SENATE AMENDMENTS

2nd Printing

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 28(h), Texas Local Fire Fighters Retirement Act (Article 6243e, Vernon's Texas Civil Statutes), is amended to read as follows:

(h) A retirement system established under this Act is exempt from Subchapter C, Chapter 802, Government Code, except Sections 802.2011, 802.2015, 802.202, 802.205, and 802.207.

SECTION 2. 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:

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

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

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

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

(4) post [~~submit~~] a copy of the most recent edition of the policy on a publicly available Internet website in accordance with Section 802.107(c)(2) [~~and each change to the policy to the system's associated governmental entity not later than the 31st day after the date the policy or change is adopted~~].

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

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

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

(a) In this section:

(1) "Funded ratio" has the meaning assigned by Section 802.2011.

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

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

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

(2) effective September 1, 2025:

(A) exceeds 40 years; or

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

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

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

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

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

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

(2) the system is:

(A) adhering to an existing funding soundness restoration plan that was formulated before September 1, 2025; or

(B) implementing a contribution rate structure that uses or will ultimately use an actuarially determined contribution structure and the system's actuarial valuation shows that the system is expected to achieve full funding.

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

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

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

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

(B) September 1, 2025;

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

adopted; and

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

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

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

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

(3) be based on actions, including automatic risk-sharing mechanisms, an actuarially determined contribution structure, and other adjustable benefit or contribution mechanisms, agreed to be taken by the system and entity that were approved by the respective governing bodies of both the system and the entity before the plan was adopted; and

(4) be adopted at open meetings by the respective governing bodies of the system and the entity not later than the second anniversary of the date the actuarial valuation that required application of this subsection was adopted by the

governing body of the system.

(e-2) Not later than the 90th day after the date on which the plan is adopted by both the governing body of the system and the governing body of the associated governmental entity, a system may submit to the board an actuarial valuation required under Section 802.101(a) or other law that shows the combined impact of all changes to a funding soundness restoration plan adopted under this section, including a revised funding soundness restoration plan adopted under Subsection (e-1). If a system does not provide an actuarial valuation to the board in accordance with this subsection, the board may request that the system provide a separate analysis of the combined impact of all changes to a funding soundness restoration plan adopted under this section not later than the 90th day after the date the board makes the request. An actuarial valuation or separate analysis conducted under this subsection must include:

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

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

(e-3) The associated governmental entity may pay all or part of the costs of the separate analysis required under Subsection (e-2). The public retirement system shall pay any costs for the analysis not paid by the associated governmental entity.

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

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

(g) Each public retirement system that formulates a funding soundness restoration plan as provided by this section shall submit a copy of that plan to the board [~~and any change to the plan~~] not later than the 31st day after the date on which the plan is adopted by both the governing body of the system and the governing body of the associated governmental entity [~~or the change is agreed to~~].

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

SECTION 4. Section 802.2016, Government Code, is amended to read as follows:

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

(1) "Funded ratio" has the meaning assigned by Section 802.2011.

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

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

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

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

(2) effective September 1, 2025:

(A) exceeds 40 years; or

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

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

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

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

(d-1) The associated governmental entity is not subject to Subsection (d) if:

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

(2) the system is:

(A) adhering to an existing funding soundness restoration plan that was formulated before September 1, 2025; or

(B) implementing a contribution rate structure that uses or will ultimately use an actuarially determined contribution structure and the system's actuarial valuation shows that the system is expected to achieve full funding.

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

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

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

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

(B) September 1, 2025;

(3) be based on actions, including automatic risk-sharing mechanisms, an actuarially determined contribution structure, and other adjustable benefit or contribution mechanisms, agreed to be taken by the system and entity that were approved by the governing body of the associated governmental entity before the plan was adopted; and

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

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

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

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

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

(4) be adopted at an open meeting of the governing body of the associated governmental entity not later than the second anniversary of the date the actuarial valuation that required application of this subsection was adopted by the governing body of the system.

(e-2) Not later than the 90th day after the date on which the plan is adopted by the governing body of the associated governmental entity, a system may submit to the board an actuarial valuation required under Section 802.101(a) or other law that shows the combined impact of all changes to a funding soundness restoration plan adopted under this section, including a revised funding soundness restoration plan adopted under Subsection (e-1). If a system does not provide an actuarial valuation to the board in accordance with this subsection, the board may request that the system provide a separate analysis of the combined impact of all changes to a funding soundness restoration plan adopted under this section not later than the 90th day after the date the board makes the request. An actuarial valuation or the separate analysis conducted under this subsection must include:

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

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

(e-3) The associated governmental entity may pay all or part of the costs of the separate analysis required under Subsection (e-2). The public retirement system shall pay any costs for the analysis not paid by the associated governmental entity.

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

(f) An associated governmental entity required to formulate [~~that formulates~~] a funding soundness restoration plan under this section, including a revised funding soundness restoration plan, shall provide a report to the board on [~~any updates of~~] progress made by the [~~public retirement system and~~] associated governmental entity in formulating the plan, including a draft of any plan and a

<u>description of any changes under consideration for inclusion in a plan, not later than the first anniversary of the date of the actuarial valuation that required formulation of the plan under Subsection (e) or (e-1) and each subsequent six-month period until the plan is submitted to the board under this section</u> [~~toward improved actuarial soundness to the board every two years~~].

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

<u>(h) The board may adopt rules necessary to implement this section.</u>

SECTION 5. The changes in law made by this Act apply to a funding soundness restoration plan that is formulated or revised under Section 802.2015 or 802.2016, Government Code, as applicable, on or after the effective date of this Act. A funding soundness restoration plan formulated or revised before the effective date of this Act other than a plan that is subject to Section 802.2015(d-1) or Section 802.2016(d-1), Government Code, as added by this Act, is governed by the law as it existed immediately before that date, and the former law is continued in effect for that purpose, except if:

(1) the public retirement system and its associated governmental entity are required to formulate a revised funding soundness restoration plan under Section 802.2015(d), Government Code, as that section existed immediately before the effective date

of this Act, the system and its associated governmental entity shall formulate the plan under Section 802.2015(e), Government Code, as amended by this Act, rather than as that section existed immediately before the effective date of this Act; or

(2) a public retirement system's associated governmental entity is required to formulate a revised funding soundness restoration plan under Section 802.2016(d), Government Code, as that section existed immediately before the effective date of this Act, the associated governmental entity shall formulate the plan under Section 802.2016(e), Government Code, as amended by this Act, rather than as that section existed immediately before the effective date of this Act.

SECTION 6. This Act takes effect September 1, 2021.

ADOPTED

MAY 26 2021

Patsy Spaw
Secretary of the Senate

By: Huffman
H.B. No. 3898

Substitute the following for H.B. No. 3898:

By: Joan Huffman
C.S.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 28(h), Texas Local Fire Fighters Retirement Act (Article 6243e, Vernon's Texas Civil Statutes), is amended to read as follows:

(h) A retirement system established under this Act is exempt from Subchapter C, Chapter 802, Government Code, except Sections 802.2011, 802.2015, 802.202, 802.205, and 802.207.

SECTION 2. 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:

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

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

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

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

(4) post [~~submit~~] a copy of the most recent edition of the policy on a publicly available Internet website in accordance with Section 802.107(c)(2) [~~and each change to the policy to the system's associated governmental entity not later than the 31st day after the date the policy or change is adopted~~].

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

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

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

(a) In this section:

(1) "Funded ratio" has the meaning assigned by Section 802.2011.

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

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

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

(2) effective September 1, 2025:

(A) exceeds 40 years; or

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

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

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

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

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

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

(2) the system is:

(A) adhering to an existing funding soundness restoration plan that was formulated before September 1, 2025; or

(B) implementing a contribution rate structure that uses or will ultimately use an actuarially determined contribution structure and the system's actuarial valuation shows that the system is expected to achieve full funding.

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

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

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

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

(B) September 1, 2025;

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

adopted; and

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

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

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

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

(3) be based on actions, including automatic risk-sharing mechanisms, an actuarially determined contribution structure, and other adjustable benefit or contribution mechanisms, agreed to be taken by the system and entity that were approved by the respective governing bodies of both the system and the entity before the plan was adopted; and

(4) be adopted at open meetings by the respective governing bodies of the system and the entity not later than the second anniversary of the date the actuarial valuation that required application of this subsection was adopted by the

governing body of the system.

(e-2) Not later than the 90th day after the date on which the plan is adopted by both the governing body of the system and the governing body of the associated governmental entity, a system may submit to the board an actuarial valuation required under Section 802.101(a) or other law that shows the combined impact of all changes to a funding soundness restoration plan adopted under this section, including a revised funding soundness restoration plan adopted under Subsection (e-1). If a system does not provide an actuarial valuation to the board in accordance with this subsection, the board may request that the system provide a separate analysis of the combined impact of all changes to a funding soundness restoration plan adopted under this section not later than the 90th day after the date the board makes the request. An actuarial valuation or separate analysis conducted under this subsection must include:

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

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

(e-3) The associated governmental entity may pay all or part of the costs of the separate analysis required under Subsection (e-2). The public retirement system shall pay any costs for the analysis not paid by the associated governmental entity.

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

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

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

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

SECTION 4. Section 802.2016, Government Code, is amended to read as follows:

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

(1) "Funded ratio" has the meaning assigned by Section 802.2011.

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

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

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

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

(2) effective September 1, 2025:

(A) exceeds 40 years; or

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

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

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

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

(d-1) The associated governmental entity is not subject to Subsection (d) if:

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

(2) the system is:

(A) adhering to an existing funding soundness restoration plan that was formulated before September 1, 2025; or

(B) implementing a contribution rate structure that uses or will ultimately use an actuarially determined contribution structure and the system's actuarial valuation shows that the system is expected to achieve full funding.

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

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

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

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

(B) September 1, 2025;

(3) be based on actions, including automatic risk-sharing mechanisms, an actuarially determined contribution structure, and other adjustable benefit or contribution mechanisms, agreed to be taken by the system and entity that were approved by the governing body of the associated governmental entity before the plan was adopted; and

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

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

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

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

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

(4) be adopted at an open meeting of the governing body of the associated governmental entity not later than the second anniversary of the date the actuarial valuation that required application of this subsection was adopted by the governing body of the system.

(e-2) Not later than the 90th day after the date on which the plan is adopted by the governing body of the associated governmental entity, a system may submit to the board an actuarial valuation required under Section 802.101(a) or other law that shows the combined impact of all changes to a funding soundness restoration plan adopted under this section, including a revised funding soundness restoration plan adopted under Subsection (e-1). If a system does not provide an actuarial valuation to the board in accordance with this subsection, the board may request that the system provide a separate analysis of the combined impact of all changes to a funding soundness restoration plan adopted under this section not later than the 90th day after the date the board makes the request. An actuarial valuation or the separate analysis conducted under this subsection must include:

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

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

(e-3) The associated governmental entity may pay all or part of the costs of the separate analysis required under Subsection (e-2). The public retirement system shall pay any costs for the analysis not paid by the associated governmental entity.

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

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

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

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

SECTION 5. The changes in law made by this Act apply to a funding soundness restoration plan that is formulated or revised under Section 802.2015 or 802.2016, Government Code, as applicable, on or after the effective date of this Act. A funding soundness restoration plan formulated or revised before the effective date of this Act other than a plan that is subject to Section 802.2015(d-1) or Section 802.2016(d-1), Government Code, as added by this Act, is governed by the law as it existed immediately before that date, and the former law is continued in effect for that purpose, except if:

(1) the public retirement system and its associated governmental entity are required to formulate a revised funding soundness restoration plan under Section 802.2015(d), Government Code, as that section existed immediately before the effective date

of this Act, the system and its associated governmental entity shall formulate the plan under Section 802.2015(e), Government Code, as amended by this Act, rather than as that section existed immediately before the effective date of this Act; or

(2) a public retirement system's associated governmental entity is required to formulate a revised funding soundness restoration plan under Section 802.2016(d), Government Code, as that section existed immediately before the effective date of this Act, the associated governmental entity shall formulate the plan under Section 802.2016(e), Government Code, as amended by this Act, rather than as that section existed immediately before the effective date of this Act.

SECTION 6. This Act takes effect September 1, 2021.

ADOPTED
MAY 26 2021
Patsy Spaw
Secretary of the Senate

FLOOR AMENDMENT NO. 1 BY: Joan Huffman

Amend C.S.H.B. No. 3898 (senate committee report) by adding the following appropriately numbered SECTIONS to the bill and renumbering subsequent SECTIONS of the bill accordingly:

SECTION ___. Section 802.109, Government Code, is amended by amending Subsections (a), (d), (e), (f), and (h) and adding Subsection (e-1) to read as follows:

(a) Except as provided by Subsection (e) and subject to Subsections (c) and (k), a public retirement system shall select an independent firm with substantial experience in evaluating institutional investment practices and performance to evaluate the appropriateness, adequacy, and effectiveness of the retirement system's investment practices and performance and to make recommendations for improving the retirement system's investment policies, procedures, and practices. Each evaluation must include:

(1) <u>a summary of the independent firm's experience in evaluating institutional investment practices and performance and a statement that the firm's experience meets the experience required by this subsection;</u>

<u>(2) a statement indicating the nature of any existing relationship between the independent firm and the public retirement system and confirming that the firm and any related entity are not involved in directly or indirectly managing the investments of the system;</u>

<u>(3) a list of the types of remuneration received by the</u>

independent firm from sources other than the public retirement system for services provided to the system;

(4) a statement identifying any potential conflict of interest or any appearance of a conflict of interest that could impact the analysis included in the evaluation due to an existing relationship between the independent firm and:

(A) the public retirement system; or

(B) any current or former member of the governing body of the system; and

(5) an explanation of the firm's determination regarding whether to include a recommendation for each of the following evaluated matters:

(A) an analysis of any investment policy or strategic investment plan adopted by the retirement system and the retirement system's compliance with that policy or plan;

(B) [~~(2)~~] a detailed review of the retirement system's investment asset allocation, including:

(i) [~~(A)~~] the process for determining target allocations;

(ii) [~~(B)~~] the expected risk and expected rate of return, categorized by asset class;

(iii) [~~(C)~~] the appropriateness of selection and valuation methodologies of alternative and illiquid assets; and

(iv) [~~(D)~~] future cash flow and liquidity needs;

(C) [~~(3)~~] a review of the appropriateness of investment fees and commissions paid by the retirement system;

(D) [~~(4)~~] a review of the retirement system's governance processes related to investment activities, including investment decision-making processes, delegation of investment authority, and board investment expertise and education; and

(E) [~~(5)~~] a review of the retirement system's investment manager selection and monitoring process.

(d) A public retirement system shall conduct the evaluation described by Subsection (a):

(1) once every three years, if the total assets of the retirement system [~~has total assets the book value of which,~~] as of the last day of the preceding [~~last~~] fiscal year were [~~considered in an evaluation under this section, was~~] at least $100 million; or

(2) once every six years, if the total assets of the retirement system [~~has total assets the book value of which,~~] as of the last day of the preceding [~~last~~] fiscal year were [~~considered in an evaluation under this section, was~~] at least $30 million and less than $100 million.

(e) A public retirement system is not required to conduct the evaluation described by Subsection (a) if the total assets of the retirement system [~~has total assets the book value of which,~~] as of the last day of the preceding fiscal year were[~~, was~~] less than $30 million.

(e-1) Not later than the 30th day after the date an independent firm completes an evaluation described by Subsection (a), the independent firm shall:

(1) submit to the public retirement system for purposes of discussion and clarification a substantially completed preliminary draft of the evaluation report; and

(2) request in writing that the system, on or before the 30th day after the date the system receives the preliminary draft, submit to the firm:

(A) a description of any action taken or expected to be taken in response to a recommendation made in the evaluation; and

(B) any written response of the system that the system wants to accompany the final evaluation report.

(f) The independent firm shall file the final evaluation report, including the evaluation results and any response received from the public retirement system, [~~A report of an evaluation under this section must be filed~~] with the governing body of the [~~public retirement~~] system:

(1) not earlier than the 31st day after the date on which the preliminary draft is submitted to the system; and

(2) not later than the later of:

(A) the 60th day after the date on which the preliminary draft is submitted to the system; or

(B) May 1 in the [~~of each~~] year following the year in which the system is evaluated under Subsection (a) [~~(d)~~].

(h) A governmental entity that is the employer of active members of a public retirement system evaluated under Subsection (a) may pay all or part of the costs of the evaluation. The [~~A~~] public retirement system shall pay any remaining unpaid [~~the~~] costs of the [~~each~~] evaluation [~~of the system under this section~~].

SECTION ___. Section 802.109, Government Code, as amended by this Act, applies only to an evaluation commenced on or after the effective date of this Act. An evaluation commenced before the effective date of this Act is governed by the law in effect on the date the evaluation was commenced, and the former law is continued in effect for that purpose.

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 87TH LEGISLATIVE REGULAR SESSION

May 27, 2021

TO: Honorable Dade Phelan, Speaker of the House, House of Representatives

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB3898 by Anchia (Relating to the funding of public retirement systems.), **As Passed 2nd House**

No significant fiscal implication to the State is anticipated.

The bill would amend the Government Code to enhance funding policy and funding soundness restoration plan requirements for certain public retirement systems. It would also change the evaluation and reporting requirements of certain public retirement systems. According to the Pension Review Board, the Teacher Retirement System, and the Employees Retirement System, no significant fiscal impact is anticipated from the provisions of the bill. The Texas Emergency Services Retirement system indicates there would be a cost to implementing the provisions of the bill; it is assumed those costs could be absorbed by the agency. According to the Actuarial Impact Statement provided by the Pension Review Board, the bill would have a positive actuarial effect on the retirement systems to the extent that those systems and their sponsoring entities adopt and adhere to a funding policy that is actuarially sound.

Local Government Impact

According to the Pension Review Board, the bill does not propose to change the benefit structure or obligations of any systems. The bill would allow a retirement system 90 days to submit an actuarial valuation as part of their ongoing reporting to the Pension Review Board (PRB), which shows the combined impact of all changes under the adopted funding soundness restoration plan (FSRP). If none was provided, the PRB may request the system to provide a separate analysis within 90 days of the request. A retirement system and its associated governmental entity may incur administrative costs associated with providing a separate analysis of the combined impact of changes under the adopted FSRP. The bill allows the associated governmental entity to pay all or part of the costs of these analyses.

According to the Texas Association of Counties, no fiscal impact to counties is anticipated. The Texas Municipal Retirement System (TMRS) does not anticipate a fiscal impact to the system nor TMRS participating cities. The Texas Municipal League does not anticipate a fiscal impact to municipalities.

Source Agencies: 323 Teacher Retirement System, 326 Tx Emergency Serv Retirement System, 327 Employees Retirement System, 338 Pension Review Board

LBB Staff: JMc, KK, LCO, JPO, AAL

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 87TH LEGISLATIVE REGULAR SESSION

May 21, 2021

TO: Honorable Jane Nelson, Chair, Senate Committee on Finance

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: **HB3898** by Anchia (relating to the funding of public retirement systems.), **Committee Report 2nd House, Substituted**

No significant fiscal implication to the State is anticipated.

The bill would amend the Government Code to enhance funding policy and funding soundness restoration plan requirements for certain public retirement systems. According to the Pension Review Board, the Teacher Retirement System, and the Employees Retirement System, no significant fiscal impact is anticipated from the provisions of the bill. According to the Actuarial Impact Statement provided by the Pension Review Board, the bill would have a positive actuarial effect on the retirement systems to the extent that those systems and their sponsoring entities adopt and adhere to a funding policy that is actuarially sound.

Local Government Impact

According to the Pension Review Board, the bill does not propose to change the benefit structure or obligations of any systems. The bill would allow a retirement system 90 days to submit an actuarial valuation as part of their ongoing reporting to the Pension Review Board (PRB), which shows the combined impact of all changes under the adopted funding soundness restoration plan (FSRP). If none was provided, the PRB may request the system to provide a separate analysis within 90 days of the request. A retirement system and its associated governmental entity may incur administrative costs associated with providing a separate analysis of the combined impact of changes under the adopted FSRP. The bill allows the associated governmental entity to pay all or part of the costs of these analyses.

Source Agencies: 323 Teacher Retirement System, 327 Employees Retirement System, 338 Pension Review Board
LBB Staff: JMc, KK, LCO, JPO, AAL

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 87TH LEGISLATIVE REGULAR SESSION

May 19, 2021

TO: Honorable Jane Nelson, Chair, Senate Committee on Finance

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB3898 by Anchia (Relating to the funding of public retirement systems.), **As Engrossed**

No significant fiscal implication to the State is anticipated.

The bill would amend the Government Code to enhance funding policy and funding soundness restoration plan requirements for certain public retirement systems. According to the Pension Review Board, the Teacher Retirement System, and the Employees Retirement System, no significant fiscal impact is anticipated from the provisions of the bill. According to the Actuarial Impact Statement provided by the Pension Review Board, the bill would have a positive actuarial effect on the retirement systems to the extent that those systems and their sponsoring entities adopt and adhere to a funding policy that is actuarially sound.

Local Government Impact

According to the Pension Review Board, the bill does not propose to change the benefit structure or obligations of any systems. The bill would allow a retirement system 90 days to submit an actuarial valuation as part of their ongoing reporting to the Pension Review Board (PRB), which shows the combined impact of all changes under the adopted funding soundness restoration plan (FSRP). If none was provided, the PRB may request the system to provide a separate analysis within 90 days of the request. A retirement system and its associated governmental entity may incur administrative costs associated with providing a separate analysis of the combined impact of changes under the adopted FSRP. The bill allows the associated governmental entity to pay all or part of the costs of these analyses.

Source Agencies: 323 Teacher Retirement System, 327 Employees Retirement System, 338 Pension Review Board
LBB Staff: JMc, KK, AAL, LCO, JPO

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 87TH LEGISLATIVE REGULAR SESSION

April 13, 2021

TO: Honorable Rafael Anchia, Chair, House Committee on Pensions, Investments & Financial Services

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: **HB3898** by Anchia (relating to the funding of public retirement systems.), **Committee Report 1st House, Substituted**

No significant fiscal implication to the State is anticipated.

The bill would amend the Government Code to enhance funding policy and funding soundness restoration plan requirements for certain public retirement systems. According to the Pension Review Board, the Teacher Retirement System, and the Employees Retirement System, no significant fiscal impact is anticipated from the provisions of the bill. According to the Actuarial Impact Statement provided by the Pension Review Board, the bill would have a positive actuarial effect on the retirement systems to the extent that those systems and their sponsoring entities adopt and adhere to a funding policy that is actuarially sound.

Local Government Impact

According to the Pension Review Board, the bill does not propose to change the benefit structure or obligations of any systems. The bill would allow a retirement system 90 days to submit an actuarial valuation as part of their ongoing reporting to the Pension Review Board (PRB), which shows the combined impact of all changes under the adopted funding soundness restoration plan (FSRP). If none was provided, the PRB may request the system to provide a separate analysis within 90 days of the request. A retirement system and its associated governmental entity may incur administrative costs associated with providing a separate analysis of the combined impact of changes under the adopted FSRP. The bill allows the associated governmental entity to pay all or part of the costs of these analyses.

Source Agencies: 323 Teacher Retirement System, 327 Employees Retirement System, 338 Pension Review Board
LBB Staff: JMc, AAL, LCO, JPO

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 87TH LEGISLATIVE REGULAR SESSION

March 30, 2021

TO: Honorable Rafael Anchia, Chair, House Committee on Pensions, Investments & Financial Services

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB3898 by Anchia (Relating to the funding of public retirement systems.), **As Introduced**

No significant fiscal implication to the State is anticipated.

The bill would amend the Government Code to enhance funding policy and funding soundness restoration plan requirements for certain public retirement systems. According to the Pension Review Board, the Teacher Retirement System, and the Employees Retirement System, no significant fiscal impact is anticipated from the provisions of the bill. According to the Actuarial Impact Statement provided by the Pension Review Board, the bill would have a positive actuarial effect on the retirement systems to the extent that those systems and their sponsoring entities adopt and adhere to a funding policy that is actuarially sound.

Local Government Impact

According to the Pension Review Board, a local retirement system and its associated governmental entity may incur administrative costs associated with providing the aggregate analyses of changes made to an original or revised funding soundness restoration plan. The bill allows the associated governmental entity to pay all or part of the costs of these analyses.

Source Agencies: 323 Teacher Retirement System, 327 Employees Retirement System, 338 Pension Review Board
LBB Staff: JMc, AAL, LCO, JPO

LEGISLATIVE BUDGET BOARD
Austin, Texas

ACTUARIAL IMPACT STATEMENT

87TH LEGISLATIVE REGULAR SESSION

May 27, 2021

TO: Honorable Dade Phelan, Speaker of the House, House of Representatives

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB3898 by Anchia (Relating to the funding of public retirement systems.), **As Passed 2nd House**

COST ESTIMATE

The bill would amend the Government Code to strengthen and clarify the funding policy and funding soundness restoration plan (FSRP) requirements and to align them with Pension Review Board (PRB) Pension Funding Guidelines. It would also add new requirements to improve the transparency of the investment practices and performance evaluations.

SYNOPSIS OF PROVISIONS

The bill would amend Government Code Section 802.2011 to change existing funding policy provisions for systems that are not statewide retirement systems to require the sponsoring entity of a public retirement system to be included in funding policy development. The bill would require revision of the funding policy to reflect any significant changes that are a result of an FSRP, and the revised funding policy must include any automatic contribution or benefit changes designed to avoid the need for future revised FSRPs. A copy of the most recent funding policy must be posted online.

Additionally, the bill would amend Government Code Sections 802.2015 and 802.2016 to make several changes to the FSRP requirements. It would lower the FSRP amortization period trigger from 40 to 30 years for systems that receive three consecutive annual actuarial valuations or two consecutive valuations (if the system conducts valuations every two or three years) with amortization periods above the trigger. The bill would also introduce a tiered trigger. Effective September 1, 2025, if a system's amortization period is greater than 40 years, or greater than 30 years with a funded ratio below 65 percent, the FSRP requirement would be triggered immediately.

The bill would give public retirement systems two years rather than six months to develop an FSRP, but effective September 1, 2025, the bill would require the system to achieve a target amortization period of 30 years within two years, rather than within 10 years under the current provisions. If another FSRP is triggered within 10 years of adoption of the initial FSRP, the revised plan must target a 25-year amortization period. Revised FSRPs are not required if the amortization period is between 30 and 40 years; the system is implementing or will ultimately use an actuarial determined contribution rate; and the actuarial valuation shows that the system is expected to achieve full funding.

The bill would require an FSRP to be adopted by both the retirement system and its sponsoring entity at open meetings and it may not include items requiring future action. Additionally, it would allow a retirement system 90 days to submit an actuarial valuation as part of their ongoing reporting to the PRB, which shows the combined impact of all changes under the adopted FSRP. If none was provided, the PRB may request a system to provide a separate analysis within 90 days of the request. The associated governmental entity may pay all or part of the cost.

The bill would allow systems and their sponsors that have already developed an FSRP prior to the bill's effective date to continue working toward the targets previously established in statute unless a revised FSRP is triggered. If a revised FSRP is triggered, the 30-year amortization period target established by this bill would apply.

Lastly, the bill would amend the Government Code to update investment practices and performance evaluation required disclosures and information. It would require an independent firm to provide a summary of the firm's experience evaluating investment practices and performance; include additional disclosures relating to the nature of an existing relationship and any potential conflicts-of-interest; and provide an explanation of the firm's determination regarding whether to include a recommendation.
The bill also provides a formal review-and-comment process wherein the firm must deliver an initial draft of the investment practices and performance evaluation to the system before the 30th day after the evaluation is completed to allow the system to submit actions or comments. The firm must file a final report between 31 - 60 days from delivering the initial report to the system for review.

FINDINGS AND CONCLUSIONS

The bill does not have a direct actuarial impact because it does not propose to change the benefit structure or obligations of any systems. However, it would have a positive actuarial effect on the systems to the extent that the systems and their sponsoring entities adopt and adhere to a funding policy that is actuarially sound.

Source Agencies: 338 Pension Review Board

LBB Staff: JMc, KK, LCO, JPO

LEGISLATIVE BUDGET BOARD
Austin, Texas

ACTUARIAL IMPACT STATEMENT

87TH LEGISLATIVE REGULAR SESSION

May 21, 2021

TO: Honorable Jane Nelson, Chair, Senate Committee on Finance

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: **HB3898** by Anchia (relating to the funding of public retirement systems.), **Committee Report 2nd House, Substituted**

COST ESTIMATE

The bill would amend the Government Code to strengthen and clarify the funding policy and funding soundness restoration plan (FSRP) requirements and to align them with Pension Review Board (PRB) Pension Funding Guidelines.

SYNOPSIS OF PROVISIONS

The bill would amend Government Code Section 802.2011 to change existing funding policy provisions for systems that are not statewide retirement systems to require the sponsoring entity of a public retirement system to be included in funding policy development. The bill would require revision of the funding policy to reflect any significant changes that are a result of an FSRP, and the revised funding policy must include any automatic contribution or benefit changes designed to avoid the need for future revised FSRPs. A copy of the most recent funding policy must be posted online.

Additionally, the bill would amend Government Code Sections 802.2015 and 802.2016 to make several changes to the FSRP requirements. It would lower the FSRP amortization period trigger from 40 to 30 years for systems that receive three consecutive annual actuarial valuations or two consecutive valuations (if the system conducts valuations every two or three years) with amortization periods above the trigger. The bill would also introduce a tiered trigger. Effective September 1, 2025, if a system's amortization period is greater than 40 years, or greater than 30 years with a funded ratio below 65 percent, the FSRP requirement would be triggered immediately.

The bill would give public retirement systems two years rather than six months to develop an FSRP, but effective September 1, 2025, the bill would require the system to achieve a target amortization period of 30 years within two years, rather than within 10 years under the current provisions. If another FSRP is triggered within 10 years of adoption of the initial FSRP, the revised plan must target a 25-year amortization period. Revised FSRPs are not required if the amortization period is between 30 and 40 years; the system is implementing or will ultimately use an actuarial determined contribution rate; and the actuarial valuation shows that the system is expected to achieve full funding.

The bill would require an FSRP to be adopted by both the retirement system and its sponsoring entity at open meetings and it may not include items requiring future action. Additionally, it would allow a retirement system 90 days to submit an actuarial valuation as part of their ongoing reporting to the PRB which shows the combined impact of all changes under the adopted FSRP. If none was provided, the PRB may request a system to provide a separate analysis within 90 days of the request. The associated governmental entity may pay all or part of the cost.

Lastly, the bill would allow systems and their sponsors that have already developed an FSRP prior to the bill's effective date to continue working toward the targets previously established in statute unless a revised FSRP is triggered. If a revised FSRP is triggered, the 30-year amortization period target established by this bill would apply.

FINDINGS AND CONCLUSIONS

The bill does not have a direct actuarial impact because it does not propose to change the benefit structure or obligations of any systems. However, it would have a positive actuarial effect on the systems to the extent that the systems and their sponsoring entities adopt and adhere to a funding policy that is actuarially sound.

Source Agencies: 338 Pension Review Board

LBB Staff: JMc, KK, LCO, JPO, AAL

LEGISLATIVE BUDGET BOARD
Austin, Texas

ACTUARIAL IMPACT STATEMENT

87TH LEGISLATIVE REGULAR SESSION

April 13, 2021

TO: Honorable Rafael Anchia, Chair, House Committee on Pensions, Investments & Financial Services

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB3898 by Anchia (relating to the funding of public retirement systems.), **Committee Report 1st House, Substituted**

COST ESTIMATE

The bill would amend the Government Code to strengthen and clarify the funding policy and funding soundness restoration plan (FSRP) requirements and to align them with Pension Review Board (PRB) Pension Funding Guidelines.

SYNOPSIS OF PROVISIONS

The bill would amend Government Code Section 802.2011 to change existing funding policy provisions for systems that are not statewide retirement systems to require the sponsoring entity of a public retirement system to be included in funding policy development. The bill would require revision of the funding policy to reflect any significant changes that are a result of an FSRP, and the revised funding policy must include any automatic contribution or benefit changes designed to avoid the need for future revised FSRPs. A copy of the most recent funding policy must be posted online.

Additionally, the bill would amend Government Code Sections 802.2015 and 802.2016 to make several changes to the FSRP requirements. It would lower the FSRP amortization period trigger from 40 to 30 years for systems that receive three consecutive annual actuarial valuations or two consecutive valuations (if the system conducts valuations every two or three years) with amortization periods above the trigger. The bill would also introduce a tiered trigger. Effective September 1, 2025, if a system's amortization period is greater than 40 years, or greater than 30 years with a funded ratio below 65 percent, the FSRP requirement would be triggered immediately.

The bill would give public retirement systems two years rather than six months to develop an FSRP, but effective September 1, 2025, the bill would require the system to achieve a target amortization period of 30 years within two years, rather than within 10 years under the current provisions. If another FSRP is triggered within 10 years of adoption of the initial FSRP, the revised plan must target a 25-year amortization period. Revised FSRPs are not required if the amortization period is between 30 and 40 years; the system is implementing or will ultimately use an actuarial determined contribution rate; and the actuarial valuation shows that the system is expected to achieve full funding.

The bill would require an FSRP to be adopted by both the retirement system and its sponsoring entity at open meetings and it may not include items requiring future action. Additionally, it would allow a retirement system 90 days to submit an actuarial valuation as part of their ongoing reporting to the PRB which shows the combined impact of all changes under the adopted FSRP. If none was provided, the PRB may request a system to provide a separate analysis within 90 days of the request. The associated governmental entity may pay all or part of the cost.

Lastly, the bill would allow systems and their sponsors that have already developed an FSRP prior to the bill's effective date to continue working toward the targets previously established in statute unless a revised FSRP is triggered. If a revised FSRP is triggered, the 30-year amortization period target established by this bill would apply.

FINDINGS AND CONCLUSIONS

The bill does not have a direct actuarial impact because it does not propose to change the benefit structure or obligations of any systems. However, it would have a positive actuarial effect on the systems to the extent that the systems and their sponsoring entities adopt and adhere to a funding policy that is actuarially sound.

Source Agencies: 338 Pension Review Board

LBB Staff: JMc, AAL, LCO, JPO

LEGISLATIVE BUDGET BOARD
Austin, Texas

ACTUARIAL IMPACT STATEMENT

87TH LEGISLATIVE REGULAR SESSION

March 30, 2021

TO: Honorable Rafael Anchia, Chair, House Committee on Pensions, Investments & Financial Services

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB3898 by Anchia (Relating to the funding of public retirement systems.), **As Introduced**

COST ESTIMATE
The bill would amend Texas Government Code to strengthen and clarify the funding policy and funding soundness restoration plan (FSRP) requirements and to align them with Pension Review Board Pension Funding Guidelines.

SYNOPSIS OF PROVISIONS
The bill would update Government Code Section 802.2011 to change existing funding policy provisions for systems that are not statewide retirement systems to require the sponsoring entity of a public retirement system to be included in funding policy development. The bill would require revision of the funding policy to reflect any significant changes that are a result of an FSRP, and the revised funding policy must include any automatic contribution or benefit changes designed to avoid the need for future revised FSRPs. The funding policy must also be provided to system members and annuitants upon adoption or change.

Additionally, the bill would update Government Code Sections 802.2015 and 802.2016 to make several changes to the FSRP requirements. It would lower the FSRP amortization period trigger from 40 to 30 years, for systems that receive three consecutive annual actuarial valuations, or two consecutive valuations (if the system conducts valuations every two or three years) with amortization periods above the trigger. The bill would also introduce a tiered trigger: effective September 1, 2025, if a system's amortization period is greater than 40 years, or greater than 30 years with a funded ratio below 65 percent, the FSRP requirement would be triggered immediately.

The bill would give public retirement systems two years rather than six months to develop an FSRP but effective September 1, 2025, would require the system to achieve a target amortization period of 30 years within two years, rather than within 10 years under the current provisions. If another FSRP is triggered within 10 years of adoption of the initial FSRP, the revised plan must target a 25-year amortization period. Revised FSRPs are not required if the amortization period is between 30 and 40 years; the system is implementing or will ultimately use an actuarial determined contribution rate; and the actuarial valuation shows that the system is expected to achieve full funding. The bill would require an FSRP to contain an aggregate analysis showing the anticipated impact of the combined changes; it may not include items requiring future action; and it must be adopted by both the retirement system and its sponsoring entity at open meetings.

FINDINGS AND CONCLUSIONS
The bill does not have a direct actuarial impact because it does not propose to change the benefit structure or obligations of any systems. However, it would have a positive actuarial effect on the systems to the extent that the systems and their sponsoring entities adopt and adhere to a funding policy that is actuarially sound.

Source Agencies: 338 Pension Review Board

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