

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

1 System; and

2 (E) the Texas Municipal Retirement System.

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

6 (1) jointly, if applicable:

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

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

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

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

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

26 (c) For purposes of Subsection (b)(1)(B), the written
27 funding policy must outline any automatic contribution or benefit

1 changes designed to prevent having to formulate a revised funding
2 soundness restoration plan under Section 802.2015(d), including
3 any automatic risk-sharing mechanisms that have been implemented,
4 the adoption of an actuarially determined contribution structure,
5 and other adjustable benefit or contribution mechanisms.

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

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

12 (a) In this section:

13 (1) "Funded ratio" has the meaning assigned by Section
14 802.2011.

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

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

1 a funding soundness restoration plan under Subsection (e) if the
2 system's actuarial valuation shows that the system's expected
3 funding period:

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

8 (2) effective September 1, 2025:

9 (A) exceeds 40 years; or

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

13 (d) Except as provided by Subsection (d-1), the [~~The~~
14 governing body of a public retirement system and the governing body
15 of the associated governmental entity that have 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 ~~system's governing statute,~~] if the system becomes subject to
20 Subsection (c) before the 10th anniversary of the date prescribed
21 by Subsection (e)(2)(A) or (B), as applicable [~~conducts an~~
22 ~~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 governing body of a public retirement system and

1 the governing body of the associated governmental entity are not
2 subject to Subsection (d) if:

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

6 (2) the system is:

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

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

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

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

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

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

24 (B) September 1, 2025;

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

1 adopted; and

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

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

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

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

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

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

1 governing body of the system.

2 (e-2) Not later than the 90th day after the date on which the
3 plan is adopted by both the governing body of the system and the
4 governing body of the associated governmental entity, a system may
5 submit to the board an actuarial valuation required under Section
6 802.101(a) or other law that shows the combined impact of all
7 changes to a funding soundness restoration plan adopted under this
8 section, including a revised funding soundness restoration plan
9 adopted under Subsection (e-1). If a system does not provide an
10 actuarial valuation to the board in accordance with this
11 subsection, the board may request that the system provide a
12 separate analysis of the combined impact of all changes to a funding
13 soundness restoration plan adopted under this section not later
14 than the 90th day after the date the board makes the request. An
15 actuarial valuation or separate analysis conducted under this
16 subsection must include:

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

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

25 (e-3) The associated governmental entity may pay all or part
26 of the costs of the separate analysis required under Subsection
27 (e-2). The public retirement system shall pay any costs for the

1 analysis not paid by the associated governmental entity.

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

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

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

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

27 SECTION 4. Section 802.2016, Government Code, is amended to

1 read as follows:

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

4 (1) "Funded ratio" has the meaning assigned by Section
5 802.2011.

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

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

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

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

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

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

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

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

24 (2) the system is:

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

27 (B) implementing a contribution rate structure

1 that uses or will ultimately use an actuarially determined
2 contribution structure and the system's actuarial valuation shows
3 that the system is expected to achieve full funding.

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

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

9 (2) be designed to achieve a contribution rate that
10 will be sufficient to amortize the unfunded actuarial accrued
11 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, including automatic
17 risk-sharing mechanisms, an actuarially determined contribution
18 structure, and other adjustable benefit or contribution
19 mechanisms, agreed to be taken by the system and entity that were
20 approved by the governing body of the associated governmental
21 entity before the plan was adopted; and

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

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

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

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

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

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

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

1 changes to a funding soundness restoration plan adopted under this
2 section not later than the 90th day after the date the board makes
3 the request. An actuarial valuation or the separate analysis
4 conducted under this subsection must include:

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

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

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

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

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

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

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

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

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

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

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

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

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

ADOPTED

MAY 26 2021

By: Huffman

Antony Louis
Secretary of the Senate
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

1

AN ACT

2 relating to the funding of public retirement systems.

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

4 SECTION 1. Section 28(h), Texas Local Fire Fighters
5 Retirement Act (Article 6243e, Vernon's Texas Civil Statutes), is
6 amended to read as follows:

7 (h) A retirement system established under this Act is exempt
8 from Subchapter C, Chapter 802, Government Code, except Sections
9 802.2011, 802.2015, 802.202, 802.205, and 802.207.

10 SECTION 2. Section 802.2011, Government Code, is amended to
11 read as follows:

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

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

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

18 (3) "Statewide retirement system" means:

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

21 (B) the Teacher Retirement System of Texas;

22 (C) the Texas County and District Retirement
23 System;

24 (D) the Texas Emergency Services Retirement

1 System; and

2 (E) the Texas Municipal Retirement System.

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

6 (1) jointly, if applicable:

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

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

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

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

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

26 (c) For purposes of Subsection (b)(1)(B), the written
27 funding policy must outline any automatic contribution or benefit

1 changes designed to prevent having to formulate a revised funding
2 soundness restoration plan under Section 802.2015(d), including
3 any automatic risk-sharing mechanisms that have been implemented,
4 the adoption of an actuarially determined contribution structure,
5 and other adjustable benefit or contribution mechanisms.

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

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

12 (a) In this section:

13 (1) "Funded ratio" has the meaning assigned by Section
14 802.2011.

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

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

1 a funding soundness restoration plan under Subsection (e) if the
2 system's actuarial valuation shows that the system's expected
3 funding period:

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

8 (2) effective September 1, 2025:

9 (A) exceeds 40 years; or

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

13 (d) Except as provided by Subsection (d-1), the [~~The~~]
14 governing body of a public retirement system and the governing body
15 of the associated governmental entity that have 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 ~~system's governing statute,~~] if the system becomes subject to
20 Subsection (c) before the 10th anniversary of the date prescribed
21 by Subsection (e)(2)(A) or (B), as applicable [~~conducts an~~
22 ~~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 governing body of a public retirement system and

1 the governing body of the associated governmental entity are not
2 subject to Subsection (d) if:

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

6 (2) the system is:

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

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

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

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

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

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

24 (B) September 1, 2025;

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

1 adopted; and

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

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

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

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

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

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

1 governing body of the system.

2 (e-2) Not later than the 90th day after the date on which the
3 plan is adopted by both the governing body of the system and the
4 governing body of the associated governmental entity, a system may
5 submit to the board an actuarial valuation required under Section
6 802.101(a) or other law that shows the combined impact of all
7 changes to a funding soundness restoration plan adopted under this
8 section, including a revised funding soundness restoration plan
9 adopted under Subsection (e-1). If a system does not provide an
10 actuarial valuation to the board in accordance with this
11 subsection, the board may request that the system provide a
12 separate analysis of the combined impact of all changes to a funding
13 soundness restoration plan adopted under this section not later
14 than the 90th day after the date the board makes the request. An
15 actuarial valuation or separate analysis conducted under this
16 subsection must include:

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

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

25 (e-3) The associated governmental entity may pay all or part
26 of the costs of the separate analysis required under Subsection
27 (e-2). The public retirement system shall pay any costs for the

1 analysis not paid by the associated governmental entity.

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

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

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

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

27 SECTION 4. Section 802.2016, Government Code, is amended to

1 read as follows:

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

4 (1) "Funded ratio" has the meaning assigned by Section
5 802.2011.

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

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

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

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

15 ~~[(1) the system's amortization period exceeds 40 years,~~

16 ~~and~~

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

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

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

24 (2) the system is:

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

27 (B) implementing a contribution rate structure

1 that uses or will ultimately use an actuarially determined
2 contribution structure and the system's actuarial valuation shows
3 that the system is expected to achieve full funding.

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

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

9 (2) be designed to achieve a contribution rate that
10 will be sufficient to amortize the unfunded actuarial accrued
11 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, including automatic
17 risk-sharing mechanisms, an actuarially determined contribution
18 structure, and other adjustable benefit or contribution
19 mechanisms, agreed to be taken by the system and entity that were
20 approved by the governing body of the associated governmental
21 entity before the plan was adopted; and

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

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

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

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

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

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

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

1 changes to a funding soundness restoration plan adopted under this
2 section not later than the 90th day after the date the board makes
3 the request. An actuarial valuation or the separate analysis
4 conducted under this subsection must include:

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

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

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

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

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

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

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

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

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

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

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

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

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

ADOPTED

MAY 26 2021

Latey Spaw
Secretary of the Senate

FLOOR AMENDMENT NO. 1

Joan Huffman
BY: _____

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

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

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

16 (1) a summary of the independent firm's experience in
17 evaluating institutional investment practices and performance and
18 a statement that the firm's experience meets the experience
19 required by this subsection;

20 (2) a statement indicating the nature of any existing
21 relationship between the independent firm and the public
22 retirement system and confirming that the firm and any related
23 entity are not involved in directly or indirectly managing the
24 investments of the system;

25 (3) a list of the types of remuneration received by the

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

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

7 (A) the public retirement system; or

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

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

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

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

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

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

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

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

27 (C) [~~+3~~] a review of the appropriateness of

1 investment fees and commissions paid by the retirement system;

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

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

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

10 (1) once every three years, if the total assets of the
11 retirement system [~~has total assets the book value of which,~~] as
12 of the last day of the preceding [~~last~~] fiscal year were
13 [~~considered in an evaluation under this section, was~~] at least
14 \$100 million; or

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

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

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

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

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

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

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

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

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

19 (2) not later than the later of:

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

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

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

1 of the [~~each~~] evaluation [~~of the system under this section~~].

2 SECTION ____ . Section 802.109, Government Code, as amended by
3 this Act, applies only to an evaluation commenced on or after the
4 effective date of this Act. An evaluation commenced before the
5 effective date of this Act is governed by the law in effect on the
6 date the evaluation was commenced, and the former law is continued
7 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**

<p>No significant fiscal implication to the State is anticipated.</p>
--

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**

<p>No significant fiscal implication to the State is anticipated.</p>
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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 338 Pension Review Board

Agencies:

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 338 Pension Review Board

Agencies:

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 338 Pension Review Board

Agencies:

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 338 Pension Review Board
Agencies:

LBB Staff: JMc, AAL, LCO, JPO

