

Amend CSHB 4368 (house committee printing) by striking all below the enacting clause and substituting the following:

SECTION 1. Section 1.02, Chapter 452 (SB 738), Acts of the 72nd Legislature, Regular Session, 1991 (Article 6243n-1, Vernon's Texas Civil Statutes), is amended by amending Subdivisions (2) and (4) and adding Subdivisions (1-a), (2-a), (3-a), (3-b), (6-a), (6-b), (6-c), (6-d), (6-e), (10-a), (11-a), (13-a), (13-b), (13-c), (15-a), (15-b), (15-c), (15-d), (15-e), (17-a), (18-a), (18-b), (19-a), (19-b), (23-a), (29-a), and (29-b) to read as follows:

(1-a) "Actuarial accrued liability" means the portion of the actuarial present value of projected benefits of the police retirement system attributed to past periods of member service based on the cost method used in the risk sharing valuation study prepared under Section 8.03 or 8.04 of this Act, as applicable.

(2) "Actuarial equivalent" means any benefit of equal present value to a standard benefit when computed as specified by this Act, based on the actuarial assumptions adopted by the police retirement board for that purpose.

(2-a) "Actuarial value of assets" means the value of the police retirement system's investments as calculated using the asset smoothing method used in the risk sharing valuation study prepared under Section 8.03 or 8.04 of this Act, as applicable.

(3-a) "Amortization period" means:

(A) the period necessary to fully pay a liability layer; or

(B) if referring to the amortization period of the police retirement system as a whole, the number of years incorporated in a weighted average amortization factor for the sum of the legacy liability and all liability layers as determined in each annual actuarial valuation of assets and liabilities of the system.

(3-b) "Amortization rate" means, for a given calendar year, the percentage rate determined by:

(A) adding the scheduled amortization payments required to pay off the then-existing liability layers;

(B) subtracting the city legacy contribution amount for the same calendar year, as determined in the risk sharing

valuation study prepared under Section 8.03 or 8.04 of this Act, as applicable, from the sum under Paragraph (A); and

(C) dividing the sum under Paragraph (B) by the projected pensionable payroll for the same calendar year.

(4) "Average final compensation" means the monthly average of basic hourly earnings of a member during, as applicable:

(A) if the member has 120 months or more of service during which the member made contributions to the system or the predecessor system, the 36 months for a group A member or 60 months for a group B member which yielded the highest average during the last 120 months of membership service during which the member contributed to the system or the predecessor system;

(B) if the member has less than 120 months of membership service during which the member contributed to the system or the predecessor system, but has at least 36 months of membership service for a group A member or 60 months of membership service for a group B member during which the member made contributions to the system or the predecessor system, the average of the 36 months or 60 months, as applicable, which yielded the highest average; or

(C) if the member does not have 36 months of membership service for a group A member or 60 months of membership service for a group B member during which the member contributed to the system or the predecessor system, the average of the member's months of membership service during which the member made contributions to the system or the predecessor system.

(6-a) "City contribution rate" means, for a given calendar year, a percentage rate equal to the sum of the employer normal cost rate and the amortization rate, as adjusted under Section 8.05 or 8.06 of this Act, if applicable.

(6-b) "City legacy contribution amount" means, for each calendar year, a predetermined payment amount expressed in dollars in accordance with a payment schedule amortizing the legacy liability for the calendar year ending December 31, 2020, that is included in the initial risk sharing valuation study under Section 8.03 of this Act.

(6-c) "Corridor" means the range of city contribution

rates that are:

(A) equal to or greater than the minimum city contribution rate; and

(B) equal to or less than the maximum city contribution rate.

(6-d) "Corridor margin" means five percentage points.

(6-e) "Corridor midpoint" means the projected city contribution rate specified for each calendar year for 30 years as provided by the initial risk sharing valuation study under Section 8.03 of this Act, rounded to the nearest hundredths decimal place.

(10-a) "Employer normal cost rate" means, for a given calendar year, the normal cost rate minus the applicable member contribution rate determined under Section 8.01 of this Act.

(11-a) "Estimated city contribution rate" means, for a given calendar year, the city contribution rate that would be required to maintain an amortization period for the retirement system as a whole of no more than 30 years as determined by the system's actuary in a risk sharing valuation study under Section 8.03 or 8.04 of this Act, as applicable, and before any adjustment to the rate under Section 8.05 or 8.06 of this Act, as applicable.

(13-a) "Funded ratio" means the ratio of the actuarial value of assets divided by the actuarial accrued liability.

(13-b) "Group A member" means a member included in group A membership under Section 4.01(e-1) of this Act.

(13-c) "Group B member" means a member included in group B membership under Section 4.01(e-1) of this Act.

(15-a) "Legacy liability" means the unfunded actuarial accrued liability determined as of December 31, 2020, and for each subsequent calendar year, adjusted as follows:

(A) reduced by the city legacy contribution amount for the calendar year allocated to the amortization of the legacy liability; and

(B) adjusted by the assumed rate of return adopted by the police retirement board for the calendar year.

(15-b) "Level percent of payroll method" means the amortization method that defines the amount of the liability layer recognized each calendar year as a level percent of pensionable

payroll until the amount of the liability layer remaining is reduced to zero.

(15-c) "Liability gain layer" means a liability layer that decreases the unfunded actuarial accrued liability.

(15-d) "Liability layer" means:

(A) the legacy liability established in the initial risk sharing valuation study under Section 8.03 of this Act; or

(B) for calendar years after December 31, 2020, the amount that the police retirement system's unfunded actuarial accrued liability increases or decreases, as applicable, due to the unanticipated change for the calendar year as determined in each subsequent risk sharing valuation study prepared under Section 8.04 of this Act.

(15-e) "Liability loss layer" means a liability layer that increases the unfunded actuarial accrued liability. For purposes of this Act, the legacy liability is a liability loss layer.

(17-a) "Maximum city contribution rate" means, for a given calendar year, the rate equal to the corridor midpoint plus the corridor margin.

(18-a) "Minimum city contribution rate" means, for a given calendar year, the rate equal to the corridor midpoint minus the corridor margin.

(18-b) "Normal cost rate" means, for a given calendar year, the salary weighted average of the individual normal cost rates determined for the current active member population, plus the assumed administrative expenses determined in the most recent actuarial experience study.

(19-a) "Payoff year" means the year a liability layer is fully amortized under the amortization period. A payoff year may not be extended or accelerated for a period that is less than one month.

(19-b) "Pensionable payroll" means the aggregate basic hourly earnings of all members in active service for a calendar year or pay period, as applicable.

(23-a) "Projected pensionable payroll" means the

estimated pensionable payroll for the calendar year beginning 12 months after the date of the risk sharing valuation study prepared under Section 8.03 or 8.04 of this Act, at the time of calculation by:

(A) projecting the prior calendar year's pensionable payroll forward two years using the current payroll growth rate assumption adopted by the police retirement board; and

(B) adjusting, if necessary, for changes in population or other known factors, provided those factors would have a material impact on the calculation, as determined by the board.

(29-a) "Unanticipated change" means, with respect to the unfunded actuarial accrued liability in each subsequent risk sharing valuation study prepared under Section 8.04 of this Act, the difference between:

(A) the remaining balance of all then-existing liability layers as of the date of the risk sharing valuation study; and

(B) the actual unfunded actuarial accrued liability as of the date of the risk sharing valuation study.

(29-b) "Unfunded actuarial accrued liability" means the difference between the actuarial accrued liability and the actuarial value of assets.

SECTION 2. Section 3.02, Chapter 452 (**SB 738**), Acts of the 72nd Legislature, Regular Session, 1991 (Article 6243n-1, Vernon's Texas Civil Statutes), is amended to read as follows:

Sec. 3.02. COMPOSITION OF BOARD; TRUSTEE QUALIFICATIONS.

(a) The police retirement board shall be composed of 11 members as follows:

(1) one council member designated by the city council;

(2) the city manager or the city manager's designee;

(3) the director of finance or the director's designee;

(4) four [~~five~~] police officer members elected by the police officer members of the system, each of whom serves for a term of four years;

(5) one legally qualified voter of the city, who is a

resident and has been a resident for the preceding five years, is not an employee of the city or a member of the system, and has demonstrated experience in the field of finance or investments, to be appointed by the police retirement board to serve for a term of four years and until the member's successor is duly selected and qualified; ~~and~~

(6) one legally qualified voter of the city, who is a resident and has been a resident for the preceding five years, is not an employee of the city or a member of the system, and has demonstrated experience in the field of finance or investments, to be appointed by the city council to serve for a term of four years and until the member's successor is duly selected and qualified;
and

(7) two retired members to be elected by the retired members to serve for a term of four years, with the term of one member expiring each odd-numbered year.

(b) The terms of two members elected as described by Subsection (a)(4) of this section expire in 2023 ~~[2001]~~ and every fourth subsequent year, and the terms of two ~~[three]~~ members elected as described by Subsection (a)(4) of this section expire in 2025 ~~[2003]~~ and every fourth subsequent year.

(b-1) A member of the police retirement board appointed under Subsection (a)(5) or (a)(6) of this section must:

(1) have, at the time of taking office, the qualifications required for the trustee's position; and

(2) maintain during service on the board the qualifications required for the trustee's position.

(c) A vacancy occurring by the death, resignation, or removal of the member appointed under:

(1) Subsection (a)(5) of this section shall be filled by appointment by the remaining members of the police retirement board; and

(2) Subsection (a)(6) of this section shall be filled by appointment by the city council.

SECTION 3. Section 3.09(b), Chapter 452 (SB 738), Acts of the 72nd Legislature, Regular Session, 1991 (Article 6243n-1, Vernon's Texas Civil Statutes), is amended to read as follows:

(b) From time to time on the advice of the actuary and at the direction of the board and as provided by Section 3.091 of this Act, the actuary shall make an actuarial investigation of the mortality, service, and compensation experience of members, retired members, and beneficiaries of the system and shall recommend for adoption by the board the tables and rates required by the system. The board shall adopt the tables and rates to be used by the system.

SECTION 4. Article III, Chapter 452 (**SB 738**), Acts of the 72nd Legislature, Regular Session, 1991 (Article 6243n-1, Vernon's Texas Civil Statutes), is amended by adding Section 3.091 to read as follows:

Sec. 3.091. PROCESS FOR EXPERIENCE STUDIES AND CHANGES TO ACTUARIAL ASSUMPTIONS. (a) At least once every five years, the police retirement board shall have the system's actuary designated under Section 3.09 of this Act conduct an experience study to review the actuarial assumptions and methods adopted by the board for the purposes of determining the actuarial liabilities and actuarially determined contribution rates of the system. The system shall notify the city at the beginning of an upcoming experience study by the system's actuary.

(b) In connection with the system's experience study, the city will inform the system if it will:

(1) conduct the city's own experience study using the city's own actuary;

(2) have the city's actuary review the experience study of the system's actuary; or

(3) accept the experience study of the system's actuary.

(c) If the city chooses to:

(1) have the city's own experience study performed under Subsection (b)(1) of this section, the city must complete the study not later than three months after the date the system notified the city of the system's intent to conduct an experience study; or

(2) have the city's actuary review the system's experience study under Subsection (b)(2) of this section, the city must complete the review not later than one month after the date the preliminary results of the experience study are presented to the

board.

(d) If the city chooses to have the city's own experience study performed under Subsection (b)(1) of this section, or to have the city's actuary review the system's experience study under Subsection (b)(2) of this section, the system's actuary and the city's actuary shall determine what the hypothetical city contribution rate would be using the proposed actuarial assumptions from the experience studies and data from the most recent actuarial valuation.

(e) If the difference between the hypothetical city contribution rates determined by the system's actuary and the city's actuary under Subsection (d) of this section:

(1) is less than or equal to two percent of pensionable payroll, then no further action is needed and the board shall use the experience study performed by the system's actuary in determining assumptions; or

(2) is greater than two percent of pensionable payroll, then the system's actuary and the city's actuary shall have 20 business days to reconcile the difference in actuarial assumptions or methods causing the different hypothetical city contribution rates, and:

(A) if, as a result of the reconciliation efforts under this subdivision, the difference between the city contribution rates determined by the system's actuary and the city's actuary is reduced to less than or equal to two percentage points, then no further action is needed and the board shall use the experience study performed by the system's actuary in determining actuarial assumptions; or

(B) if, after 20 business days, the system's actuary and the city's actuary are not able to reach a reconciliation that reduces the difference in the hypothetical city contribution rates to an amount less than or equal to two percentage points, a third-party actuary shall be retained to opine on the differences in the assumptions made and actuarial methods used by the system's actuary and the city's actuary.

(f) The independent third-party actuary retained in accordance with Subsection (e)(2)(B) of this section shall be

chosen by the city from a list of three actuarial firms provided by the system.

(g) If a third-party actuary is retained under Subsection (e)(2)(B) of this section, the third-party actuary's findings will be presented to the board along with the experience study conducted by the system's actuary and, if applicable, the city's actuary. If the board adopts actuarial assumptions or methods contrary to the third-party actuary's findings:

(1) the system shall provide a formal letter describing the rationale for the board's action to the city council and State Pension Review Board; and

(2) the system's actuary and executive director shall be made available at the request of the city council or the State Pension Review Board to present in person the rationale for the board's action.

(h) If the board proposes a change to actuarial assumptions or methods that is not in connection with an experience study described in Subsection (a) of this section, the system and the city shall follow the same process prescribed by this section with respect to an experience study in connection with the proposed change.

SECTION 5. Section 3.10, Chapter 452 (**SB 738**), Acts of the 72nd Legislature, Regular Session, 1991 (Article 6243n-1, Vernon's Texas Civil Statutes), is amended to read as follows:

Sec. 3.10. INVESTMENT MANAGERS. The police retirement board may hire an investment manager or investment managers who shall have full authority to invest the assets and manage any portion of the portfolio of the system, as specified by the manager's [~~employment~~] contract.

SECTION 6. Section 4.01, Chapter 452 (**SB 738**), Acts of the 72nd Legislature, Regular Session, 1991 (Article 6243n-1, Vernon's Texas Civil Statutes), is amended by amending Subsections (c) and (e) and adding Subsections (e-1) and (e-2) to read as follows:

(c) Any person who becomes an employee of the city or the system, if eligible for membership, shall become a member as a condition of employment and shall make the required deposits commencing with the first pay period following a probationary

period of six continuous months from date of employment, if applicable, or eligibility, if later.

(e) [~~(1)~~] Membership in the police retirement system shall consist of the following groups:

(1) [~~(A)~~] Active--Contributory: the member who is in a status which allows payroll contributions to the police retirement system (working a normal work week, holding a full-time position, and, if applicable, having completed a continuous period of six months of service initially, to attain membership).

(2) [~~(B)~~] Active--Noncontributory: the member whose current employment status does not allow contributions to the system (working less than a normal work week or on a leave of absence under Subsection (f)(6)(A) of this section) and on return to working a normal work week, the member will again be given creditable service, with contributions resumed at time of status change.

(3) [~~(C)~~] Inactive--Contributory: the member who is on a uniformed service leave of absence under Subsection (f)(6)(B) of this section, who is allowed to make deposits to the system during the member's absence.

(4) [~~(D)~~] Vested--Noncontributory: the terminated member who, being vested, leaves the member's accumulated deposits in the system.

(5) [~~(E)~~] Retired: the member who is receiving a service or disability retirement annuity.

(e-1) Each member is either a group A member or a group B member, as follows:

(1) a member is a group A member if the member was:

(A) retired from or employed by the city or the system on December 31, 2021;

(B) a vested--noncontributory member as of December 31, 2021, who has not withdrawn the member's accumulated deposits; or

(C) formerly employed by the city or the system before December 31, 2021, returned to employment with the city or system on or after January 1, 2022, and:

(i) did not withdraw the member's

accumulated deposits from the system; or

(ii) withdrew the member's accumulated deposits from the system, but reinstated all of the previously forfeited creditable service; and

(2) a member is a group B member if the member:

(A) first became employed by the city or the system on or after January 1, 2022; or

(B) was formerly employed by the city or the system before December 31, 2021, returned to employment with the city or system on or after January 1, 2022, and:

(i) while the member was separated from service, withdrew the member's accumulated deposits from the system; and

(ii) has not reinstated all of the member's previously forfeited creditable service.

(e-2) [~~(2)~~] It shall be the duty of the police retirement board to determine the membership group to which each police officer or employee of the system who becomes a member of the police retirement system properly belongs under Subsections (e) and (e-1) of this section.

SECTION 7. Section 5.03(a), Chapter 452 (**SB 738**), Acts of the 72nd Legislature, Regular Session, 1991 (Article 6243n-1, Vernon's Texas Civil Statutes), is amended to read as follows:

(a) An eligible member or eligible surviving spouse may establish creditable service for probationary service performed as provided under this section according to the following conditions, limitations, and restrictions:

(1) Probationary service creditable in the system is any probationary service following the member's commission date or the member's first date of employment with the system for which the member does not have creditable service.

(2) An eligible member or eligible surviving spouse may establish creditable service under this section by contributing to the system a single payment equal to the contribution the member would have made to the system for that service at the time the service was performed and an interest charge based on the contribution amount to be repaid times an interest factor. The

interest factor is eight percent per year for the period that begins with the beginning of the month and year at the end of the probationary period for which creditable service is being established to the beginning of the month and year payment is made to the system for the purpose of establishing said service.

(3) After the eligible member or eligible surviving spouse makes the deposit required by Subdivision (2) of this subsection, the system shall grant the member one month of creditable service for each month of probationary service established under this section.

SECTION 8. Section 5.04(a), Chapter 452 (**SB 738**), Acts of the 72nd Legislature, Regular Session, 1991 (Article 6243n-1, Vernon's Texas Civil Statutes), is amended to read as follows:

(a) Under irrevocable action taken by the city council on February 12, 1998, police [~~This section does not take effect unless the city council authorizes the city to begin making contributions to the police retirement system in accordance with Section 8.01(a) of this Act for police cadets during their employment as cadets while members of a cadet class. Police~~] cadets whose cadet class begins after April 1, 1998, [~~the city council makes the authorization~~] shall make deposits to the police retirement system in accordance with Section 8.01(a) of this Act, and those cadets shall be members of the police retirement system and shall receive creditable service for employment as cadets while members of a cadet class, notwithstanding Sections 1.02(7), (18), and (21) of this Act.

SECTION 9. Section 6.01, Chapter 452 (**SB 738**), Acts of the 72nd Legislature, Regular Session, 1991 (Article 6243n-1, Vernon's Texas Civil Statutes), is amended by amending Subsections (a) and (f) to read as follows:

(a) On retirement after having reached the member's normal retirement date, members entitled thereto shall receive a service retirement benefit in the form of a life annuity (modified cash refund). Each monthly payment of the life annuity (modified cash refund) shall be equal to one-twelfth of:

(1) for a group A member, the product of 3.2 [~~2.88~~] percent of a member's average final compensation multiplied by the

number of months of creditable service; or

(2) for a group B member, the product of 2.5 percent of a member's average final compensation multiplied by the number of months of creditable service. ~~[The retirement benefit percent specified by this section to calculate the amount of the monthly payment of the life annuity (modified cash refund) may be changed after 1997 if:~~

~~[(1) the change is approved by the board's actuary;~~

~~[(2) the change is adopted by the board as a board rule;~~

~~[(3) the change applies to all present members, all retired members, and all who become members after the effective date of the change in the retirement benefit percent;~~

~~[(4) a member's vested interest as of the last day of the month immediately preceding the effective date of the change in the retirement benefit percent is not reduced; and~~

~~[(5) a retirement annuity being paid by the police retirement system to members or to the surviving spouses or beneficiaries of members who retired before the effective date of the change in the retirement benefit percent is changed as prescribed by Subsection (d)(6) of this section, except that a reduction in annuities may not cause the member's, surviving spouse's, or beneficiary's annuity payment to be reduced below the base retirement amount calculated under this Act.]~~

(f) For purposes of this section, compensation of each noneligible member taken into account under this Act may not exceed the maximum amount allowed under ~~[\$200,000 per calendar year, indexed pursuant to]~~ Section 401(a)(17) of the Internal Revenue Code of 1986 (26 U.S.C. Section 401). The ~~[\$200,000]~~ limit prescribed by this subsection does not apply to an eligible member. For purposes of this subsection, an eligible member is any individual who first became a member before January 1, 1996. For purposes of this subsection, a noneligible member is any other member.

SECTION 10. Section 6.02, Chapter 452 (SB 738), Acts of the 72nd Legislature, Regular Session, 1991 (Article 6243n-1, Vernon's Texas Civil Statutes), is amended by amending Subsection (a) and

adding Subsection (a-1) to read as follows:

(a) A group A [~~Any~~] member shall be eligible for service retirement if the member has attained the age of 55 years and completed at least 20 years of creditable service with the city, or has completed 23 years of creditable service, excluding any military service established under Section 5.02 of this Act.

(a-1) A group B member shall be eligible for service retirement if the member has attained the age of 50 years and completed at least 25 years of creditable service with the city, excluding any military service established under Section 5.02 of this Act.

SECTION 11. Section 6.04(b), Chapter 452 (SB 738), Acts of the 72nd Legislature, Regular Session, 1991 (Article 6243n-1, Vernon's Texas Civil Statutes), is amended to read as follows:

(b) If a member who has attained the applicable age for the minimum distribution required under Section 401(a)(9) of the Internal Revenue Code of 1986 (26 U.S.C. Section 401(a)(9)) [~~age 70-1/2~~] separates or has separated from service without applying for retirement or a refund of accumulated deposits, the police retirement system shall attempt to send to that member a written notice as soon as practicable after the later of the date the member attains the applicable age [~~70-1/2~~] or the date the member separates from service. The written notice must advise the member of the requirement under Section 401(a)(9) of the Internal Revenue Code of 1986 (26 U.S.C. Section 401(a)(9)) to retire and begin receiving a monthly retirement benefit. If, before the 91st day after the date the police retirement system sends the notice, the member has not filed an application for retirement or a refund, the member is considered to have retired on the last day of the third month following the later of the two dates specified by this subsection. If applicable, the retirement option shall be determined in accordance with the member's written selection of optional benefit and designation of beneficiary under Section 6.06(a)(1) of this Act. Otherwise, the member shall receive the life annuity under Section 6.01 of this Act.

SECTION 12. Section 6.07(e), Chapter 452 (SB 738), Acts of the 72nd Legislature, Regular Session, 1991 (Article 6243n-1,

Vernon's Texas Civil Statutes), is amended to read as follows:

(e) The first monthly annuity amount that would have been paid during the RETRO DROP benefit accumulation period is the amount defined by Subsection (c) of this section. ~~[Subsequent monthly annuity amounts that would have been paid during the RETRO DROP benefit accumulation period must include any cost-of-living increases or special ad hoc increases in annuity amounts granted in accordance with Sections 6.01(c) and (d) of this Act.]~~

SECTION 13. Section 7.02, Chapter 452 (SB 738), Acts of the 72nd Legislature, Regular Session, 1991 (Article 6243n-1, Vernon's Texas Civil Statutes), is amended by amending Subsection (a) and adding Subsection (a-1) to read as follows:

(a) On award of disability retirement benefits, the member shall receive a disability retirement benefit computed in the same manner that a service retirement benefit would be computed at the member's normal retirement date, based on average final compensation and creditable service at date of disability retirement without reduction for early retirement. If the disability is a direct or proximate result of the performance of the member's employment duties with the system or the city, then the disability retirement benefit will be subject to a minimum benefit determined in accordance with Section 6.01(a)(1) or (2) of this Act, as applicable, based on:

(1) average final compensation at date of disability retirement; and

(2) for:

(A) a group A member, 20 years of creditable service; or

(B) a group B member, 25 years of creditable service.

(a-1) The options allowed under this section are life annuity or its actuarial equivalent payable in the form described as Option I, Option II, Option III, Option IV, or Option V in Section 6.03 of this Act. The disability benefits paid to the member will be paid from Fund No. 1 until the amount received equals the member's accumulated deposits; thereafter the benefits will be paid from Fund No. 2.

SECTION 14. Article VIII, Chapter 452 (SB 738), Acts of the 72nd Legislature, Regular Session, 1991 (Article 6243n-1, Vernon's Texas Civil Statutes), is amended by amending Section 8.01 and adding Sections 8.02 through 8.13 to read as follows:

Sec. 8.01. MEMBER CONTRIBUTIONS [~~METHOD OF FINANCING~~]. (a) [~~(1)~~] Deposits by the members to the police retirement system shall be made at a rate of at least:

(1) 13 percent of the basic hourly earnings of the [~~each~~] member, for each pay period beginning before January 1, 2022; and

(2) 15 percent of the basic hourly earnings of the member, for each pay period beginning on or after January 1, 2022, unless a different member contribution rate is required in accordance with Section 8.04(b)(4) of this Act, as adjusted, if applicable, under Section 8.065 of this Act, except that the rate may not exceed 17 percent.

(a-1) Deposits required to be made by members under Subsection (a) of this section shall be deducted from payroll each pay period.

(a-2) On recommendation of the board, the Active--Contributory members may by a majority of those voting increase the rate of member deposits above the minimum rate of deposit established by Subsection (a) of this section [~~13 percent~~] to whatever amount the board has recommended. If the deposit rate for members has been increased to a rate above the rate established by Subsection (a) of this section in accordance with this subsection [~~13 percent~~], the rate may be decreased to a rate lower than the rate prescribed by Subsection (a)(2) of this section if the board recommends the decrease, the board's actuary approves the decrease, and a majority of the Active--Contributory members voting on the matter approve the decrease. If an increase in the member contribution rate is made solely as the result of an adjustment under Section 8.065 of this Act, that increase may not be decreased under this subsection.

Sec. 8.02. CITY CONTRIBUTIONS. (a) [~~(2)~~] The city shall contribute amounts equal to [~~18 percent of the basic hourly earnings of each member employed by the city for all periods on or~~

~~before September 30, 2010, subject to additional amounts as provided by Subdivision (3) of this subsection. The city shall contribute amounts equal to 19 percent of the basic hourly earnings of each member employed by the city for all periods after September 30, 2010, and before October 1, 2011, subject to additional amounts as provided by Subdivision (3) of this subsection. The city shall contribute amounts equal to 20 percent of the basic hourly earnings of each member employed by the city for all periods after September 30, 2011, and before October 1, 2012, subject to additional amounts as provided by Subdivision (3) of this subsection. The city shall contribute amounts equal to] 21 percent of the basic hourly earnings of each member employed by the city for all pay periods beginning after September 30, 2012, and before January 1, 2022, subject to additional amounts as provided by Section 8.07 of this Act [~~Subdivision (3) of this subsection~~]. For all pay periods beginning on or after January 1, 2022, the city shall make contributions to the police retirement system in accordance with Subsections (b) and (c) of this section and Sections 8.03, 8.04, 8.05, and 8.06 of this Act, as applicable, and subject to additional amounts as provided by Section 8.07 of this Act. The city council may also authorize the city to make additional contributions to the police retirement system in whatever amount the city council may determine. Contributions by the city shall be made each pay period.~~

(b) For each pay period that begins on or after January 1, 2022, and before January 1, 2023, the city shall contribute an amount equal to the sum of:

(1) the city contribution rate, as determined in the initial risk sharing valuation study conducted under Section 8.03 of this Act, multiplied by the pensionable payroll for the applicable pay period; and

(2) 1/26 of the city legacy contribution amount for the 2022 calendar year, as determined and adjusted in the initial risk sharing valuation study conducted under Section 8.03 of this Act.

(c) For each pay period that begins on or after January 1, 2023, the city shall contribute an amount equal to the sum of:

(1) the city contribution rate for the applicable

calendar year, as determined in a subsequent risk sharing valuation study conducted under Section 8.04 of this Act and adjusted under Section 8.05 or 8.06 of this Act, as applicable, multiplied by the pensionable payroll for the applicable pay period; and

(2) 1/26 of the city legacy contribution amount for the applicable calendar year, as determined and adjusted in the initial risk sharing valuation study conducted under Section 8.03 of this Act.

Sec. 8.03. INITIAL RISK SHARING VALUATION STUDY. (a) The police retirement system shall cause the system's actuary to prepare an initial risk sharing valuation study that is dated as of December 31, 2020, in accordance with this section.

(b) The initial risk sharing valuation study must:

(1) except as otherwise provided by this section, be prepared in accordance with the requirements of Section 8.04 of this Act;

(2) be based on the actuarial assumptions that were used by the system's actuary in the valuation completed for the year ended December 31, 2020;

(3) project the corridor midpoint for the next 30 calendar years beginning with the calendar year that begins on January 1, 2022; and

(4) include a schedule of city legacy contribution amounts for 30 calendar years beginning with the calendar year that begins on January 1, 2022.

(c) For purposes of Subsection (b)(4) of this section, the schedule of city legacy contribution amounts must be determined in such a manner that the total annual city legacy contribution amount for the first three calendar years will result in a phase-in of the anticipated increase in the city's contribution rate from the calendar year that begins on January 1, 2021, in accordance with Subsection (a) of this section, to the rate equal to the sum of the estimated contribution rate for the calendar year that begins on January 1, 2022, and the rate of pensionable payroll equal to the city legacy contribution amount for January 1, 2022, determined as if there was no phase-in of the increase to the city legacy contribution amount. The phase-in must reflect approximately

one-third of the increase each year over the three-year phase-in period. The city's contribution under Section 8.02 of this Act for:

(1) the calendar years that begin on January 1, 2022, January 1, 2023, and January 1, 2024, must be adjusted to reflect the impact of the phase-in prescribed by this section; and

(2) each calendar year that begins on January 1, 2025, through January 1, 2051, must reflect a city legacy contribution amount that is three percent greater than the city legacy contribution amount for the preceding calendar year.

(d) The estimated city contribution rate for the calendar year that begins on January 1, 2022, must be based on the projected pensionable payroll, as determined under the initial risk sharing valuation study required by this section, assuming a payroll growth rate of three percent.

Sec. 8.04. SUBSEQUENT RISK SHARING VALUATION STUDIES. (a) For each calendar year beginning after December 31, 2020, the police retirement system shall cause the system's actuary to prepare a risk sharing valuation study in accordance with this section and actuarial standards of practice.

(b) Each risk sharing valuation study must:

(1) be dated as of the last day of the calendar year for which the study is required to be prepared;

(2) calculate the unfunded actuarial accrued liability of the system as of the last day of the applicable calendar year, including the liability layer, if any, associated with the most recently completed calendar year;

(3) calculate the estimated city contribution rate for the following calendar year;

(4) determine the city contribution rate and the member contribution rate for the following calendar year, taking into account any adjustments required under Section 8.05, 8.06, or 8.065 of this Act, as applicable; and

(5) except as provided by Subsection (d) of this section, be based on the assumptions and methods adopted by the board in accordance with Section 3.091 of this Act, if applicable, and that are consistent with actuarial standards of practice and the following principles:

(A) closed layered amortization of liability layers to ensure that the amortization period for each liability layer begins 12 months after the date of the risk sharing valuation study in which the liability layer is first recognized;

(B) each liability layer is assigned an amortization period;

(C) each liability loss layer will be amortized over a period of 30 years from the first day of the calendar year beginning 12 months after the date of the risk sharing valuation study in which the liability loss layer is first recognized, except that the legacy liability must be amortized over a 30-year period beginning January 1, 2022;

(D) each liability gain layer will be amortized over:

(i) a period equal to the remaining amortization period on the largest remaining liability loss layer, and the two layers must be treated as one layer such that if the payoff year of the liability loss layer is accelerated or extended, the payoff year of the liability gain layer is also accelerated or extended; or

(ii) if there is no liability loss layer, a period of 30 years from the first day of the calendar year beginning 12 months after the date of the risk sharing valuation study in which the liability gain layer is first recognized;

(E) liability layers will be funded according to the level percent of payroll method;

(F) payroll for purposes of determining the corridor midpoint, city contribution rate, and city legacy contribution amount must be projected using the annual payroll growth rate assumption adopted by the board; and

(G) the city contribution rate will be calculated each calendar year without inclusion of the legacy liability.

(c) The city and the board may agree on a written transition plan for resetting the corridor midpoint:

(1) if at any time the funded ratio of the system is equal to or greater than 100 percent; or

(2) for any calendar year after the payoff year of the

legacy liability.

(d) Subject to Section 3.091 of this Act, the board may by rule adopt actuarial principles other than those required under Subsection (b)(5) of this section, provided the actuarial principles:

(1) are consistent with actuarial standards of practice;

(2) are approved by the system's actuary; and

(3) do not operate to change the city legacy contribution amount.

Sec. 8.05. ADJUSTMENT TO CITY CONTRIBUTION RATE IF LOWER THAN CORRIDOR MIDPOINT. (a) This section governs the determination of the city contribution rate applicable in a calendar year under Section 8.04(b)(4) of this Act if the estimated city contribution rate determined under Section 8.04(b)(3) of this Act is lower than the corridor midpoint.

(b) If the estimated city contribution rate is lower than the corridor midpoint and the funded ratio is:

(1) less than 90 percent, the city contribution rate for the applicable year equals the corridor midpoint; or

(2) equal to or greater than 90 percent and the city contribution rate is:

(A) equal to or greater than the minimum city contribution rate, the estimated city contribution rate is the city contribution rate for the calendar year; or

(B) less than the minimum city contribution rate for the corresponding calendar year, the city contribution rate for the calendar year equals the minimum city contribution rate.

(c) If the funded ratio is equal to or greater than 100 percent:

(1) all existing liability layers, including the legacy liability, are considered fully amortized and paid; and

(2) the city legacy contribution amount may no longer be included in the city contribution under Section 8.02 of this Act.

Sec. 8.06. ADJUSTMENT TO CITY CONTRIBUTION RATE IF EQUAL TO OR GREATER THAN CORRIDOR MIDPOINT. (a) This section governs the determination of the city contribution rate applicable in a

calendar year under Section 8.04(b)(4) of this Act if the estimated city contribution rate determined under Section 8.04(b)(3) of this Act is equal to or greater than the corridor midpoint.

(b) If the estimated city contribution rate is equal to or greater than the corridor midpoint and:

(1) less than or equal to the maximum city contribution rate for the corresponding calendar year, the estimated city contribution rate is the city contribution rate; or

(2) greater than the maximum city contribution rate for the corresponding calendar year, the city contribution rate is the maximum city contribution rate.

Sec. 8.065. INCREASED MEMBER CONTRIBUTION RATE IF ESTIMATED CITY CONTRIBUTION RATE GREATER THAN MAXIMUM CITY CONTRIBUTION RATE.

(a) This section governs the determination of the member contribution rate applicable in a calendar year under Section 8.04(b)(4) of this Act if the estimated city contribution rate determined under Section 8.04(b)(3) of this Act is greater than the maximum city contribution rate.

(b) Except as provided by Subsection (c) of this section, if the estimated city contribution rate is greater than the corridor maximum, the member contribution rate will increase by an amount equal to the difference between the following:

(1) the estimated city contribution rate; and

(2) the maximum city contribution rate.

(c) The member contribution rate may not be increased by more than two percentage points under this section.

(d) If the estimated city contribution rate is more than two percent of pensionable payroll greater than the maximum city contribution rate, the city and the board shall enter into discussions to determine additional funding solutions.

Sec. 8.07. ADDITIONAL CITY CONTRIBUTIONS FOR PROPORTIONATE RETIREMENT PROGRAM PARTICIPATION. (a) [~~3~~]

The city shall contribute amounts in addition to the amounts described by Section 8.02 of this Act [~~Subdivision (2) of this subsection~~] as required by Section 803.101(h), Government Code, to fund the additional liabilities incurred by the police retirement system as a result of participating in the proportionate retirement program. The rate at

which the city shall contribute additional amounts under this section [~~subdivision~~] is equal to 0.737 [~~0.25~~] percent of the basic hourly earnings of each member employed by the city for all pay periods commencing on or after October 1, 2020, subject to adjustment under Subsection (b) of this section [~~from January 4, 2009, through September 30, 2009. The rate at which the city shall contribute additional amounts under this subdivision is equal to 0.63 percent of the basic hourly earnings of each member employed by the city for all periods after September 30, 2009, subject to adjustment under Subdivision (4) of this subsection~~].

(b) [~~(4)~~] The additional contribution rate under Subsection (a) of this section [~~Subdivision (3) of this subsection~~] shall increase or decrease as considered necessary by the actuary for the police retirement system after each five-year period of participation by the system in the proportionate retirement program in order to update the amount necessary to fund the additional liabilities incurred by the system as a result of participating in the proportionate retirement program and of the consolidation of the city's public safety and emergency management department with the police department on January 4, 2009. The system's actuary shall perform an experience study that shall be the basis for a contribution rate adjustment under this subsection [~~subdivision~~]. The effective date of the initial contribution rate adjustment under this subsection [~~subdivision~~] is October 1, 2015. Each later contribution rate adjustment under this subsection [~~subdivision~~] takes effect October 1 of every fifth year after the effective date of the initial contribution rate adjustment. The system's actuary shall present to the police retirement board the experience study on which any contribution rate adjustment under this subsection [~~subdivision~~] is based not later than 45 days before the effective date of the adjustment, and the city's actuary shall have the opportunity to review and comment on the study. An adjustment in the additional contribution rate under this subsection [~~subdivision~~] may not cause the additional contribution rate under Subsection (a) of this section [~~Subdivision (3) of this subsection~~] to be less than zero.

Sec. 8.08. PUBLICATION OF CHANGES TO CONTRIBUTION RATES.

~~[(b)]~~ Any change of the rates of deposit and the rates of contribution shall be published when approved by the board.

Sec. 8.09. EXPENSES. (a) ~~[(c) Contributions by the city shall be paid to the system after appropriation by the city council.~~

~~[(d)]~~ Expenses involved in administration and operation of the police retirement system shall be paid from the assets of the police retirement system subject to approval by the board. Such expenses shall include actuarial valuations of the system no less frequently than on a biennial basis, annual audits and/or actuarial studies, preparation of annual reports, and staff assistance. Additional consulting may be authorized by the board and paid for from the assets of the police retirement system as deemed necessary from time to time by the board.

(b) ~~[(e)]~~ Expenses incurred from investment advice, counsel, and management shall be paid from the assets of the police retirement system.

Sec. 8.10. PAYMENT OF CONTRIBUTIONS. (a) Contributions by the city shall be paid to the system after appropriation by the city council.

(b) ~~[(f)]~~ The city shall make the police officer contributions to the system required by Section 8.02 of this Act ~~[Subsection (a) of this section]~~.

(c) The system shall make the administrative staff's contributions to the system.

(d) Member contributions will be made by a reduction in their monetary compensation. Contributions made shall be treated as employer contributions in accordance with Section 414(h)(2), Internal Revenue Code (26 U.S.C. Section 414(h)(2)), for the purpose of determining tax treatment of the amounts under the federal Internal Revenue Code. These contributions are not includible in the gross income of the member until such time as they are distributed or made available to the member.

(e) Member contributions made as provided by Subsection (d) of this section ~~[subsection]~~ shall be deposited to the individual account of each affected member and shall be treated as compensation of members for all other purposes of this Act and for the purpose of determining contributions to the federal Old-Age,

Survivors, and Disability Insurance System (Social Security). The provisions of this subsection shall remain in effect as long as the plan covering members is a qualified retirement plan under Section 401(a), Internal Revenue Code (26 U.S.C. Section 401(a)), and its related trust is tax exempt under Section 501(a), Internal Revenue Code (26 U.S.C. Section 501(a)).

Sec. 8.11. EFFECT OF SYSTEM TERMINATION ON CONTRIBUTIONS.

~~[(g)]~~ If the police retirement system is terminated, further contributions may not be made by the city or the system, and further deposits may not be made by the members for service after the date of termination. Members do not accrue any additional benefits after the date of termination. The benefit accrued by each member on the termination of the plan or the complete discontinuance of contributions under the plan and the benefit of any affected member on the partial termination of the plan, to the extent funded, become nonforfeitable notwithstanding the length of a member's service. The benefit accrued by a member also becomes nonforfeitable, if not already nonforfeitable, at the normal retirement date.

Sec. 8.12. EFFECT OF FORFEITURE. ~~[(h)]~~

A forfeiture from a member terminating employment and withdrawing the member's accumulated deposits may not be applied to increase the benefit that any other member would receive from the system. The actuary shall anticipate the effect of forfeitures in determining the costs under the system.

Sec. 8.13. SYSTEM ASSETS. ~~[(i)]~~

The assets of the police retirement system shall be held in trust for the exclusive benefit of the members and their beneficiaries. The corpus or income may not be used for or diverted to a purpose other than the exclusive benefit of members or their beneficiaries, whether by operation or natural termination of the system, by power of revocation or amendment, by the happening of a contingency, by collateral arrangement, or by other means.

SECTION 15. Section 13.02, Chapter 452 (SB 738), Acts of the 72nd Legislature, Regular Session, 1991 (Article 6243n-1, Vernon's Texas Civil Statutes), is amended to read as follows:

Sec. 13.02. MANDATORY DISTRIBUTIONS PROHIBITED. A member or former member who has separated from service may not be required

to receive an eligible rollover distribution, as defined in Section 13.01(b)(1) of this Act, without the member's consent unless the member or former member has attained the applicable age for minimum distributions required under Section 401(a)(9) of the Internal Revenue Code of 1986 (26 U.S.C. Section 401(a)(9)) [~~is at least 70-1/2 years of age~~].

SECTION 16. The following provisions of Chapter 452 (SB 738), Acts of the 72nd Legislature, Regular Session, 1991 (Article 6243n-1, Vernon's Texas Civil Statutes), are repealed:

- (1) Section 5.04(b);
- (2) Sections 6.01(c), (d), and (e);
- (3) Section 6.02(b); and
- (4) Section 7.02(b).

SECTION 17. (a) In this section, "police retirement board" has the meaning assigned by Section 1.02, Chapter 452 (SB 738), Acts of the 72nd Legislature, Regular Session, 1991 (Article 6243n-1, Vernon's Texas Civil Statutes).

(b) Section 3.02, Chapter 452 (SB 738), Acts of the 72nd Legislature, Regular Session, 1991 (Article 6243n-1, Vernon's Texas Civil Statutes), does not affect the term of a member of the police retirement board appointed or elected under that section, as that section existed immediately before the effective date of this Act, and serving on the board on the effective date of this Act.

(c) When the terms of:

(1) the two members of the police retirement board elected under Section 3.02(a)(4), Chapter 452 (SB 738), Acts of the 72nd Legislature, Regular Session, 1991 (Article 6243n-1, Vernon's Texas Civil Statutes), as that section existed immediately before the effective date of this Act, who have terms that expire in December 2021, expire:

(A) one of the resulting vacancies on the board shall be filled by appointment by the city council in accordance with Section 3.02(a)(6), Chapter 452 (SB 738), Acts of the 72nd Legislature, Regular Session, 1991 (Article 6243n-1, Vernon's Texas Civil Statutes), as amended by this Act; and

(B) the other resulting vacancy shall be filled by election of the members in accordance with Sections 3.02(a)(4)

and 3.03, Chapter 452 (SB 738), Acts of the 72nd Legislature, Regular Session, 1991 (Article 6243n-1, Vernon's Texas Civil Statutes), as applicable; and

(2) the three members of the police retirement board elected under Section 3.02(a)(4), Chapter 452 (SB 738), Acts of the 72nd Legislature, Regular Session, 1991 (Article 6243n-1, Vernon's Texas Civil Statutes), as that section existed immediately before the effective date of this Act, who have terms that expire in December 2023, expire, the resulting vacancies on the board shall be filled by an election of the members in accordance with that section and Section 3.03, Chapter 452 (SB 738), Acts of the 72nd Legislature, Regular Session, 1991 (Article 6243n-1, Vernon's Texas Civil Statutes), as applicable, except that the member receiving the third highest number of votes in that election shall serve for a term of only two years with the member's term expiring in December 2025.

SECTION 18. This Act takes effect September 1, 2021.