plan under that subsection, in accordance with the system's governing statute, if the system conducts an actuarial valuation showing that:

- (1) the system's amortization period exceeds 40 years; and
- (2) the previously formulated funding soundness restoration plan has not been adhered to.

(d) A funding soundness restoration plan formulated under this section must:

- (1) be developed by the public retirement system and the associated governmental entity in accordance with the system's governing statute; and
- (2) be designed to achieve a contribution rate that will be sufficient to amortize the unfunded actuarial accrued liability within 40 years not later than the 10th anniversary of the date on which the final version of a funding soundness restoration plan is agreed to.

(e) A public retirement system and the

associated governmental entity that formulate a funding soundness restoration plan shall report any updates of progress made by the entities toward improved actuarial soundness to the board every two years.

SECTION 5. A public retirement system subject to Section 802.2015, Government Code, as added by this Act, and the associated governmental entity, as defined by that section, shall adopt a funding policy based on the most recent actuarial valuation study conducted under Section 802.101, Government Code, not later than November 1, 2016. The first actuarial valuation study that is conducted for or by a public retirement system on or after the date the retirement system adopts its funding policy must include an actuarially determined contribution rate.

No equivalent provision.

SECTION 6. This Act takes effect immediately if it receives a vote of two-thirds of all the members elected to each house, as provided by Section 39, Article III, Texas Constitution. If this Act does not receive the vote necessary for immediate effect, this Act takes effect September 1, 2015.

SECTION 5. A public retirement system subject to Section 802.2015, Government Code, as added by this Act, shall formulate a funding soundness restoration plan, if required to do so under that section, based on the most recent actuarial valuation study conducted under Section 802.101, Government Code, as amended by this Act, not later than November 1, 2016. The first actuarial valuation study that is conducted for or by a public retirement system on or after the effective date of this Act must include a recommended contribution rate.

SECTION 6. (a) Except as provided by Subsection (b) of this section, a public retirement system subject to Section 802.1014(b-1), Government Code, as added by this Act, shall conduct the first actuarial experience study required by Section 802.1014(b-1), Government Code, as added by this Act, not later than September 1, 2016.

(b) A public retirement system subject to Section 802.1014(b-1), Government Code, as added by this Act, that conducted an actuarial experience study after August 31, 2011, and on or before the effective date of this Act, shall conduct the first actuarial experience study required by Section 802.1014(b-1), Government Code, as added by this Act, not later than the fifth anniversary of the date of that preceding study.

SECTION 7. Same as introduced version.