

BILL ANALYSIS

S.B. 2190
By: Huffman
Pensions
Committee Report (Unamended)

BACKGROUND AND PURPOSE

Interested parties express concern about the unfunded liabilities of the retirement fund for firefighters and the pension systems for police officers and municipal employees in certain large cities and about related issues. S.B. 2190 seeks to address this concern by, among other things, revising pension benefits and contributions made by a member and a city, as applicable, and by providing for certain studies.

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

S.B. 2190 amends the Revised Statutes and Vernon's Texas Civil Statutes to revise and update provisions relating to a firefighters' relief and retirement fund in a municipality that has a population of at least 1.6 million, a police officers' pension system in a city that has a population of 1.5 million or more, and a municipal employees pension system in a city that has a population of more than 1.5 million. The bill, in revising those provisions, makes them applicable to such a fund and such pension systems in a municipality having a population of two million or more and redefines and also provides definitions for certain terms applicable to that fund and those pension systems. The bill's provisions control in a conflict with any other act of the 85th Legislature, Regular Session, 2017, unless the conflict is expressly resolved by the legislature by reference to the bill.

S.B. 2190 amends the Local Government Code to condition the authority of an applicable municipality to issue an obligation to fund all or any part of the unfunded liability of the firefighters' relief and retirement fund, police officers' pension system, and municipal employees pension system fund on the issuance being approved by a majority of the qualified voters of the municipality voting at an election held for that purpose.

Firefighters' Relief and Retirement Fund

S.B. 2190 amends the Revised Statutes to revise and update provisions relating to the applicable firefighters' relief and retirement fund, including provisions relating to the following: the fund's board of trustees, certain powers of the board relating to actuarial valuations, service pension benefits, the deferred retirement option plan (DROP), the post-retirement option plan (PROP), a deferred pension benefit and a refund of contributions for certain persons, general provisions for the calculation and payment of benefits, membership and member contributions, and the

confidentiality of certain member or beneficiary information.

S.B. 2190, in revising those provisions, modifies the methods used for calculating monthly service pension benefits, prohibits certain members from electing to participate in the DROP, prohibits certain member contributions to the fund from being credited to a member's DROP account, provides for credit to a member's DROP account of the amount of certain unused leave pay, suspends and increases the age of eligibility for certain benefit adjustments, and increases an active member's contribution to the fund. The bill prohibits a PROP participant from having any additional amounts that the participant would otherwise receive as a monthly service pension or other benefits under the fund credited to the participant's PROP account on or after the year 2017 effective date and prohibits a person from electing to participate in the PROP on or after that date.

S.B. 2190 sets out provisions relating to the following: the interpretation of statutory provisions governing the retirement fund, the fund's and the municipality's fiscal years, alternative retirement plans, requirements for certain cash balance retirement plans, conflict with other laws, the liability of officers and employees of the municipality, the qualifications of a municipal actuary for purposes of statutory provisions governing the fund, reports on fund investments by an independent investment consultant, certain alterations to the fund by a local agreement, municipal contributions, risk sharing valuation studies prepared by the fund's and the municipality's respective actuaries, initial risk sharing valuation studies prepared by the fund's and the municipality's respective actuaries, actuarial experience studies conducted by the fund actuary, the municipal contribution rate when the estimated rate is lower than the corridor midpoint, the municipal contribution rate when the estimated rate is equal to or greater than the corridor midpoint, the interpretation of certain risk sharing provisions and the nonbinding nature of certain unilateral decisions or actions, and the submission to the State Pension Review Board of certain studies and a report and a related reporting requirement. The bill requires the fund to require the fund actuary to prepare the first actuarial experience study required by the bill not later than September 30, 2020.

S.B. 2190, in setting out those provisions, provides for the amortization of the legacy liability for a 30-year period beginning on July 1, 2017, and provides for the methods for determining the municipality's contribution to the fund, the corridor midpoint for 31 fiscal years beginning with the fiscal year beginning July 1, 2017, and the actuarial assumptions and methods to be used in the preparation of certain risk sharing valuation studies. The bill repeals certain statutory provisions relating to the municipality's required contributions to the fund and the rate used to determine those contributions.

Police Officers' Pension System

S.B. 2190 amends the Revised Statutes to revise and update provisions relating to the applicable police officers' pension system, including provisions relating to the following: the pension board, board member leave and compensation, the general powers and duties of the board, contributions to the system by system members, contributions to the system by the city, member service credit, service retirement benefits and annual adjustments, the deferred retirement option plan (DROP), disability benefits, the rights of survivors, a beneficiary designation for a member's DROP account, refunds for a member's separation from service and the reemployment of members, employment by a department in the city other than the police department, certain persons rejoining the system or transferring to a certain position, the provision of certain information to determine benefits, members in military service, actions for funds misapplied, the federal tax qualification of the system, an excess benefit plan, certain written agreements between the system and the city, and the confidentiality of certain member or beneficiary information. The bill requires the city and board that have entered into one or more such written agreements to agree in writing that any provisions in the agreement or agreements that specifically conflict with the bill are no longer in effect, as of the year 2017 effective date, and any nonconflicting provisions of the agreements remain in full force and effect.

S.B. 2190, in revising those provisions, increases an active member's contribution to the system, changes the age at which certain members are eligible to receive a monthly service pension, modifies the methods used for calculating monthly service pension benefits, suspends and sets the age of eligibility for certain benefit adjustments, prohibits additional amounts from being credited to certain retired members' DROP accounts on and after the year 2017 effective date, sets the maximum number of years an active member may participate in DROP at 20 years, and specifies certain circumstances under which a disability pension may not be paid to a member.

S.B. 2190 sets out provisions relating to the following: the interpretation of statutory provisions governing the pension system, the system's and the city's fiscal years, alternative retirement plans, requirements for certain cash balance retirement plans, conflict with other laws, the qualifications of a city actuary for purposes of statutory provisions governing the system, the liability of certain persons, risk sharing valuation studies prepared by the system's and the city's respective actuaries, initial risk sharing valuation studies prepared by the system's and the city's respective actuaries, actuarial experience studies conducted by the system actuary, the city contribution rate when the estimated rate is lower than the corridor midpoint, the city contribution rate when the estimated rate is equal to or greater than the corridor midpoint, certain prohibited actions and the nonbinding nature of certain unilateral decisions or actions, the submission to the State Pension Review Board of certain studies and a report and a related reporting requirement, reports on system investments by an independent investment consultant, and the forfeiture of benefits for certain criminal convictions. The bill requires the system to require the system actuary to prepare the first actuarial experience study required by the bill not later than September 30, 2022.

S.B. 2190, in setting out those provisions, provides for the amortization of the legacy liability for a 30-year period beginning on July 1, 2017, and provides for the methods for determining the city's contribution to the system, the corridor midpoint for 31 fiscal years beginning with the fiscal year beginning July 1, 2017, and the actuarial assumptions and methods to be used in the preparation of certain risk sharing valuation studies. The bill, in setting out the provisions relating to initial risk sharing valuation studies, provides for certain actions and procedures if the city fails to deliver the proceeds of pension obligation bonds totaling \$750 million on or before a certain date.

S.B. 2190 repeals certain statutory provisions relating to the contribution obligations of a member and a claim for a refund for contributions made before a certain date, participation in the executive official pension plan, a one-time election for certain persons to revoke a DROP election, the recomputation of the DROP monthly service pension for certain persons, an additional monthly disability benefit for certain members, an immediate proportional nonduty-connected disability benefit for certain persons, service credit for employment by a department in the city other than the police department, and the repayment of withdrawn contributions and the restoration of service credit by certain former members.

Municipal Employees Pension System

S.B. 2190 amends Vernon's Texas Civil Statutes to revise and update provisions relating to the applicable municipal employees pension system, including provisions relating to the following: the pension board, additional powers and duties of the board, individuals eligible for membership in the system, group C membership, service or credited service in the system, member contributions, contribution refunds to certain persons, a normal retirement pension, certain retirement options and option-eligible participants, the deferred retirement option plan (DROP), disability pensions, the monthly allowance for a surviving spouse and dependent child, a lump-sum benefit payment, the death of a member and the termination of employment or reemployment of a member, military service credit, and an excess benefit plan. The bill authorizes a person who is serving as a trustee of the board immediately before the bill's effective date to continue to serve for the remainder of the trustee's term.

S.B. 2190, in revising those provisions, alters member contributions to the system based on membership groups, changes the eligibility criteria for a normal retirement pension, modifies the methods used for calculating a monthly normal retirement pension, suspends and changes the eligibility for certain benefit adjustments, prohibits a member who enters DROP on or after January 1, 2005, from having a DROP entry date that occurs before the date the system receives the member's request to participate in DROP and sets out eligibility requirements for DROP participation beginning on or after that date, and reduces certain survivor benefits.

S.B. 2190 sets out provisions relating to the following: the interpretation of statutory provisions governing the pension system, the system's and the city's fiscal years, alternative retirement plans, requirements for certain cash balance retirement plans, conflict with other laws, conflicts of interest, the system's actuary and a valuation of the assets and liabilities of the pension fund, qualifications of a city actuary for purposes of statutory provisions governing the system, reports on system investments by an independent investment consultant, city contributions, risk sharing valuation studies prepared by the system's and the city's respective actuaries, initial risk sharing valuation studies prepared by the system's and the city's respective actuaries, actuarial experience studies conducted by the system actuary, the city contribution rate when the estimated rate is lower than the corridor midpoint, the city contribution rate when the estimated rate is equal to or greater than the corridor midpoint, the confidentiality of certain information, the nonbinding nature of certain unilateral decisions or actions, the submission to the State Pension Review Board of certain studies and a report and a related reporting requirement, and additional contributions of and a cash balance plan component for group D members. The bill requires the system to require the system actuary to prepare the first actuarial experience study required by the bill not later than September 30, 2021.

S.B. 2190, in setting out those provisions, provides for the amortization of the legacy liability for a 30-year period beginning on July 1, 2017, and provides for the methods for determining the city's contribution to the system, the corridor midpoint for 31 fiscal years beginning with the fiscal year beginning July 1, 2017, and the actuarial assumptions and methods to be used in the preparation of certain risk sharing valuation studies. The bill, in setting out the provisions relating to initial risk sharing valuation studies, provides for certain actions and procedures if the city fails to deliver the proceeds of pension obligation bonds totaling \$250 million on or before a certain date. The bill repeals a statutory provision relating to the city's contributions.

Repealed Provisions

S.B. 2190 repeals the following provisions:

- Sections 13(d) and (e), Article 6243e.2(1), Revised Statutes
- Sections 2(19) and (23), Article 6243g-4, Revised Statutes
- Section 8(b), Article 6243g-4, Revised Statutes
- Section 12(f), Article 6243g-4, Revised Statutes
- Sections 14(f) and (m), Article 6243g-4, Revised Statutes
- Sections 15(h) and (j), Article 6243g-4, Revised Statutes
- Sections 18(b) and (c), Article 6243g-4, Revised Statutes
- Section 8(d), Chapter 88 (H.B. 1573), Acts of the 77th Legislature, Regular Session, 2001 (Article 6243h, Vernon's Texas Civil Statutes)

EFFECTIVE DATE

July 1, 2017, or, if the bill does not receive the necessary vote, September 1, 2017.