

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

March 18, 2017

TO: Honorable Joan Huffman, Chair, Senate Committee on State Affairs

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: SB2190 by Huffman (Relating to the public retirement systems of certain municipalities.),
As Introduced

No fiscal implication to the State is anticipated.

General Provisions

The bill would amend multiple sections of Revised Statutes relating to the Houston Police, Firefighter, and Municipal Employee pension systems. The bill would allow all three pension systems to offer participants an alternative retirement plan including a defined contribution plan if both the municipality and pension system consider it appropriate.

The bill would set requirements on the qualifications for the Municipal and Pension Fund actuary for all three funds.

The bill would require each pension to perform several reports and analysis. Every year each fund actuary and municipal actuary separately will produce a risk sharing valuation study (RSVS) and present the findings no later than 150 days after the end of the fiscal year. The bill requires the RSVS to calculate the unfunded actuarial accrued liability and estimate the municipal contribution rate.

The bill would set the process if the municipal and fund actuary contribution rate varies more than two percent. The final RSVS will set the municipal contribution rate in the upcoming fiscal year.

The bill would require the fund and municipality to separately perform an initial RSVS dated as of June 30, 2016 and project the corridor midpoint for 31 fiscal years beginning July 1, 2017.

At least once every four years the bill requires the fund actuary to conduct an Actuarial Experience Study (AES) no later than September 30 in the year required to perform the study. The AES must include all assumptions and methods recommended by the fund actuary and summaries of the reconciled actuarial data used in the creation of the AES.

The municipality as of the 2017 effective date shall contribute at least biweekly to the funds equal to the municipal contribution rate multiplied by the pensionable payroll for the fiscal year. The municipal contribution rate shall not exceed the maximum contribution rate or be less than the minimum contribution rate.

After preparing the final RSVS the fund and municipality shall jointly submit a copy of the study

to the Pension Review Board (PRB) for validation and conformation that the municipality and fund are in compliance with the bill.

The initial RSVS would set the minimum and maximum contribution rate for the municipality called the corridor midpoint. The bill provides authority and process to make changes to the system if the RSVS estimated municipal contribution is above or below the corridor midpoint. The fund must notify the PRB no later than 30 days after the fund changes the Municipal Contribution Rate when the rate would be outside the corridor midpoint.

The PRB shall notify the Governor, Lt. Governor, Speaker of the House, and legislative committees that have principal jurisdiction over pensions if the PRB determines the funds are not in compliance.

The bill would require once every three years the board of each pension system hire an independent investment consultant to produce a report that includes the pensions:

- a) compliance with its investment policy statement,
- b) asset allocation,
- c) portfolio structure,
- d) investment manager or advisor performance reviews,
- e) benchmarks for each asset class,
- f) evaluation of fees and trading costs,
- g) evaluation of investment in any leverage, foreign exchange, or other hedging transactions,
- h) and evaluations of investments-related disclosures in the annual reports or valuations.

A municipality may issue pension obligation bonds (POBs) to fund all or part of the unfunded liability only if the majority of voters approves the issuance at an election called for that purpose.

Provisions Relating to Firefighter Pension System

The board of the fund may alter benefit types or amounts, the means of determining contribution rates, or the contribution rates but may not have the effect or result of increasing the unfunded liability of the fund or increase the assumed rate of return to more than 7 percent per year.

Limits the number of years a Deferred Retirement Option Plan (DROP) participant who has 20 years of service can participate to 13 years.

The active member's contribution rates changes from nine percent of the member's salary to 10.5 percent after the year 2017 effective date.

Provisions Relating to the Police Pension System

The active member's monthly contribution rate changes from 8.75 percent to 10.5 percent of the participants pay.

The maximum number of years an active member may participate in DROP is 20 years after the member receives the hypothetical earning rate.

The bill changes the members in military service from being entitled to being eligible for counting uniformed service towards years of service.

The board and municipality may not enter into an agreement to increases the assumed rate of

return to be more than 7 percent per year, extend the amortization period of the liability greater than 30 years, or allow the municipality's contributions to be less than or greater than the municipal contribution rate.

Provisions Relating to the Municipal Pension System.

The bill would modify an employee's retirement grouping based on date of hire. The groupings are A, B, C, and D.

The bill would establish member contributions rate on or after the 2017 effective date, and the contribution rate after July 1, 2018.

Group	2017 Effective Date	July 1, 2018
A	7%	8%
B	2%	4%
D	2%	2%

On or after January 1, 2018 each group D member shall contribute one percent of the members biweekly salary to a notional account with an annual return rate no less than 2.5 percent and no higher than 7.5 percent.

The bill would modify the requirements for DROP participation by requiring members to meet normal retirement eligibility requirements unless the member met the eligibility requirements before January 1, 2005. Members who had five years of service before January 1, 2005 and the sum of the members years of service and age in years was equal to or greater than 68 would also qualify for DROP.

The bill would require the board beginning January 1, 2018 to establish an interest rate for DROP accounts that is not less than 2.5 percent and not greater than 7.5 percent. A DROP participant must pay required contributions to the pension system for all time in DROP that would constitute service in order receive credit to the DROP account.

The bill would take effect immediately if it receives two-thirds vote in each chamber; otherwise, it takes effect September 1, 2017.

Local Government Impact

Due to incomplete data from the City of Houston the fiscal implications of the bill cannot be determined.

Source Agencies: 338 Pension Review Board

LBB Staff: UP, AG, GG, BM, BRi