

By: Anchia

H.B. No. 3898

A BILL TO BE ENTITLED

AN ACT

relating to the funding of public retirement systems.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Section 802.2011, Government Code, is amended to read as follows:

Sec. 802.2011. FUNDING POLICY. (a) In this section:

(1) "Funded ratio" means the ratio of a public retirement system's actuarial value of assets divided by the system's actuarial accrued liability.

(2) "Governmental entity" has the meaning assigned by Section 802.1012.

(3) "Statewide retirement system" means:

(A) the Employees Retirement System of Texas, including a retirement system administered by that system;

(B) the Teacher Retirement System of Texas;

(C) the Texas County and District Retirement System;

(D) the Texas Emergency Services Retirement System; and

(E) the Texas Municipal Retirement System.

(b) The governing body of a public retirement system and, if the system is not a statewide retirement system, its associated governmental entity shall:

(1) jointly, if applicable:

1 (A) develop and adopt a written funding policy
2 that details a [~~the governing body's~~] plan for achieving a funded
3 ratio of the system that is equal to or greater than 100 percent;
4 and

5 (B) timely revise the policy to reflect any
6 significant changes to the policy, including changes required as a
7 result of formulating and implementing a funding soundness
8 restoration plan, including a revised funding soundness
9 restoration plan, under Section 802.2015 or 802.2016;

10 (2) maintain for public review at its main office a
11 copy of the policy;

12 (3) file a copy of the policy and each change to the
13 policy with the board not later than the 31st day after the date the
14 policy or change, as applicable, is adopted; and

15 (4) submit a copy of the policy and each change to the
16 policy to each active member and annuitant of the system [~~system's~~
17 ~~associated governmental entity~~] not later than the 31st day after
18 the date the policy or change is adopted.

19 (c) For purposes of Subsection (b)(1)(B), the written
20 funding policy must outline any automatic contribution or benefit
21 changes designed to prevent having to formulate a revised funding
22 soundness restoration plan under Section 802.2015(d), including
23 any automatic risk-sharing mechanisms that have been implemented,
24 the adoption of an actuarially determined contribution structure,
25 and other adjustable benefit or contribution mechanisms.

26 (d) The board may adopt rules necessary to implement this
27 section.

1 SECTION 2. Section [802.2015](#), Government Code, is amended by
2 amending Subsections (a), (c), (d), (e), (f), and (g), and adding
3 Subsections (d-1), (e-1), (e-2), (e-3), (e-4), and (h) to read as
4 follows:

5 (a) In this section:

6 (1) "Funded ratio" has the meaning assigned by Section
7 [802.2011](#).

8 (2) "Governmental [,"governmental] entity" has the
9 meaning assigned by Section [802.1012](#).

10 (c) A public retirement system shall notify the associated
11 governmental entity in writing if the [~~retirement~~] system receives
12 an actuarial valuation indicating that the system's actual
13 contributions are not sufficient to fully fund [~~amortize~~] the
14 unfunded actuarial accrued liability within 30 [~~40~~] years. The [~~If~~
15 ~~a public retirement system's actuarial valuation shows that the~~
16 ~~system's amortization period has exceeded 40 years for three~~
17 ~~consecutive annual actuarial valuations, or two consecutive~~
18 ~~actuarial valuations in the case of a system that conducts the~~
19 ~~valuations every two or three years, the] governing body of the
20 public retirement system and the governing body of the associated
21 governmental entity shall jointly formulate a funding soundness
22 restoration plan under Subsection (e) if the system's actuarial
23 valuation shows that the system's expected funding period:~~

24 (1) has exceeded 30 years for three consecutive annual
25 actuarial valuations, or two consecutive annual actuarial
26 valuations in the case of a system that conducts the valuations
27 every two or three years; or

1 (2) effective September 1, 2025:

2 (A) exceeds 40 years; or

3 (B) exceeds 30 years and the funded ratio of the
4 system is less than 65 percent [~~in accordance with the system's~~
5 ~~governing statute~~].

6 (d) Except as provided by Subsection (d-1), the [~~The~~
7 governing body of a public retirement system and the governing body
8 of the associated governmental entity that have an existing
9 [~~formulated a~~] funding soundness restoration plan under Subsection
10 (e) shall formulate a revised funding soundness restoration plan
11 under Subsection (e-1) [~~that subsection, in accordance with the~~
12 ~~system's governing statute,~~] if the system becomes subject to
13 Subsection (c) before the 10th anniversary of the date prescribed
14 by Subsection (e)(2)(A) or (B), as applicable [~~conducts an~~
15 ~~actuarial valuation showing that:~~

16 ~~[(1) the system's amortization period exceeds 40 years;~~
17 ~~and~~

18 ~~[(2) the previously formulated funding soundness~~
19 ~~restoration plan has not been adhered to].~~

20 (d-1) The governing body of a public retirement system and
21 the associated governmental entity are not subject to Subsection
22 (d) if:

23 (1) the system's actuarial valuation shows that the
24 system's expected funding period exceeds 30 years but is less than
25 or equal to 40 years;

26 (2) the system is implementing a contribution rate
27 structure that uses or will ultimately use an actuarially

1 determined contribution structure; and

2 (3) the actuarial valuation shows that the system is
3 expected to achieve full funding.

4 (e) A funding soundness restoration plan formulated under
5 this section must:

6 (1) be developed by the public retirement system and
7 the associated governmental entity in accordance with the system's
8 governing statute; ~~and~~

9 (2) be designed to achieve a contribution rate that
10 will be sufficient to fully fund ~~amortize~~ the unfunded actuarial
11 accrued liability within 30 ~~40~~ years not later than the later of:

12 (A) the second ~~10th~~ anniversary of the
13 valuation date stated in the actuarial valuation that required
14 formulation of the plan under this subsection; or

15 (B) September 1, 2025;

16 (3) be based on actions agreed to be taken by the
17 system and entity that were approved by the respective governing
18 bodies of both the system and the entity before the plan was
19 adopted;

20 (4) contain an aggregate analysis showing the combined
21 anticipated impact of all changes agreed to be made under a funding
22 soundness restoration plan; and

23 (5) be adopted at open meetings of the respective
24 governing bodies of the system and the entity not later than the
25 second anniversary of the date of the actuarial valuation that
26 required application of this subsection ~~[on which the final version~~
27 ~~of a funding soundness restoration plan is agreed to].~~

1 (e-1) A revised funding soundness restoration plan
2 formulated under this section must:

3 (1) be developed by the public retirement system and
4 the associated governmental entity in accordance with the system's
5 governing statute;

6 (2) be designed to achieve a contribution rate that
7 will be sufficient to fully fund the unfunded actuarial accrued
8 liability within 25 years not later than the second anniversary of
9 the valuation date stated in the actuarial valuation that required
10 formulation of a revised plan under this subsection;

11 (3) be based on actions agreed to be taken by the
12 system and entity that were approved by the respective governing
13 bodies of both the system and the entity before the plan was
14 adopted;

15 (4) contain an aggregate analysis showing the combined
16 anticipated impact of all changes agreed to be made under a funding
17 soundness restoration plan; and

18 (5) be adopted at open meetings by the respective
19 governing bodies of the system and the entity not later than the
20 second anniversary of the date of the actuarial valuation that
21 required application of this subsection.

22 (e-2) The aggregate analysis required under Subsections
23 (e)(4) and (e-1)(4) must include:

24 (1) an actuarial projection of the public retirement
25 system's expected future assets and liabilities between the
26 valuation date described by Subsection (e)(2)(A) or (e-1)(2), as
27 applicable, and the date at which the plan is expected to achieve

1 full funding; and

2 (2) a description of all assumptions used to perform
3 the analysis which must comply with actuarial standards of
4 practice.

5 (e-3) The associated governmental entity may pay all or part
6 of the costs of the aggregate analysis required under Subsection
7 (e)(4) or (e-1)(4), as applicable. The public retirement system
8 shall pay any costs for the analysis not paid by the associated
9 governmental entity.

10 (e-4) A funding soundness restoration plan adopted under
11 this section, including a revised funding soundness restoration
12 plan adopted under Subsection (e-1), may not include actions that
13 are subject to future approval by the governing bodies of either the
14 public retirement system or the associated governmental entity.

15 (f) A public retirement system and the associated
16 governmental entity required to ~~[that]~~ formulate a funding
17 soundness restoration plan under this section, including a revised
18 funding soundness restoration plan, shall provide a report to the
19 board on ~~[any updates of]~~ progress made by the system and entity in
20 formulating the plan, including a draft of any plan and a
21 description of any changes under consideration for inclusion in a
22 plan, not later than the first anniversary of the date of the
23 actuarial valuation that required formulation of the plan under
24 Subsection (e) or (e-1) and each subsequent six-month period until
25 the plan is submitted to the board under this section ~~[entities~~
26 ~~toward improved actuarial soundness to the board every two years]~~.

27 (g) Each public retirement system that formulates a funding

1 soundness restoration plan as provided by this section shall submit
2 a copy of that plan to the board [~~and any change to the plan~~] not
3 later than the 31st day after the date on which the plan is adopted
4 by both the governing body of the system and the governing body of
5 the associated governmental entity [~~or the change is agreed to~~].

6 (h) The board may adopt rules necessary to implement this
7 section.

8 SECTION 3. Section [802.2016](#), Government Code, is amended to
9 read as follows:

10 Sec. 802.2016. FUNDING SOUNDNESS RESTORATION PLAN FOR
11 CERTAIN PUBLIC RETIREMENT SYSTEMS. (a) In this section:

12 (1) "Funded ratio" has the meaning assigned by Section
13 [802.2011](#).

14 (2) "Governmental [~~, "governmental~~] entity" has the
15 meaning assigned by Section [802.1012](#).

16 (b) This section applies only to a public retirement system
17 that is governed by Article 6243i, Revised Statutes, and its
18 associated governmental entity.

19 (c) A public retirement system shall notify the associated
20 governmental entity in writing if the [~~retirement~~] system receives
21 an actuarial valuation indicating that the system's actual
22 contributions are not sufficient to fully fund [~~amortize~~] the
23 unfunded actuarial accrued liability within 30 [~~40~~] years. The
24 governing body of [~~If a public retirement system's actuarial~~
25 ~~valuation shows that the system's amortization period has exceeded~~
26 ~~40 years for three consecutive annual actuarial valuations, or two~~
27 ~~consecutive actuarial valuations in the case of a system that~~

1 ~~conducts the valuations every two or three years,~~] the associated
2 governmental entity shall formulate a funding soundness
3 restoration plan under Subsection (e) if the system's actuarial
4 valuation shows that the system's expected funding period:

5 (1) has exceeded 30 years for three consecutive annual
6 actuarial valuations, or two consecutive annual actuarial
7 valuations in the case of a system that conducts the valuations
8 every two or three years; or

9 (2) effective September 1, 2025:

10 (A) exceeds 40 years; or

11 (B) exceeds 30 years and the funded ratio of the
12 system is less than 65 percent ~~[in accordance with the public~~
13 ~~retirement system's governing statute].~~

14 (d) Except as provided by Subsection (d-1), the governing
15 body of an ~~[An]~~ associated governmental entity that has an existing
16 ~~[formulated a]~~ funding soundness restoration plan under Subsection
17 (e) shall formulate a revised funding soundness restoration plan
18 under Subsection (e-1) ~~[that subsection, in accordance with the~~
19 ~~public retirement system's governing statute,~~] if the system
20 becomes subject to Subsection (c) before the 10th anniversary of
21 the date prescribed by Subsection (e)(2)(A) or (B), as applicable
22 ~~[conducts an actuarial valuation showing that:~~

23 ~~[(1) the system's amortization period exceeds 40 years,~~
24 ~~and~~

25 ~~[(2) the previously formulated funding soundness~~
26 ~~restoration plan has not been adhered to].~~

27 (d-1) The associated governmental entity is not subject to

1 Subsection (d) if:

2 (1) the system's actuarial valuation shows that the
3 system's expected funding period exceeds 30 years but is less than
4 or equal to 40 years;

5 (2) the system is implementing a contribution rate
6 structure that uses or will ultimately use an actuarially
7 determined contribution structure; and

8 (3) the actuarial valuation shows that the system is
9 expected to achieve full funding.

10 (e) A funding soundness restoration plan formulated under
11 this section must:

12 (1) be developed in accordance with the public
13 retirement system's governing statute by the associated
14 governmental entity; ~~and~~

15 (2) be designed to achieve a contribution rate that
16 will be sufficient to fully fund ~~amortize~~ the unfunded actuarial
17 accrued liability within 30 ~~40~~ years not later than the later of:

18 (A) the second ~~10th~~ anniversary of the
19 valuation date stated in the actuarial valuation that required
20 formulation of the plan under this subsection; or

21 (B) September 1, 2025;

22 (3) be based on actions agreed to be taken by the
23 system and entity that were approved by the governing body of the
24 associated governmental entity before the plan was adopted;

25 (4) contain an aggregate analysis showing the combined
26 anticipated impact of all changes agreed to be made under a funding
27 soundness restoration plan; and

1 (5) be adopted at an open meeting of the governing body
2 of the associated governmental entity not later than the second
3 anniversary of the date of the actuarial valuation that required
4 application of this subsection [~~on which the final version of a~~
5 ~~funding soundness restoration plan is formulated~~].

6 (e-1) A revised funding soundness restoration plan
7 formulated under this section must:

8 (1) be developed by the associated governmental
9 entity in accordance with the system's governing statute;

10 (2) be designed to achieve a contribution rate that
11 will be sufficient to fully fund the unfunded actuarial accrued
12 liability within 25 years not later than the second anniversary of
13 the valuation date stated in the actuarial valuation that required
14 formulation of a revised plan under this subsection;

15 (3) be based on actions agreed to be taken by the
16 system and entity that were approved by the governing body of the
17 associated governmental entity before the plan was adopted;

18 (4) contain an aggregate analysis showing the combined
19 anticipated impact of all changes agreed to be made under a funding
20 soundness restoration plan; and

21 (5) be adopted at an open meeting of the governing body
22 of the associated governmental entity not later than the second
23 anniversary of the date of the actuarial valuation that required
24 application of this subsection.

25 (e-2) The aggregate analysis required under Subsections
26 (e)(4) and (e-1)(4) must include:

27 (1) an actuarial projection of the public retirement

1 system's expected future assets and liabilities between the
2 valuation date described by Subsection (e)(2)(A) or (e-1)(2), as
3 applicable, and the date at which the plan is expected to achieve
4 full funding; and

5 (2) a description of all assumptions used to perform
6 the analysis which must comply with actuarial standards of
7 practice.

8 (e-3) The associated governmental entity may pay all or part
9 of the costs of the aggregate analysis required under Subsection
10 (e)(4) or (e-1)(4), as applicable. The public retirement system
11 shall pay any costs for the analysis not paid by the associated
12 governmental entity.

13 (e-4) A funding soundness restoration plan adopted under
14 this section, including a revised funding soundness restoration
15 plan adopted under Subsection (e-1), may not include actions that
16 are subject to future approval by the governing body of the
17 associated governmental entity.

18 (f) An associated governmental entity required to formulate
19 [that formulates] a funding soundness restoration plan under this
20 section, including a revised funding soundness restoration plan,
21 shall provide a report to the board on [any updates of] progress
22 made by the [public retirement system and] associated governmental
23 entity in formulating the plan, including a draft of any plan and a
24 description of any changes under consideration for inclusion in a
25 plan, not later than the first anniversary of the date of the
26 actuarial valuation that required formulation of the plan under
27 Subsection (e) or (e-1) and each subsequent six-month period until

1 the plan is submitted to the board under this section [~~toward~~
2 ~~improved actuarial soundness to the board every two years~~].

3 (g) An associated governmental entity that formulates a
4 funding soundness restoration plan as provided by this section
5 shall submit a copy of that plan to the board [~~and any change to the~~
6 ~~plan~~] not later than the 31st day after the date on which the plan is
7 adopted by the governing body of the associated governmental entity
8 [~~or the change is formulated~~].

9 (h) The board may adopt rules necessary to implement this
10 section.

11 SECTION 4. The changes in law made by this Act apply to a
12 funding soundness restoration plan that is formulated or revised
13 under Section [802.2015](#) or [802.2016](#), Government Code, as applicable,
14 on or after the effective date of this Act.

15 SECTION 5. This Act takes effect September 1, 2021.