

# SENATE AMENDMENTS

2<sup>nd</sup> Printing

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H.B. No. 4368

A BILL TO BE ENTITLED

AN ACT

relating to participation in, contributions to, and the benefits and administration of retirement systems for police officers in certain municipalities.

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

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

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

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

(2-a) "Actuarial value of assets" means the value of the police retirement system's investments as calculated using the asset smoothing method used in the risk sharing valuation study

1 prepared under Section 8.03 or 8.04 of this Act, as applicable.

2 (3-a) "Amortization period" means:

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

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

11 (3-b) "Amortization rate" means, for a given calendar  
12 year, the percentage rate determined by:

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

15 (B) subtracting the city legacy contribution  
16 amount for the same calendar year, as determined in the risk sharing  
17 valuation study prepared under Section 8.03 or 8.04 of this Act, as  
18 applicable, from the sum under Paragraph (A); and

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

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

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

1 contributed to the system or the predecessor system;

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

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

16 (6-a) "City contribution rate" means, for a given  
17 calendar year, a percentage rate equal to the sum of the employer  
18 normal cost rate and the amortization rate, as adjusted under  
19 Section 8.05 or 8.06 of this Act, if applicable.

20 (6-b) "City legacy contribution amount" means, for  
21 each calendar year, a predetermined payment amount expressed in  
22 dollars in accordance with a payment schedule amortizing the legacy  
23 liability for the calendar year ending December 31, 2020, that is  
24 included in the initial risk sharing valuation study under Section  
25 8.03 of this Act.

26 (6-c) "Corridor" means the range of city contribution  
27 rates that are:

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

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

5           (6-d) "Corridor margin" means five percentage points.

6           (6-e) "Corridor midpoint" means the projected city  
7 contribution rate specified for each calendar year for 30 years as  
8 provided by the initial risk sharing valuation study under Section  
9 8.03 of this Act, rounded to the nearest hundredths decimal place.

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

13           (11-a) "Estimated city contribution rate" means, for a  
14 given calendar year, the city contribution rate that would be  
15 required to maintain an amortization period for the retirement  
16 system as a whole of no more than 30 years as determined by the  
17 system's actuary in a risk sharing valuation study under Section  
18 8.03 or 8.04 of this Act, as applicable, and before any adjustment  
19 to the rate under Section 8.05 or 8.06 of this Act, as applicable.

20           (13-a) "Funded ratio" means the ratio of the actuarial  
21 value of assets divided by the actuarial accrued liability.

22           (13-b) "Group A member" means a member included in  
23 group A membership under Section 4.01(e-1) of this Act.

24           (13-c) "Group B member" means a member included in  
25 group B membership under Section 4.01(e-1) of this Act.

26           (15-a) "Legacy liability" means the unfunded  
27 actuarial accrued liability determined as of December 31, 2020, and



1 for each subsequent calendar year, adjusted as follows:

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

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

7 (15-b) "Level percent of payroll method" means the  
8 amortization method that defines the amount of the liability layer  
9 recognized each calendar year as a level percent of pensionable  
10 payroll until the amount of the liability layer remaining is  
11 reduced to zero.

12 (15-c) "Liability gain layer" means a liability layer  
13 that decreases the unfunded actuarial accrued liability.

14 (15-d) "Liability layer" means:

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

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

24 (15-e) "Liability loss layer" means a liability layer  
25 that increases the unfunded actuarial accrued liability. For  
26 purposes of this Act, the legacy liability is a liability loss  
27 layer.

1           (17-a) "Maximum city contribution rate" means, for a  
2 given calendar year, the rate equal to the corridor midpoint plus  
3 the corridor margin.

4           (18-a) "Minimum city contribution rate" means, for a  
5 given calendar year, the rate equal to the corridor midpoint minus  
6 the corridor margin.

7           (18-b) "Normal cost rate" means, for a given calendar  
8 year, the salary weighted average of the individual normal cost  
9 rates determined for the current active member population, plus the  
10 assumed administrative expenses determined in the most recent  
11 actuarial experience study.

12           (19-a) "Payoff year" means the year a liability layer  
13 is fully amortized under the amortization period. A payoff year may  
14 not be extended or accelerated for a period that is less than one  
15 month.

16           (19-b) "Pensionable payroll" means the aggregate  
17 basic hourly earnings of all members in active service for a  
18 calendar year or pay period, as applicable.

19           (23-a) "Projected pensionable payroll" means the  
20 estimated pensionable payroll for the calendar year beginning 12  
21 months after the date of the risk sharing valuation study prepared  
22 under Section 8.03 or 8.04 of this Act, at the time of calculation  
23 by:

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

27                   (B) adjusting, if necessary, for changes in

1 population or other known factors, provided those factors would  
2 have a material impact on the calculation, as determined by the  
3 board.

4 (29-a) "Unanticipated change" means, with respect to  
5 the unfunded actuarial accrued liability in each subsequent risk  
6 sharing valuation study prepared under Section 8.04 of this Act,  
7 the difference between:

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

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

13 (29-b) "Unfunded actuarial accrued liability" means  
14 the difference between the actuarial accrued liability and the  
15 actuarial value of assets.

16 SECTION 2. Section 3.02, Chapter 452 (S.B. 738), Acts of the  
17 72nd Legislature, Regular Session, 1991 (Article 6243n-1, Vernon's  
18 Texas Civil Statutes), is amended to read as follows:

19 Sec. 3.02. COMPOSITION OF BOARD; TRUSTEE QUALIFICATIONS.

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

- 22 (1) one council member designated by the city council;  
23 (2) the city manager or the city manager's designee;  
24 (3) the director of finance or the director's  
25 designee;

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

1 of four years;

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

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

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

19 (b) The terms of two members elected as described by  
20 Subsection (a)(4) of this section expire in 2023 ~~[2001]~~ and every  
21 fourth subsequent year, and the terms of two ~~[three]~~ members  
22 elected as described by Subsection (a)(4) of this section expire in  
23 2025 ~~[2003]~~ and every fourth subsequent year.

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

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

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

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

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

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

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

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

20           SECTION 4. Article III, Chapter 452 (S.B. 738), Acts of the  
21 72nd Legislature, Regular Session, 1991 (Article 6243n-1, Vernon's  
22 Texas Civil Statutes), is amended by adding Section 3.091 to read as  
23 follows:

24           Sec. 3.091. PROCESS FOR EXPERIENCE STUDIES AND CHANGES TO  
25 ACTUARIAL ASSUMPTIONS. (a) At least once every five years, the  
26 police retirement board shall have the system's actuary designated  
27 under Section 3.09 of this Act conduct an experience study to review

1 the actuarial assumptions and methods adopted by the board for the  
2 purposes of determining the actuarial liabilities and actuarially  
3 determined contribution rates of the system. The system shall  
4 notify the city at the beginning of an upcoming experience study by  
5 the system's actuary.

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

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

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

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

14 (c) If the city chooses to:

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

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

24 (d) If the city chooses to have the city's own experience  
25 study performed under Subsection (b)(1) of this section, or to have  
26 the city's actuary review the system's experience study under  
27 Subsection (b)(2) of this section, the system's actuary and the

1 city's actuary shall determine what the hypothetical city  
2 contribution rate would be using the proposed actuarial assumptions  
3 from the experience studies and data from the most recent actuarial  
4 valuation.

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

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

12 (2) is greater than two percent of pensionable  
13 payroll, then the system's actuary and the city's actuary shall have  
14 20 business days to reconcile the difference in actuarial  
15 assumptions or methods causing the different hypothetical city  
16 contribution rates, and:

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

24 (B) if, after 20 business days, the system's  
25 actuary and the city's actuary are not able to reach a  
26 reconciliation that reduces the difference in the hypothetical city  
27 contribution rates to an amount less than or equal to two percentage

1 points, a third-party actuary shall be retained to opine on the  
2 differences in the assumptions made and actuarial methods used by  
3 the system's actuary and the city's actuary.

4 (f) The independent third-party actuary retained in  
5 accordance with Subsection (e)(2)(B) of this section shall be  
6 chosen by the city from a list of three actuarial firms provided by  
7 the system.

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

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

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

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

27 SECTION 5. Section 3.10, Chapter 452 (S.B. 738), Acts of the



1 72nd Legislature, Regular Session, 1991 (Article 6243n-1, Vernon's  
2 Texas Civil Statutes), is amended to read as follows:

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

8       SECTION 6. Section 4.01, Chapter 452 (S.B. 738), Acts of the  
9 72nd Legislature, Regular Session, 1991 (Article 6243n-1, Vernon's  
10 Texas Civil Statutes), is amended by amending Subsections (c) and  
11 (e) and adding Subsections (e-1) and (e-2) to read as follows:

12       (c) Any person who becomes an employee of the city or the  
13 system, if eligible for membership, shall become a member as a  
14 condition of employment and shall make the required deposits  
15 commencing with the first pay period following a probationary  
16 period of six continuous months from date of employment, if  
17 applicable, or eligibility, if later.

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

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

25             (2) ~~[(B)]~~ Active--Noncontributory: the member whose  
26 current employment status does not allow contributions to the  
27 system (working less than a normal work week or on a leave of

1 absence under Subsection (f)(6)(A) of this section) and on return  
2 to working a normal work week, the member will again be given  
3 creditable service, with contributions resumed at time of status  
4 change.

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

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

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

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

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

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

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

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

25 (i) did not withdraw the member's  
26 accumulated deposits from the system; or

27 (ii) withdrew the member's accumulated

1 deposits from the system, but reinstated all of the previously  
2 forfeited creditable service; and

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

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

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

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

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

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

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

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

26 (1) Probationary service creditable in the system is  
27 any probationary service following the member's commission date or

1 the member's first date of employment with the system for which the  
2 member does not have creditable service.

3 (2) An eligible member or eligible surviving spouse  
4 may establish creditable service under this section by contributing  
5 to the system a single payment equal to the contribution the member  
6 would have made to the system for that service at the time the  
7 service was performed and an interest charge based on the  
8 contribution amount to be repaid times an interest factor. The  
9 interest factor is eight percent per year for the period that begins  
10 with the beginning of the month and year at the end of the  
11 probationary period for which creditable service is being  
12 established to the beginning of the month and year payment is made  
13 to the system for the purpose of establishing said service.

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

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

22 (a) Under irrevocable action taken by the city council on  
23 February 12, 1998, police [~~This section does not take effect unless~~  
24 ~~the city council authorizes the city to begin making contributions~~  
25 ~~to the police retirement system in accordance with Section 8.01(a)~~  
26 ~~of this Act for police cadets during their employment as cadets~~  
27 ~~while members of a cadet class. Police]~~ cadets whose cadet class

1 begins after April 1, 1998, [~~the city council makes the~~  
2 ~~authorization~~] shall make deposits to the police retirement system  
3 in accordance with Section 8.01(a) of this Act, and those cadets  
4 shall be members of the police retirement system and shall receive  
5 creditable service for employment as cadets while members of a  
6 cadet class, notwithstanding Sections 1.02(7), (18), and (21) of  
7 this Act.

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

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

17 (1) for a group A member, the product of 3.2 [2.88]  
18 percent of a member's average final compensation multiplied by the  
19 number of months of creditable service; or

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

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

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

1 rule;

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

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

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

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

26           SECTION 10. Section 6.02, Chapter 452 (S.B. 738), Acts of  
27 the 72nd Legislature, Regular Session, 1991 (Article 6243n-1,

1 Vernon's Texas Civil Statutes), is amended by amending Subsection  
2 (a) and adding Subsection (a-1) to read as follows:

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

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

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

16 (b) If a member who has attained the applicable age for the  
17 minimum distribution required under Section 401(a)(9) of the  
18 Internal Revenue Code of 1986 (26 U.S.C. Section 401(a)(9)) [~~age~~  
19 ~~70-1/2~~] separates or has separated from service without applying  
20 for retirement or a refund of accumulated deposits, the police  
21 retirement system shall attempt to send to that member a written  
22 notice as soon as practicable after the later of the date the member  
23 attains the applicable age [~~70-1/2~~] or the date the member  
24 separates from service. The written notice must advise the member  
25 of the requirement under Section 401(a)(9) of the Internal Revenue  
26 Code of 1986 (26 U.S.C. Section 401(a)(9)) to retire and begin  
27 receiving a monthly retirement benefit. If, before the 91st day

1 after the date the police retirement system sends the notice, the  
2 member has not filed an application for retirement or a refund, the  
3 member is considered to have retired on the last day of the third  
4 month following the later of the two dates specified by this  
5 subsection. If applicable, the retirement option shall be  
6 determined in accordance with the member's written selection of  
7 optional benefit and designation of beneficiary under Section  
8 6.06(a)(1) of this Act. Otherwise, the member shall receive the  
9 life annuity under Section 6.01 of this Act.

10 SECTION 12. Section 6.07(e), Chapter 452 (S.B. 738), Acts  
11 of the 72nd Legislature, Regular Session, 1991 (Article 6243n-1,  
12 Vernon's Texas Civil Statutes), is amended to read as follows:

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

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

24 (a) On award of disability retirement benefits, the member  
25 shall receive a disability retirement benefit computed in the same  
26 manner that a service retirement benefit would be computed at the  
27 member's normal retirement date, based on average final



1 compensation and creditable service at date of disability  
2 retirement without reduction for early retirement. If the  
3 disability is a direct or proximate result of the performance of the  
4 member's employment duties with the system or the city, then the  
5 disability retirement benefit will be subject to a minimum benefit  
6 determined in accordance with Section 6.01(a)(1) or (2) of this  
7 Act, as applicable, based on:

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

10 (2) for:

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

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

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

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

26 Sec. 8.01. MEMBER CONTRIBUTIONS [~~METHOD OF FINANCING~~]. (a)  
27 [~~(1)~~] Deposits by the members to the police retirement system shall

1 be made at a rate of at least:

2 (1) 13 percent of the basic hourly earnings of the  
3 [each] member, for each pay period beginning before January 1,  
4 2022; and

5 (2) 15 percent of the basic hourly earnings of the  
6 member, for each pay period beginning on or after January 1, 2022,  
7 unless a different member contribution rate is required in  
8 accordance with Section 8.04(b)(4) of this Act, as adjusted, if  
9 applicable, under Section 8.065 of this Act, except that the rate  
10 may not exceed 17 percent.

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

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

1 under this subsection.

2       Sec. 8.02. CITY CONTRIBUTIONS. (a) [(2)] The city shall  
3 contribute amounts equal to [~~18 percent of the basic hourly~~  
4 ~~earnings of each member employed by the city for all periods on or~~  
5 ~~before September 30, 2010, subject to additional amounts as~~  
6 ~~provided by Subdivision (3) of this subsection. The city shall~~  
7 ~~contribute amounts equal to 19 percent of the basic hourly earnings~~  
8 ~~of each member employed by the city for all periods after September~~  
9 ~~30, 2010, and before October 1, 2011, subject to additional amounts~~  
10 ~~as provided by Subdivision (3) of this subsection. The city shall~~  
11 ~~contribute amounts equal to 20 percent of the basic hourly earnings~~  
12 ~~of each member employed by the city for all periods after September~~  
13 ~~30, 2011, and before October 1, 2012, subject to additional amounts~~  
14 ~~as provided by Subdivision (3) of this subsection. The city shall~~  
15 ~~contribute amounts equal to] 21 percent of the basic hourly~~  
16 earnings of each member employed by the city for all pay periods  
17 beginning after September 30, 2012, and before January 1, 2022,  
18 subject to additional amounts as provided by Section 8.07 of this  
19 Act [~~Subdivision (3) of this subsection~~]. For all pay periods  
20 beginning on or after January 1, 2022, the city shall make  
21 contributions to the police retirement system in accordance with  
22 Subsections (b) and (c) of this section and Sections 8.03, 8.04,  
23 8.05, and 8.06 of this Act, as applicable, and subject to additional  
24 amounts as provided by Section 8.07 of this Act. The city council  
25 may also authorize the city to make additional contributions to the  
26 police retirement system in whatever amount the city council may  
27 determine. Contributions by the city shall be made each pay period.

1       (b) For each pay period that begins on or after January 1,  
2 2022, and before January 1, 2023, the city shall contribute an  
3 amount equal to the sum of:

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

8           (2) 1/26 of the city legacy contribution amount for  
9 the 2022 calendar year, as determined and adjusted in the initial  
10 risk sharing valuation study conducted under Section 8.03 of this  
11 Act.

12       (c) For each pay period that begins on or after January 1,  
13 2023, the city shall contribute an amount equal to the sum of:

14           (1) the city contribution rate for the applicable  
15 calendar year, as determined in a subsequent risk sharing valuation  
16 study conducted under Section 8.04 of this Act and adjusted under  
17 Section 8.05 or 8.06 of this Act, as applicable, multiplied by the  
18 pensionable payroll for the applicable pay period; and

19           (2) 1/26 of the city legacy contribution amount for  
20 the applicable calendar year, as determined and adjusted in the  
21 initial risk sharing valuation study conducted under Section 8.03  
22 of this Act.

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

27       (b) The initial risk sharing valuation study must:

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

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

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

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

13           (c) For purposes of Subsection (b)(4) of this section, the  
14 schedule of city legacy contribution amounts must be determined in  
15 such a manner that the total annual city legacy contribution amount  
16 for the first three calendar years will result in a phase-in of the  
17 anticipated increase in the city's contribution rate from the  
18 calendar year that begins on January 1, 2021, in accordance with  
19 Subsection (a) of this section, to the rate equal to the sum of the  
20 estimated contribution rate for the calendar year that begins on  
21 January 1, 2022, and the rate of pensionable payroll equal to the  
22 city legacy contribution amount for January 1, 2022, determined as  
23 if there was no phase-in of the increase to the city legacy  
24 contribution amount. The phase-in must reflect approximately  
25 one-third of the increase each year over the three-year phase-in  
26 period. The city's contribution under Section 8.02 of this Act for:

27           (1) the calendar years that begin on January 1, 2022,

1 January 1, 2023, and January 1, 2024, must be adjusted to reflect  
2 the impact of the phase-in prescribed by this section; and

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

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

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

17 (b) Each risk sharing valuation study must:

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

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

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

26 (4) determine the city contribution rate and the  
27 member contribution rate for the following calendar year, taking

1 into account any adjustments required under Section 8.05, 8.06, or  
2 8.065 of this Act, as applicable; and

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

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

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

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

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

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

1                   (ii) if there is no liability loss layer, a  
2 period of 30 years from the first day of the calendar year beginning  
3 12 months after the date of the risk sharing valuation study in  
4 which the liability gain layer is first recognized;

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

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

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

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

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

17                   (2) for any calendar year after the payoff year of the  
18 legacy liability.

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

23                   (1) are consistent with actuarial standards of  
24 practice;

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

14 (a) This section governs the determination of the member  
15 contribution rate applicable in a calendar year under Section  
16 8.04(b)(4) of this Act if the estimated city contribution rate  
17 determined under Section 8.04(b)(3) of this Act is greater than the  
18 maximum city contribution rate.

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

23 (1) the estimated city contribution rate; and

24 (2) the maximum city contribution rate.

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

27 (d) If the estimated city contribution rate is more than two

1 percent of pensionable payroll greater than the maximum city  
 2 contribution rate, the city and the board shall enter into  
 3 discussions to determine additional funding solutions.

4 Sec. 8.07. ADDITIONAL CITY CONTRIBUTIONS FOR PROPORTIONATE  
 5 RETIREMENT PROGRAM PARTICIPATION. (a) [~~3~~] The city shall  
 6 contribute amounts in addition to the amounts described by Section  
 7 8.02 of this Act [~~Subdivision (2) of this subsection~~] as required by  
 8 Section 803.101(h), Government Code, to fund the additional  
 9 liabilities incurred by the police retirement system as a result of  
 10 participating in the proportionate retirement program. The rate at  
 11 which the city shall contribute additional amounts under this  
 12 section [~~subdivision~~] is equal to 0.737 [~~0.25~~] percent of the basic  
 13 hourly earnings of each member employed by the city for all pay  
 14 periods commencing on or after October 1, 2020, subject to  
 15 adjustment under Subsection (b) of this section [~~from January 4,~~  
 16 2009, through September 30, 2009. The rate at which the city shall  
 17 contribute additional amounts under this subdivision is equal to  
 18 0.63 percent of the basic hourly earnings of each member employed by  
 19 the city for all periods after September 30, 2009, subject to  
 20 adjustment under Subdivision (4) of this subsection].

21 (b) [~~4~~] The additional contribution rate under Subsection  
 22 (a) of this section [~~Subdivision (3) of this subsection~~] shall  
 23 increase or decrease as considered necessary by the actuary for the  
 24 police retirement system after each five-year period of  
 25 participation by the system in the proportionate retirement program  
 26 in order to update the amount necessary to fund the additional  
 27 liabilities incurred by the system as a result of participating in

1 the proportionate retirement program and of the consolidation of  
 2 the city's public safety and emergency management department with  
 3 the police department on January 4, 2009. The system's actuary  
 4 shall perform an experience study that shall be the basis for a  
 5 contribution rate adjustment under this subsection [~~subdivision~~].  
 6 The effective date of the initial contribution rate adjustment  
 7 under this subsection [~~subdivision~~] is October 1, 2015. Each later  
 8 contribution rate adjustment under this subsection [~~subdivision~~]  
 9 takes effect October 1 of every fifth year after the effective date  
 10 of the initial contribution rate adjustment. The system's actuary  
 11 shall present to the police retirement board the experience study  
 12 on which any contribution rate adjustment under this subsection  
 13 [~~subdivision~~] is based not later than 45 days before the effective  
 14 date of the adjustment, and the city's actuary shall have the  
 15 opportunity to review and comment on the study. An adjustment in  
 16 the additional contribution rate under this subsection  
 17 [~~subdivision~~] may not cause the additional contribution rate under  
 18 Subsection (a) of this section [~~Subdivision (3) of this subsection~~]  
 19 to be less than zero.

20 Sec. 8.08. PUBLICATION OF CHANGES TO CONTRIBUTION RATES.

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

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

25 [~~(d)~~] Expenses involved in administration and operation of  
 26 the police retirement system shall be paid from the assets of the  
 27 police retirement system subject to approval by the board. Such

1 expenses shall include actuarial valuations of the system no less  
2 frequently than on a biennial basis, annual audits and/or actuarial  
3 studies, preparation of annual reports, and staff assistance.  
4 Additional consulting may be authorized by the board and paid for  
5 from the assets of the police retirement system as deemed necessary  
6 from time to time by the board.

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

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

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

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

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

26 (e) Member contributions made as provided by Subsection (d)  
27 of this section [~~subsection~~] shall be deposited to the individual

1 account of each affected member and shall be treated as  
2 compensation of members for all other purposes of this Act and for  
3 the purpose of determining contributions to the federal Old-Age,  
4 Survivors, and Disability Insurance System (Social Security). The  
5 provisions of this subsection shall remain in effect as long as the  
6 plan covering members is a qualified retirement plan under Section  
7 401(a), Internal Revenue Code (26 U.S.C. Section 401(a)), and its  
8 related trust is tax exempt under Section 501(a), Internal Revenue  
9 Code (26 U.S.C. Section 501(a)).

10 Sec. 8.11. EFFECT OF SYSTEM TERMINATION ON CONTRIBUTIONS.

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

22 Sec. 8.12. EFFECT OF FORFEITURE. [~~(h)~~] A forfeiture from a

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

1        Sec. 8.13. SYSTEM ASSETS. [~~(i)~~] The assets of the police  
2 retirement system shall be held in trust for the exclusive benefit  
3 of the members and their beneficiaries. The corpus or income may  
4 not be used for or diverted to a purpose other than the exclusive  
5 benefit of members or their beneficiaries, whether by operation or  
6 natural termination of the system, by power of revocation or  
7 amendment, by the happening of a contingency, by collateral  
8 arrangement, or by other means.

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

12        Sec. 13.02. MANDATORY DISTRIBUTIONS PROHIBITED. A member  
13 or former member who has separated from service may not be required  
14 to receive an eligible rollover distribution, as defined in Section  
15 13.01(b)(1) of this Act, without the member's consent unless the  
16 member or former member has attained the applicable age for minimum  
17 distributions required under Section 401(a)(9) of the Internal  
18 Revenue Code of 1986 (26 U.S.C. Section 401(a)(9)) [~~is at least~~  
19 ~~70-1/2 years of age~~].

20        SECTION 16. The following provisions of Chapter 452 (S.B.  
21 738), Acts of the 72nd Legislature, Regular Session, 1991 (Article  
22 6243n-1, Vernon's Texas Civil Statutes), are repealed:

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

27        SECTION 17. (a) In this section, "police retirement board"

1 has the meaning assigned by Section 1.02, Chapter 452 (S.B. 738),  
2 Acts of the 72nd Legislature, Regular Session, 1991 (Article  
3 6243n-1, Vernon's Texas Civil Statutes).

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

10 (c) When the terms of:

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

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

22 (B) the other resulting vacancy shall be filled  
23 by election of the members in accordance with Sections 3.02(a)(4)  
24 and 3.03, Chapter 452 (S.B. 738), Acts of the 72nd Legislature,  
25 Regular Session, 1991 (Article 6243n-1, Vernon's Texas Civil  
26 Statutes), as applicable; and

27 (2) the three members of the police retirement board



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

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

ADOPTED

MAY 26 2021

*Latey Law*  
Secretary of the Senate

By: *D. Buckling* \_\_\_\_\_ .B. No. \_\_\_\_\_

Substitute the following for H.B. No. 4368.

By: *D. Buckling* \_\_\_\_\_ C.S. \_\_\_\_\_ .B. No. \_\_\_\_\_

A BILL TO BE ENTITLED

AN ACT

1  
2 relating to participation in, contributions to, and the benefits  
3 and administration of retirement systems for police officers in  
4 certain municipalities.

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

6 SECTION 1. Section 1.02, Chapter 452 (S.B. 738), Acts of the  
7 72nd Legislature, Regular Session, 1991 (Article 6243n-1, Vernon's  
8 Texas Civil Statutes), is amended by amending Subdivisions (2) and  
9 (4) and adding Subdivisions (1-a), (2-a), (3-a), (3-b), (6-a),  
10 (6-b), (6-c), (6-d), (6-e), (10-a), (11-a), (13-a), (13-b), (13-c),  
11 (15-a), (15-b), (15-c), (15-d), (15-e), (17-a), (18-a), (18-b),  
12 (19-a), (19-b), (23-a), (29-a), and (29-b) to read as follows:

13 (1-a) "Actuarial accrued liability" means the portion  
14 of the actuarial present value of projected benefits of the police  
15 retirement system attributed to past periods of member service  
16 based on the cost method used in the risk sharing valuation study  
17 prepared under Section 8.03 or 8.04 of this Act, as applicable.

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

22 (2-a) "Actuarial value of assets" means the value of  
23 the police retirement system's investments as calculated using the  
24 asset smoothing method used in the risk sharing valuation study

1 prepared under Section 8.03 or 8.04 of this Act, as applicable.

2 (3-a) "Amortization period" means:

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

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

11 (3-b) "Amortization rate" means, for a given calendar  
12 year, the percentage rate determined by:

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

15 (B) subtracting the city legacy contribution  
16 amount for the same calendar year, as determined in the risk sharing  
17 valuation study prepared under Section 8.03 or 8.04 of this Act, as  
18 applicable, from the sum under Paragraph (A); and

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

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

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

1 contributed to the system or the predecessor system;

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

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

16 (6-a) "City contribution rate" means, for a given  
17 calendar year, a percentage rate equal to the sum of the employer  
18 normal cost rate and the amortization rate, as adjusted under  
19 Section 8.05 or 8.06 of this Act, if applicable.

20 (6-b) "City legacy contribution amount" means, for  
21 each calendar year, a predetermined payment amount expressed in  
22 dollars in accordance with a payment schedule amortizing the legacy  
23 liability for the calendar year ending December 31, 2020, that is  
24 included in the initial risk sharing valuation study under Section  
25 8.03 of this Act.

26 (6-c) "Corridor" means the range of city contribution  
27 rates that are:

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

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

5                   (6-d) "Corridor margin" means five percentage points.

6                   (6-e) "Corridor midpoint" means the projected city  
7 contribution rate specified for each calendar year for 30 years as  
8 provided by the initial risk sharing valuation study under Section  
9 8.03 of this Act, rounded to the nearest hundredths decimal place.

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

13                  (11-a) "Estimated city contribution rate" means, for a  
14 given calendar year, the city contribution rate that would be  
15 required to maintain an amortization period for the retirement  
16 system as a whole of no more than 30 years as determined by the  
17 system's actuary in a risk sharing valuation study under Section  
18 8.03 or 8.04 of this Act, as applicable, and before any adjustment  
19 to the rate under Section 8.05 or 8.06 of this Act, as applicable.

20                  (13-a) "Funded ratio" means the ratio of the actuarial  
21 value of assets divided by the actuarial accrued liability.

22                  (13-b) "Group A member" means a member included in  
23 group A membership under Section 4.01(e-1) of this Act.

24                  (13-c) "Group B member" means a member included in  
25 group B membership under Section 4.01(e-1) of this Act.

26                  (15-a) "Legacy liability" means the unfunded  
27 actuarial accrued liability determined as of December 31, 2020, and

1 for each subsequent calendar year, adjusted as follows:

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

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

7 (15-b) "Level percent of payroll method" means the  
8 amortization method that defines the amount of the liability layer  
9 recognized each calendar year as a level percent of pensionable  
10 payroll until the amount of the liability layer remaining is  
11 reduced to zero.

12 (15-c) "Liability gain layer" means a liability layer  
13 that decreases the unfunded actuarial accrued liability.

14 (15-d) "Liability layer" means:

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

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

24 (15-e) "Liability loss layer" means a liability layer  
25 that increases the unfunded actuarial accrued liability. For  
26 purposes of this Act, the legacy liability is a liability loss  
27 layer.

1           (17-a) "Maximum city contribution rate" means, for a  
2 given calendar year, the rate equal to the corridor midpoint plus  
3 the corridor margin.

4           (18-a) "Minimum city contribution rate" means, for a  
5 given calendar year, the rate equal to the corridor midpoint minus  
6 the corridor margin.

7           (18-b) "Normal cost rate" means, for a given calendar  
8 year, the salary weighted average of the individual normal cost  
9 rates determined for the current active member population, plus the  
10 assumed administrative expenses determined in the most recent  
11 actuarial experience study.

12           (19-a) "Payoff year" means the year a liability layer  
13 is fully amortized under the amortization period. A payoff year may  
14 not be extended or accelerated for a period that is less than one  
15 month.

16           (19-b) "Pensionable payroll" means the aggregate  
17 basic hourly earnings of all members in active service for a  
18 calendar year or pay period, as applicable.

19           (23-a) "Projected pensionable payroll" means the  
20 estimated pensionable payroll for the calendar year beginning 12  
21 months after the date of the risk sharing valuation study prepared  
22 under Section 8.03 or 8.04 of this Act, at the time of calculation  
23 by:

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

27                   (B) adjusting, if necessary, for changes in

1 population or other known factors, provided those factors would  
2 have a material impact on the calculation, as determined by the  
3 board.

4 (29-a) "Unanticipated change" means, with respect to  
5 the unfunded actuarial accrued liability in each subsequent risk  
6 sharing valuation study prepared under Section 8.04 of this Act,  
7 the difference between:

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

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

13 (29-b) "Unfunded actuarial accrued liability" means  
14 the difference between the actuarial accrued liability and the  
15 actuarial value of assets.

16 SECTION 2. Section 3.02, Chapter 452 (S.B. 738), Acts of the  
17 72nd Legislature, Regular Session, 1991 (Article 6243n-1, Vernon's  
18 Texas Civil Statutes), is amended to read as follows:

19 Sec. 3.02. COMPOSITION OF BOARD; TRUSTEE QUALIFICATIONS.

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

- 22 (1) one council member designated by the city council;
- 23 (2) the city manager or the city manager's designee;
- 24 (3) the director of finance or the director's  
25 designee;
- 26 (4) four [~~five~~] police officer members elected by the  
27 police officer members of the system, each of whom serves for a term



1 of four years;

2 (5) one legally qualified voter of the city, who is a  
3 resident and has been a resident for the preceding five years, is  
4 not an employee of the city or a member of the system, and has  
5 demonstrated experience in the field of finance or investments, to  
6 be appointed by the police retirement board to serve for a term of  
7 four years and until the member's successor is duly selected and  
8 qualified; [~~and~~]

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

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

19 (b) The terms of two members elected as described by  
20 Subsection (a)(4) of this section expire in 2023 [~~2001~~] and every  
21 fourth subsequent year, and the terms of two [~~three~~] members  
22 elected as described by Subsection (a)(4) of this section expire in  
23 2025 [~~2003~~] and every fourth subsequent year.

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

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

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

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

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

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

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

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

20           SECTION 4. Article III, Chapter 452 (S.B. 738), Acts of the  
21 72nd Legislature, Regular Session, 1991 (Article 6243n-1, Vernon's  
22 Texas Civil Statutes), is amended by adding Section 3.091 to read as  
23 follows:

24           Sec. 3.091. PROCESS FOR EXPERIENCE STUDIES AND CHANGES TO  
25 ACTUARIAL ASSUMPTIONS. (a) At least once every five years, the  
26 police retirement board shall have the system's actuary designated  
27 under Section 3.09 of this Act conduct an experience study to review

1 the actuarial assumptions and methods adopted by the board for the  
2 purposes of determining the actuarial liabilities and actuarially  
3 determined contribution rates of the system. The system shall  
4 notify the city at the beginning of an upcoming experience study by  
5 the system's actuary.

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

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

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

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

14 (c) If the city chooses to:

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

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

24 (d) If the city chooses to have the city's own experience  
25 study performed under Subsection (b)(1) of this section, or to have  
26 the city's actuary review the system's experience study under  
27 Subsection (b)(2) of this section, the system's actuary and the

1 city's actuary shall determine what the hypothetical city  
2 contribution rate would be using the proposed actuarial assumptions  
3 from the experience studies and data from the most recent actuarial  
4 valuation.

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

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

12 (2) is greater than two percent of pensionable  
13 payroll, then the system's actuary and the city's actuary shall have  
14 20 business days to reconcile the difference in actuarial  
15 assumptions or methods causing the different hypothetical city  
16 contribution rates, and:

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

24 (B) if, after 20 business days, the system's  
25 actuary and the city's actuary are not able to reach a  
26 reconciliation that reduces the difference in the hypothetical city  
27 contribution rates to an amount less than or equal to two percentage

1 points, a third-party actuary shall be retained to opine on the  
2 differences in the assumptions made and actuarial methods used by  
3 the system's actuary and the city's actuary.

4 (f) The independent third-party actuary retained in  
5 accordance with Subsection (e)(2)(B) of this section shall be  
6 chosen by the city from a list of three actuarial firms provided by  
7 the system.

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

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

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

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

27 SECTION 5. Section 3.10, Chapter 452 (S.B. 738), Acts of the

1 72nd Legislature, Regular Session, 1991 (Article 6243n-1, Vernon's  
2 Texas Civil Statutes), is amended to read as follows:

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

8           SECTION 6. Section 4.01, Chapter 452 (S.B. 738), Acts of the  
9 72nd Legislature, Regular Session, 1991 (Article 6243n-1, Vernon's  
10 Texas Civil Statutes), is amended by amending Subsections (c) and  
11 (e) and adding Subsections (e-1) and (e-2) to read as follows:

12           (c) Any person who becomes an employee of the city or the  
13 system, if eligible for membership, shall become a member as a  
14 condition of employment and shall make the required deposits  
15 commencing with the first pay period following a probationary  
16 period of six continuous months from date of employment, if  
17 applicable, or eligibility, if later.

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

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

25           (2) [~~B~~] Active--Noncontributory: the member whose  
26 current employment status does not allow contributions to the  
27 system (working less than a normal work week or on a leave of

1 absence under Subsection (f)(6)(A) of this section) and on return  
2 to working a normal work week, the member will again be given  
3 creditable service, with contributions resumed at time of status  
4 change.

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

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

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

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

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

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

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

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

25                                   (i) did not withdraw the member's  
26 accumulated deposits from the system; or

27                                   (ii) withdrew the member's accumulated

1 deposits from the system, but reinstated all of the previously  
2 forfeited creditable service; and

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

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

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

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

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

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

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

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

26 (1) Probationary service creditable in the system is  
27 any probationary service following the member's commission date or



1 the member's first date of employment with the system for which the  
2 member does not have creditable service.

3 (2) An eligible member or eligible surviving spouse  
4 may establish creditable service under this section by contributing  
5 to the system a single payment equal to the contribution the member  
6 would have made to the system for that service at the time the  
7 service was performed and an interest charge based on the  
8 contribution amount to be repaid times an interest factor. The  
9 interest factor is eight percent per year for the period that begins  
10 with the beginning of the month and year at the end of the  
11 probationary period for which creditable service is being  
12 established to the beginning of the month and year payment is made  
13 to the system for the purpose of establishing said service.

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

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

22 (a) Under irrevocable action taken by the city council on  
23 February 12, 1998, police [~~This section does not take effect unless~~  
24 ~~the city council authorizes the city to begin making contributions~~  
25 ~~to the police retirement system in accordance with Section 8.01(a)~~  
26 ~~of this Act for police cadets during their employment as cadets~~  
27 ~~while members of a cadet class. Police]~~ cadets whose cadet class

1 begins after April 1, 1998, [~~the city council makes the~~  
2 ~~authorization~~] shall make deposits to the police retirement system  
3 in accordance with Section 8.01(a) of this Act, and those cadets  
4 shall be members of the police retirement system and shall receive  
5 creditable service for employment as cadets while members of a  
6 cadet class, notwithstanding Sections 1.02(7), (18), and (21) of  
7 this Act.

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

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

17 (1) for a group A member, the product of 3.2 [2.88]  
18 percent of a member's average final compensation multiplied by the  
19 number of months of creditable service; or

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

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

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

1 rule,

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

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

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

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

26 SECTION 10. Section 6.02, Chapter 452 (S.B. 738), Acts of  
27 the 72nd Legislature, Regular Session, 1991 (Article 6243n-1,

1 Vernon's Texas Civil Statutes), is amended by amending Subsection  
2 (a) and adding Subsection (a-1) to read as follows:

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

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

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

16 (b) If a member who has attained the applicable age for the  
17 minimum distribution required under Section 401(a)(9) of the  
18 Internal Revenue Code of 1986 (26 U.S.C. Section 401(a)(9)) [~~age~~  
19 ~~70-1/2~~] separates or has separated from service without applying  
20 for retirement or a refund of accumulated deposits, the police  
21 retirement system shall attempt to send to that member a written  
22 notice as soon as practicable after the later of the date the member  
23 attains the applicable age [~~70-1/2~~] or the date the member  
24 separates from service. The written notice must advise the member  
25 of the requirement under Section 401(a)(9) of the Internal Revenue  
26 Code of 1986 (26 U.S.C. Section 401(a)(9)) to retire and begin  
27 receiving a monthly retirement benefit. If, before the 91st day

1 after the date the police retirement system sends the notice, the  
2 member has not filed an application for retirement or a refund, the  
3 member is considered to have retired on the last day of the third  
4 month following the later of the two dates specified by this  
5 subsection. If applicable, the retirement option shall be  
6 determined in accordance with the member's written selection of  
7 optional benefit and designation of beneficiary under Section  
8 6.06(a)(1) of this Act. Otherwise, the member shall receive the  
9 life annuity under Section 6.01 of this Act.

10 SECTION 12. Section 6.07(e), Chapter 452 (S.B. 738), Acts  
11 of the 72nd Legislature, Regular Session, 1991 (Article 6243n-1,  
12 Vernon's Texas Civil Statutes), is amended to read as follows:

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

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

24 (a) On award of disability retirement benefits, the member  
25 shall receive a disability retirement benefit computed in the same  
26 manner that a service retirement benefit would be computed at the  
27 member's normal retirement date, based on average final

1 compensation and creditable service at date of disability  
2 retirement without reduction for early retirement. If the  
3 disability is a direct or proximate result of the performance of the  
4 member's employment duties with the system or the city, then the  
5 disability retirement benefit will be subject to a minimum benefit  
6 determined in accordance with Section 6.01(a)(1) or (2) of this  
7 Act, as applicable, based on:

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

10           (2) for:

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

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

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

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

26           Sec. 8.01. MEMBER CONTRIBUTIONS [~~METHOD OF FINANCING~~]. (a)  
27 [~~1~~] Deposits by the members to the police retirement system shall

1 be made at a rate of at least:

2 (1) 13 percent of the basic hourly earnings of the  
3 [each] member, for each pay period beginning before January 1,  
4 2022; and

5 (2) 15 percent of the basic hourly earnings of the  
6 member, for each pay period beginning on or after January 1, 2022,  
7 unless a different member contribution rate is required in  
8 accordance with Section 8.04(b)(4) of this Act, as adjusted, if  
9 applicable, under Section 8.065 of this Act, except that the rate  
10 may not exceed 17 percent.

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

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

1 decreased under this subsection.

2       Sec. 8.02. CITY CONTRIBUTIONS. (a) [(2)] The city shall  
3 contribute amounts equal to [~~18 percent of the basic hourly~~  
4 ~~earnings of each member employed by the city for all periods on or~~  
5 ~~before September 30, 2010, subject to additional amounts as~~  
6 ~~provided by Subdivision (3) of this subsection. The city shall~~  
7 ~~contribute amounts equal to 19 percent of the basic hourly earnings~~  
8 ~~of each member employed by the city for all periods after September~~  
9 ~~30, 2010, and before October 1, 2011, subject to additional amounts~~  
10 ~~as provided by Subdivision (3) of this subsection. The city shall~~  
11 ~~contribute amounts equal to 20 percent of the basic hourly earnings~~  
12 ~~of each member employed by the city for all periods after September~~  
13 ~~30, 2011, and before October 1, 2012, subject to additional amounts~~  
14 ~~as provided by Subdivision (3) of this subsection. The city shall~~  
15 ~~contribute amounts equal to] 21 percent of the basic hourly  
16 earnings of each member employed by the city for all pay periods  
17 beginning after September 30, 2012, and before January 1, 2022,  
18 subject to additional amounts as provided by Section 8.07 of this  
19 Act [Subdivision (3) of this subsection]. For all pay periods  
20 beginning on or after January 1, 2022, the city shall make  
21 contributions to the police retirement system in accordance with  
22 Subsections (b) and (c) of this section and Sections 8.03, 8.04,  
23 8.05, and 8.06 of this Act, as applicable, and subject to additional  
24 amounts as provided by Section 8.07 of this Act. The city council  
25 may also authorize the city to make additional contributions to the  
26 police retirement system in whatever amount the city council may  
27 determine. Contributions by the city shall be made each pay period.~~



1       (b) For each pay period that begins on or after January 1,  
2 2022, and before January 1, 2023, the city shall contribute an  
3 amount equal to the sum of:

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

8           (2) 1/26 of the city legacy contribution amount for  
9 the 2022 calendar year, as determined and adjusted in the initial  
10 risk sharing valuation study conducted under Section 8.03 of this  
11 Act.

12       (c) For each pay period that begins on or after January 1,  
13 2023, the city shall contribute an amount equal to the sum of:

14           (1) the city contribution rate for the applicable  
15 calendar year, as determined in a subsequent risk sharing valuation  
16 study conducted under Section 8.04 of this Act and adjusted under  
17 Section 8.05 or 8.06 of this Act, as applicable, multiplied by the  
18 pensionable payroll for the applicable pay period; and

19           (2) 1/26 of the city legacy contribution amount for  
20 the applicable calendar year, as determined and adjusted in the  
21 initial risk sharing valuation study conducted under Section 8.03  
22 of this Act.

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

27       (b) The initial risk sharing valuation study must:

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

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

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

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

13           (c) For purposes of Subsection (b)(4) of this section, the  
14 schedule of city legacy contribution amounts must be determined in  
15 such a manner that the total annual city legacy contribution amount  
16 for the first three calendar years will result in a phase-in of the  
17 anticipated increase in the city's contribution rate from the  
18 calendar year that begins on January 1, 2021, in accordance with  
19 Subsection (a) of this section, to the rate equal to the sum of the  
20 estimated contribution rate for the calendar year that begins on  
21 January 1, 2022, and the rate of pensionable payroll equal to the  
22 city legacy contribution amount for January 1, 2022, determined as  
23 if there was no phase-in of the increase to the city legacy  
24 contribution amount. The phase-in must reflect approximately  
25 one-third of the increase each year over the three-year phase-in  
26 period. The city's contribution under Section 8.02 of this Act for:

27           (1) the calendar years that begin on January 1, 2022,

1 January 1, 2023, and January 1, 2024, must be adjusted to reflect  
2 the impact of the phase-in prescribed by this section; and

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

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

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

17 (b) Each risk sharing valuation study must:

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

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

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

26 (4) determine the city contribution rate and the  
27 member contribution rate for the following calendar year, taking

1 into account any adjustments required under Section 8.05, 8.06, or  
2 8.065 of this Act, as applicable; and

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

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

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

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

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

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

1                   (ii) if there is no liability loss layer, a  
2 period of 30 years from the first day of the calendar year beginning  
3 12 months after the date of the risk sharing valuation study in  
4 which the liability gain layer is first recognized;

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

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

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

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

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

17                   (2) for any calendar year after the payoff year of the  
18 legacy liability.

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

23                   (1) are consistent with actuarial standards of  
24 practice;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

14 (a) This section governs the determination of the member  
15 contribution rate applicable in a calendar year under Section  
16 8.04(b)(4) of this Act if the estimated city contribution rate  
17 determined under Section 8.04(b)(3) of this Act is greater than the  
18 maximum city contribution rate.

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

23 (1) the estimated city contribution rate; and

24 (2) the maximum city contribution rate.

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

27 (d) If the estimated city contribution rate is more than two

1 percent of pensionable payroll greater than the maximum city  
2 contribution rate, the city and the board shall enter into  
3 discussions to determine additional funding solutions.

4 Sec. 8.07. ADDITIONAL CITY CONTRIBUTIONS FOR PROPORTIONATE  
5 RETIREMENT PROGRAM PARTICIPATION. (a) [~~3~~] The city shall  
6 contribute amounts in addition to the amounts described by Section  
7 8.02 of this Act [~~Subdivision (2) of this subsection~~] as required by  
8 Section 803.101(h), Government Code, to fund the additional  
9 liabilities incurred by the police retirement system as a result of  
10 participating in the proportionate retirement program. The rate at  
11 which the city shall contribute additional amounts under this  
12 section [~~subdivision~~] is equal to 0.737 [~~0.25~~] percent of the basic  
13 hourly earnings of each member employed by the city for all pay  
14 periods commencing on or after October 1, 2020, subject to  
15 adjustment under Subsection (b) of this section [~~from January 4,~~  
16 ~~2009, through September 30, 2009. The rate at which the city shall~~  
17 ~~contribute additional amounts under this subdivision is equal to~~  
18 ~~0.63 percent of the basic hourly earnings of each member employed by~~  
19 ~~the city for all periods after September 30, 2009, subject to~~  
20 ~~adjustment under Subdivision (4) of this subsection~~].

21 (b) [~~4~~] The additional contribution rate under Subsection  
22 (a) of this section [~~Subdivision (3) of this subsection~~] shall  
23 increase or decrease as considered necessary by the actuary for the  
24 police retirement system after each five-year period of  
25 participation by the system in the proportionate retirement program  
26 in order to update the amount necessary to fund the additional  
27 liabilities incurred by the system as a result of participating in



1 the proportionate retirement program and of the consolidation of  
2 the city's public safety and emergency management department with  
3 the police department on January 4, 2009. The system's actuary  
4 shall perform an experience study that shall be the basis for a  
5 contribution rate adjustment under this subsection [~~subdivision~~].  
6 The effective date of the initial contribution rate adjustment  
7 under this subsection [~~subdivision~~] is October 1, 2015. Each later  
8 contribution rate adjustment under this subsection [~~subdivision~~]  
9 takes effect October 1 of every fifth year after the effective date  
10 of the initial contribution rate adjustment. The system's actuary  
11 shall present to the police retirement board the experience study  
12 on which any contribution rate adjustment under this subsection  
13 [~~subdivision~~] is based not later than 45 days before the effective  
14 date of the adjustment, and the city's actuary shall have the  
15 opportunity to review and comment on the study. An adjustment in  
16 the additional contribution rate under this subsection  
17 [~~subdivision~~] may not cause the additional contribution rate under  
18 Subsection (a) of this section [~~Subdivision (3) of this subsection~~]  
19 to be less than zero.

20 Sec. 8.08. PUBLICATION OF CHANGES TO CONTRIBUTION RATES.  
21 [~~(b)~~] Any change of the rates of deposit and the rates of  
22 contribution shall be published when approved by the board.

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

25 [~~(d)~~] Expenses involved in administration and operation of  
26 the police retirement system shall be paid from the assets of the  
27 police retirement system subject to approval by the board. Such

1 expenses shall include actuarial valuations of the system no less  
2 frequently than on a biennial basis, annual audits and/or actuarial  
3 studies, preparation of annual reports, and staff assistance.  
4 Additional consulting may be authorized by the board and paid for  
5 from the assets of the police retirement system as deemed necessary  
6 from time to time by the board.

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

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

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

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

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

26 (e) Member contributions made as provided by Subsection (d)  
27 of this section [~~subsection~~] shall be deposited to the individual

1 account of each affected member and shall be treated as  
2 compensation of members for all other purposes of this Act and for  
3 the purpose of determining contributions to the federal Old-Age,  
4 Survivors, and Disability Insurance System (Social Security). The  
5 provisions of this subsection shall remain in effect as long as the  
6 plan covering members is a qualified retirement plan under Section  
7 401(a), Internal Revenue Code (26 U.S.C. Section 401(a)), and its  
8 related trust is tax exempt under Section 501(a), Internal Revenue  
9 Code (26 U.S.C. Section 501(a)).

10 Sec. 8.11. EFFECT OF SYSTEM TERMINATION ON CONTRIBUTIONS.

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

22 Sec. 8.12. EFFECT OF FORFEITURE. [~~h~~] A forfeiture from a

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

1           Sec. 8.13. SYSTEM ASSETS. [~~i~~] The assets of the police  
2 retirement system shall be held in trust for the exclusive benefit  
3 of the members and their beneficiaries. The corpus or income may  
4 not be used for or diverted to a purpose other than the exclusive  
5 benefit of members or their beneficiaries, whether by operation or  
6 natural termination of the system, by power of revocation or  
7 amendment, by the happening of a contingency, by collateral  
8 arrangement, or by other means.

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

12           Sec. 13.02. MANDATORY DISTRIBUTIONS PROHIBITED. A member  
13 or former member who has separated from service may not be required  
14 to receive an eligible rollover distribution, as defined in Section  
15 13.01(b)(1) of this Act, without the member's consent unless the  
16 member or former member has attained the applicable age for minimum  
17 distributions required under Section 401(a)(9) of the Internal  
18 Revenue Code of 1986 (26 U.S.C. Section 401(a)(9)) [~~is at least~~  
19 ~~70-1/2 years of age~~].

20           SECTION 16. The following provisions of Chapter 452 (S.B.  
21 738), Acts of the 72nd Legislature, Regular Session, 1991 (Article  
22 6243n-1, Vernon's Texas Civil Statutes), are repealed:

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

27           SECTION 17. (a) In this section, "police retirement board"

1 has the meaning assigned by Section 1.02, Chapter 452 (S.B. 738),  
2 Acts of the 72nd Legislature, Regular Session, 1991 (Article  
3 6243n-1, Vernon's Texas Civil Statutes).

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

10 (c) When the terms of:

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

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

22 (B) the other resulting vacancy shall be filled  
23 by election of the members in accordance with Sections 3.02(a)(4)  
24 and 3.03, Chapter 452 (S.B. 738), Acts of the 72nd Legislature,  
25 Regular Session, 1991 (Article 6243n-1, Vernon's Texas Civil  
26 Statutes), as applicable; and

27 (2) the three members of the police retirement board

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

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

**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: HB4368** by Rodriguez (Relating to participation in, contributions to, and the benefits and administration of retirement systems for police officers in certain municipalities.), **As Passed 2nd House**

**No significant fiscal implication to the State is anticipated.**

The bill would amend Vernon's Civil Statutes to make changes to the benefits and financing structure of the Austin Police Retirement System (APRS). According to the actuarial impact statement provided by the Pension Review Board (PRB), if the bill were enacted, the long-term cost of the retirement system would be reduced, and the contribution changes would move the system from an infinite amortization period to an effective amortization period of 30 years, effective January 1, 2022. No significant impact to state agencies is anticipated from the provisions of the bill.

**Local Government Impact**

The fiscal implications of the bill cannot be determined at this time.

**Source Agencies:** 338 Pension Review Board

**LBB Staff:** JMc, CMA, KK, LCO, JPO, AAL, AF

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 87TH LEGISLATIVE REGULAR SESSION**

**May 22, 2021**

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

**FROM:** Jerry McGinty, Director, Legislative Budget Board

**IN RE: HB4368** by Rodriguez (relating to participation in, contributions to, and the benefits and administration of retirement systems for police officers in certain municipalities.), **Committee Report 2nd House, Substituted**

**No significant fiscal implication to the State is anticipated.**

The bill would amend Vernon's Civil Statutes to make changes to the benefits and financing structure of the Austin Police Retirement System (APRS). According to the actuarial impact statement provided by the Pension Review Board (PRB), if the bill were enacted, the long-term cost of the retirement system would be reduced, and the contribution changes would move the system from an infinite amortization period to an effective amortization period of 30 years, effective January 1, 2022. No significant impact to state agencies is anticipated from the provisions of the bill.

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



**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: HB4368** by Rodriguez (Relating to participation in, contributions to, and the benefits and administration of retirement systems for police officers in certain municipalities.), **As Engrossed**

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**Local Government Impact**

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**Source Agencies:** 338 Pension Review Board

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

**LEGISLATIVE BUDGET BOARD**

**Austin, Texas**

**FISCAL NOTE, 87TH LEGISLATIVE REGULAR SESSION**

**May 10, 2021**

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

**FROM:** Jerry McGinty, Director, Legislative Budget Board

**IN RE: HB4368** by Rodriguez (relating to participation in, contributions to, and the benefits and administration of retirement systems for police officers in certain municipalities.), **Committee Report 1st House, Substituted**

**No significant fiscal implication to the State is anticipated.**

The bill would amend Vernon's Civil Statutes to make changes to the benefits and financing structure of the Austin Police Retirement System (APRS). According to the actuarial impact statement provided by the Pension Review Board (PRB), if the bill were enacted, the long-term cost of the retirement system would be reduced, and the contribution changes would move the system from an infinite amortization period to an effective amortization period of 30 years, effective January 1, 2022. No significant impact to state agencies is anticipated from the provisions of the bill.

**Local Government Impact**

The fiscal implications of the bill cannot be determined at this time.

**Source Agencies:** 338 Pension Review Board

**LBB Staff:** JMc, AAL, LCO, JPO, AF

**LEGISLATIVE BUDGET BOARD**

**Austin, Texas**

**FISCAL NOTE, 87TH LEGISLATIVE REGULAR SESSION**

**April 15, 2021**

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

**FROM:** Jerry McGinty, Director, Legislative Budget Board

**IN RE: HB4368** by Rodriguez (Relating to the administration of certain municipal police retirement systems.), **As Introduced**

**No significant fiscal implication to the State is anticipated.**

The bill would amend Vernon's Civil Statutes to make changes to the benefits and financing structure of the Austin Police Retirement System (APRS). According to the actuarial impact statement provided by the Pension Review Board (PRB), if the bill were enacted, the long-term cost of the retirement system would be reduced, and the contribution changes would move the system from an infinite amortization period to an effective amortization period of 31 years. No significant impact to state agencies is anticipated from the provisions of the bill.

**Local Government Impact**

The City of Austin estimates a fiscal impact of approximately \$14.0 million growing 3% annually (to cover the legacy liability) with the possibility to grow by another 5% to the maximum of the corridor (or approximately \$9.5M).

**Source Agencies:** 338 Pension Review Board

**LBB Staff:** JMc, AAL, LCO, JPO, AF

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**ACTUARIAL IMPACT STATEMENT**  
**87TH LEGISLATIVE REGULAR SESSION**

**May 22, 2021**

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

**FROM:** Jerry McGinty, Director, Legislative Budget Board

**IN RE: HB4368** by Rodriguez (relating to participation in, contributions to, and the benefits and administration of retirement systems for police officers in certain municipalities.), **Committee Report 2nd House, Substituted**

**COST ESTIMATE**

*Based on the December 31, 2019 Actuarial Valuation projected to December 31, 2020.  
Effective January 1, 2022*

<b>Austin Police Retirement System (APRS)</b>	<b>Current</b>	<b>Proposed</b>	<b>Difference</b>
Employee Contribution (% of payroll)	13.00%	15.00%	2.00%
Employer Contribution (% of payroll)*	21.31%	25.09%	3.78%
Total Contribution (% of payroll)	34.31%	40.09%	5.78%
Long-term Normal Cost (% of payroll)	24.98%	18.60%	(6.38%)
Amortization Period (years)	Infinite	30	N/A
Actuarial Soundness	Unsound	Sound	N/A

\*The employer contribution rate effective January 1, 2022 will be based on a closed 30-year amortization period of the December 31, 2020 unfunded liability, including a three-year phase-in of the new contribution rates which would result in the employer contribution rate increasing approximately 3.777 percent of payroll for the first three years.

**ACTUARIAL EFFECTS**

The bill would amend Vernon's Civil Statutes to make significant changes to the benefits and financing structure of the Austin Police Retirement System (APRS). The bill would add a new benefit tier (Group B), increase employee contributions, establish a payment schedule to eliminate the legacy liability, and add an actuarially determined contribution (ADC) for the employer. The new benefit tier would not change current member benefits and therefore would not change the current unfunded actuarially accrued liability (UAAL) or funding status; however, it would reduce the long-term cost associated with the plan. The city contributions for fiscal year 2022 could increase by almost \$7 million.

The actuarial review states under the current Pension Review Board (PRB) Pension Funding Guidelines, funding should be sufficient to cover the normal cost and to amortize the UAAL over as brief a period as possible, but not to exceed 30 years, with 10 - 25 years being the preferable target range. APRS is currently actuarially unsound, with an infinite amortization period. The bill would decrease the long-term normal cost by over six percent of payroll due to benefit changes, and the contribution changes in the bill would lower the amortization period from infinite to 30 years, effective January 1, 2022.

**SYNOPSIS OF PROVISIONS**

*Benefit changes:*

The bill would create a second benefit tier (Group B) for new hires beginning January 1, 2022. The primary differences between the current benefits and new tier benefits are outlined below:

	<b>Group A (current benefit)</b>	<b>Group B (new tier)</b>
Benefit Multiplier	3.2%	2.5%
Final Average Salary (Months)	Highest 36 months	Highest 60 months
Normal Retirement Date; earlier of	Age 55/ 20 years of service 23 years of service Age 62	Age 50/ 25 years of service Age 62

*Financing changes:*

The bill would establish a statutory funding policy for APRS consisting of an increase in employee contributions from 13 percent to 15 percent beginning January 1, 2022, and an actuarially determined contribution rate for the city. The city contribution rate would consist of two parts. First, the bill would establish a specified dollar payment that would pay off the existing UAAL (as of December 31, 2020), known as the legacy liability, over 30 installments. The payments for the first three years would be the result of a phase-in of approximately one-third of the contribution increase and grow at a rate of three percent thereafter. The second part would be comprised of the employer's normal cost combined with a layered amortization component designed to eliminate any unexpected future changes in the unfunded liability. Each year's valuation would produce an amortization layer, with losses amortized over a period of no more than 30 years.

*Contribution Corridor:*

The portion of the employer contribution rate designed to fund future benefit accruals would be subject to a minimum and maximum corridor of plus or minus five percent of the projected corridor mid-point. If the estimated employer contribution rate exceeds the corridor maximum, the employer contribution rate will be the corridor maximum. Additionally, the employee contribution rate would be increased by the difference between the estimated employer contribution and the corridor maximum, up to two percent. If the estimated employer contribution rate is more than two percent of payroll greater than the corridor maximum, the city and the board must enter into discussions to determine additional funding solutions. If the estimated employer contribution rate falls below the corridor minimum, the city would contribute the minimum rate.

*Actuarial Assumptions and Experience Study:*

The bill would require the board's actuary to perform an experience study at least every five years, and the board would be required to notify the city of the study. The city would then inform the system whether it would conduct its own experience study; have its actuary review the experience study; or accept the system's experience study. If the city decided to conduct an experience study, or review the system's experience study, both the city and the system's actuary must determine the hypothetical city contribution rate based on the proposed assumptions. If the difference was greater than two percent of payroll, the city and the system's actuary would attempt to reconcile the difference within 20 business days. If they could not reconcile the difference, an agreed upon third-party actuary would be required to opine on the differences in the assumptions and methods used by both actuaries. Under the proposed bill, the board would retain its constitutional responsibility to decide on actuarial assumptions.

*Board Composition and Authority:*

The bill would change the board composition to decrease the number of active members by one and replace that member with a citizen with finance or investment experience appointed by the city council. The bill would also add that the current citizen member that is appointed by the retirement board must have demonstrated finance or investment experience. Additionally, the bill would remove the board's authority to increase benefits, lower retirement eligibility, or grant cost-of-living-adjustments.

## FINDINGS AND CONCLUSIONS

The analysis highlights that while the benefit changes would have no immediate impact on the funding status of the system, as they would only affect members hired after January 1, 2022, the long-term cost of the system would be reduced, and the contribution changes would move the system from an infinite amortization period to an effective amortization period of 30 years, effective January 1, 2022. The analysis further notes that the assets for the system are expected to be depleted within the 50 years if no action is taken.

The review notes that the analysis does not include a projection of the expected corridor mid-point or the amortization schedule of the legacy liability. Below is the anticipated contribution changes for fiscal year 2022, based on the December 31, 2019 actuarial valuation.

<b>Contributions (in millions)</b>	<b>Current</b>	<b>If Bill enacted</b>
Member	\$23.3	\$26.9
Employer	\$38.2	\$44.9
Total	\$61.5	\$71.8

Based on the information included in the analysis, the projected \$44.9 million employer contribution for fiscal year 2022 would increase to \$53.2 and \$62.0 million for fiscal years 2023 and 2024. The gradual increase in employer contribution is due to the three-year phase-in approach the bill proposes. The legacy liability payments would increase at a rate of three percent per year thereafter.

According to the review, the corridor midpoint is the expected employer normal cost and would therefore be highly dependent on the actuary's assumptions regarding how quickly current members will be replaced by new members. Over time, the corridor midpoint would be expected to decrease as a percent of total pay, as new members with a lower normal cost replace current members. However, the corridor mid-point would increase on a dollar basis over the near term. At some point the increase in total payroll would be outpaced by the transition from Group A members to Group B members, such that the expected corridor mid-point could decrease on both a dollar and percent of pay basis, for at least a short period, until it reaches the ultimate long term normal cost of 18.6 percent.

## METHODOLOGY AND STANDARDS

The APRS analysis relies on the participant data, financial information, benefit structure and actuarial assumptions and methods used in the APRS actuarial valuation for December 31, 2019 project to December 31, 2020. According to the PRB actuaries, the actuarial assumptions, methods, and procedures are reasonable for the purpose of this analysis. All actuarial projections have a degree of uncertainty because they are based on the probability of occurrence of future contingent events. Accordingly, actual results will be different from the results contained in the analysis to the extent actual future experience varies from the experience implied by the assumptions. This analysis assumes that no other legislative changes affecting the funding or benefits of APRS will be adopted. It should be noted that when several proposals are adopted, the effect of each may be compounded, resulting in a cost that is greater (or less) than the sum of each proposal considered independently.

## SOURCES

Actuarial Analysis by Lewis Ward and Ryan Falls, FSA,EA, MAAA, Gabriel, Roeder, Smith & Company, May 6, 2021.

Actuarial Review by Marcia Dush, FSA, EA, MAAA, Board Actuary and Kenneth J. Herbold, ASA, EA, MAAA, Staff Actuary, Pension Review Board, May 7, 2021.

## GLOSSARY

Actuarial Accrued Liability (AAL) - The current value of benefits attributed to past years.

Actuarial Value of Assets (AVA) - The value of assets used for the actuarial valuation. The AVA can be either the market value (MVA) or a smoothed value of assets.

Amortization Payments - The portion of the total contribution used to reduce the unfunded actuarial accrued liability (UAAL).

Amortization Period - The specified length of time used when calculating the amortization payment portion of an actuarially determined contribution, or as the time it would theoretically take to fully fund the UAAL or fully recognize a surplus. The PRB recommends that funding should be sufficient to cover the normal cost and to amortize the UAAL over as brief a period as possible, but not to exceed 30 years, with 10-25 years being the preferable target range.

Actuarial Cost Method - An actuarial cost method is a way to allocate pieces of a participant's total expected benefit to each year of their working career. In other words, it is a technique to determine how much of the present value of future benefits (PVFB) to assign to past service (AAL) vs. future service (present value of future normal costs, or PVFNC).

Funded Ratio (FR) - The ratio of actuarial assets to the actuarial accrued liabilities.

Market Value of Assets (MVA) - The fair market value of the system's assets.

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Present Value of Future Benefits (PVFB) - The current value of all benefits expected to be paid from the plan to current plan participants.

Present Value of Future Normal Costs (PVFNC) - The current value of benefits attributed to the present year and all future years (includes the normal cost as the first year).

Unfunded Actuarial Accrued Liability (UAAL) - The difference between the actuarial accrued liability and the actuarial value of assets; therefore, the UAAL is the amount that is still owed to the fund for past obligations.

**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**

**May 19, 2021**

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

**FROM:** Jerry McGinty, Director, Legislative Budget Board

**IN RE: HB4368** by Rodriguez (Relating to participation in, contributions to, and the benefits and administration of retirement systems for police officers in certain municipalities.), **As Engrossed**

**COST ESTIMATE**

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**SYNOPSIS OF PROVISIONS**

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**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**

**May 10, 2021**

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

**FROM:** Jerry McGinty, Director, Legislative Budget Board

**IN RE: HB4368** by Rodriguez (relating to participation in, contributions to, and the benefits and administration of retirement systems for police officers in certain municipalities.), **Committee Report 1st House, Substituted**

**COST ESTIMATE**

*Based on the December 31, 2019 Actuarial Valuation projected to December 31, 2020.  
Effective January 1, 2022*

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**ACTUARIAL EFFECTS**

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Normal Retirement Date; earlier of	Age 55/ 20 years of service 23 years of service Age 62	Age 50/ 25 years of service Age 62

*Financing changes:*

The bill would establish a statutory funding policy for APRS consisting of an increase in employee contributions from 13 percent to 15 percent beginning January 1, 2022, and an actuarially determined contribution rate for the city. The city contribution rate would consist of two parts. First, the bill would establish a specified dollar payment that would pay off the existing UAAL (as of December 31, 2020), known as the legacy liability, over 30 installments. The payments for the first three years would be the result of a phase-in of approximately one-third of the contribution increase and grow at a rate of three percent thereafter. The second part would be comprised of the employer's normal cost combined with a layered amortization component designed to eliminate any unexpected future changes in the unfunded liability. Each year's valuation would produce an amortization layer, with losses amortized over a period of no more than 30 years.

*Contribution Corridor:*

The portion of the employer contribution rate designed to fund future benefit accruals would be subject to a minimum and maximum corridor of plus or minus five percent of the projected corridor mid-point. If the estimated employer contribution rate exceeds the corridor maximum, the employer contribution rate will be the corridor maximum. Additionally, the employee contribution rate would be increased by the difference between the estimated employer contribution and the corridor maximum, up to two percent. If the estimated employer contribution rate is more than two percent of payroll greater than the corridor maximum, the city and the board must enter into discussions to determine additional funding solutions. If the estimated employer contribution rate falls below the corridor minimum, the city would contribute the minimum rate.

*Actuarial Assumptions and Experience Study:*

The bill would require the board's actuary to perform an experience study at least every five years, and the board would be required to notify the city of the study. The city would then inform the system whether it would conduct its own experience study; have its actuary review the experience study; or accept the system's experience study. If the city decided to conduct an experience study, or review the system's experience study, both the city and the system's actuary must determine the hypothetical city contribution rate based on the proposed assumptions. If the difference was greater than two percent of payroll, the city and the system's actuary would attempt to reconcile the difference within 20 business days. If they could not reconcile the difference, an agreed upon third-party actuary would be required to opine on the differences in the assumptions and methods used by both actuaries. Under the proposed bill, the board would retain its constitutional responsibility to decide on actuarial assumptions.

*Board Composition and Authority:*

The bill would change the board composition to decrease the number of active members by one and replace that member with a citizen with finance or investment experience appointed by the city council. The bill would also add that the current citizen member that is appointed by the retirement board must have demonstrated finance or investment experience. Additionally, the bill would remove the board's authority to increase benefits, lower retirement eligibility, or grant cost-of-living-adjustments.

## FINDINGS AND CONCLUSIONS

The analysis highlights that while the benefit changes would have no immediate impact on the funding status of the system, as they would only affect members hired after January 1, 2022, the long-term cost of the system would be reduced, and the contribution changes would move the system from an infinite amortization period to an effective amortization period of 30 years, effective January 1, 2022. The analysis further notes that the assets for the system are expected to be depleted within the 50 years if no action is taken.

The review notes that the analysis does not include a projection of the expected corridor mid-point or the amortization schedule of the legacy liability. Below is the anticipated contribution changes for fiscal year 2022, based on the December 31, 2019 actuarial valuation.

<b>Contributions (in millions)</b>	<b>Current</b>	<b>If Bill enacted</b>
Member	\$23.3	\$26.9
Employer	\$38.2	\$44.9
Total	\$61.5	\$71.8

Based on the information included in the analysis, the projected \$44.9 million employer contribution for fiscal year 2022 would increase to \$53.2 and \$62.0 million for fiscal years 2023 and 2024. The gradual increase in employer contribution is due to the three-year phase-in approach the bill proposes. The legacy liability payments would increase at a rate of three percent per year thereafter.

According to the review, the corridor midpoint is the expected employer normal cost and would therefore be highly dependent on the actuary's assumptions regarding how quickly current members will be replaced by new members. Over time, the corridor midpoint would be expected to decrease as a percent of total pay, as new members with a lower normal cost replace current members. However, the corridor mid-point would increase on a dollar basis over the near term. At some point the increase in total payroll would be outpaced by the transition from Group A members to Group B members, such that the expected corridor mid-point could decrease on both a dollar and percent of pay basis, for at least a short period, until it reaches the ultimate long term normal cost of 18.6 percent.

## METHODOLOGY AND STANDARDS

The APRS analysis relies on the participant data, financial information, benefit structure and actuarial assumptions and methods used in the APRS actuarial valuation for December 31, 2019 project to December 31, 2020. According to the PRB actuaries, the actuarial assumptions, methods, and procedures are reasonable for the purpose of this analysis. All actuarial projections have a degree of uncertainty because they are based on the probability of occurrence of future contingent events. Accordingly, actual results will be different from the results contained in the analysis to the extent actual future experience varies from the experience implied by the assumptions. This analysis assumes that no other legislative changes affecting the funding or benefits of APRS will be adopted. It should be noted that when several proposals are adopted, the effect of each may be compounded, resulting in a cost that is greater (or less) than the sum of each proposal considered independently.

## SOURCES

Actuarial Analysis by Lewis Ward and Ryan Falls, FSA,EA, MAAA, Gabriel, Roeder, Smith & Company, May 6, 2021.

Actuarial Review by Marcia Dush, FSA, EA, MAAA, Board Actuary and Kenneth J. Herbold, ASA, EA, MAAA, Staff Actuary, Pension Review Board, May 7, 2021.

## GLOSSARY

Actuarial Accrued Liability (AAL) - The current value of benefits attributed to past years.

Actuarial Value of Assets (AVA) - The value of assets used for the actuarial valuation. The AVA can be either the market value (MVA) or a smoothed value of assets.



**Amortization Payments** - The portion of the total contribution used to reduce the unfunded actuarial accrued liability (UAAL).

**Amortization Period** - The specified length of time used when calculating the amortization payment portion of an actuarially determined contribution, or as the time it would theoretically take to fully fund the UAAL or fully recognize a surplus. The PRB recommends that funding should be sufficient to cover the normal cost and to amortize the UAAL over as brief a period as possible, but not to exceed 30 years, with 10-25 years being the preferable target range.

**Actuarial Cost Method** - An actuarial cost method is a way to allocate pieces of a participant's total expected benefit to each year of their working career. In other words, it is a technique to determine how much of the present value of future benefits (PVFB) to assign to past service (AAL) vs. future service (present value of future normal costs, or PVFNC).

**Funded Ratio (FR)** - The ratio of actuarial assets to the actuarial accrued liabilities.

**Market Value of Assets (MVA)** - The fair market value of the system's assets.

**Normal Cost (NC)** - Computed differently under different actuarial cost methods, the normal cost generally represents the current value of benefits attributed to the present year. The employer normal cost equals the total normal cost of the plan reduced by employee contributions.

**Present Value of Future Benefits (PVFB)** - The current value of all benefits expected to be paid from the plan to current plan participants.

**Present Value of Future Normal Costs (PVFNC)** - The current value of benefits attributed to the present year and all future years (includes the normal cost as the first year).

**Unfunded Actuarial Accrued Liability (UAAL)** - The difference between the actuarial accrued liability and the actuarial value of assets; therefore, the UAAL is the amount that is still owed to the fund for past obligations.

**Source** 338 Pension Review Board  
**Agencies:**

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

**LEGISLATIVE BUDGET BOARD**

**Austin, Texas**

**ACTUARIAL IMPACT STATEMENT**

**87TH LEGISLATIVE REGULAR SESSION**

**April 15, 2021**

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

**FROM:** Jerry McGinty, Director, Legislative Budget Board

**IN RE: HB4368** by Rodriguez (Relating to the administration of certain municipal police retirement systems.), **As Introduced**

**COST ESTIMATE**

*Based on the December 31, 2019 Actuarial Valuation projected to December 31, 2020.*

<b>Austin Police Retirement System (APRS)</b>	<b>Current</b>	<b>Proposed</b>	<b>Difference</b>
Employee Contribution (% of payroll)	13.00%	15.00%	2.00%
Employer Contribution (% of payroll)	21.31%	32.01%	10.70%
Total Contribution (% of payroll)	34.31%	47.01%	12.70%
Long-term Normal Cost (% of payroll)	24.98%	18.60%	(6.38%)
Amortization Period (years)	Infinite	31	N/A
Actuarial Soundness	Unsound	Sound	N/A

**ACTUARIAL EFFECTS**

The bill would amend Vernon's Civil Statutes to make significant changes to the benefits and financing structure of the Austin Police Retirement System (APRS). The bill would add a new benefit tier (Group B), increase employee contributions, establish a payment schedule to eliminate the legacy liability, and add an actuarially determined contribution (ADC) for the employer. The new benefit tier would not change current member benefits and therefore would not change the current unfunded actuarially accrued liability (UAAL) or funding status, however, it would reduce the long-term cost associated with the plan. The city contributions for fiscal year 2022 could increase by nearly \$20 million.

The bill would decrease the long-term normal cost by over 6 percent of payroll due to benefit changes, and the contribution changes in the bill would cause the fund to change from never being funded to having an effective amortization period of 31 years. The actuarial review states under the current Pension Review Board (PRB) Pension Funding Guidelines, funding should be sufficient to cover the normal cost and to amortize the UAAL over as brief a period as possible, but not to exceed 30 years, with 10 - 25 years being the preferable target range. APRS is currently actuarially unsound, with an infinite amortization period. The effective amortization period would be 31 years following the passage of this bill.

**SYNOPSIS OF PROVISIONS**

*Benefit changes:*

The bill would create a second benefit tier (Group B) for new hires beginning January 1, 2022. The primary differences between the current benefits and new tier benefits are outlined below:



	<b>Group A (current benefit)</b>	<b>Group B (new tier)</b>
Benefit Multiplier	3.20%	2.50%
Final Average Salary (Months)	36	60
Normal Retirement Date; earlier of	Age 55/ 20 years of service 23 years of service Age 62	Age 50/ 25 years of service Age 62

*Financing changes:*

The bill would establish a statutory funding policy for APRS consisting of fixed contributions for employees and a variable contribution rate for the city. The employee contribution would increase from 13 percent to 15 percent beginning January 1, 2022. The city contribution rate would consist of two parts. First, it would establish a specified dollar payment that would pay off the UAAL (as of December 31, 2020), known as the legacy liability, in 31 years. The second part would be comprised of the employer's normal cost combined with a layered amortization component designed to eliminate any unexpected future changes in the unfunded liability. Each year's valuation would produce an amortization layer, with losses amortized over a period of no more than 30 years.

*Contribution Corridor:*

The actuarially determined portion of the employer contribution rate would be subject to a minimum and maximum corridor of plus or minus 5 percent of the projected corridor mid-point. If the calculated contribution rate should exceed the corridor maximum, the bill would require the employer and APRS to enter into discussions to determine additional funding solutions. If the calculated contribution rate fell below the corridor minimum, the city would contribute the minimum rate.

**FINDINGS AND CONCLUSIONS**

The analysis highlights that while the benefit changes would have no immediate impact on the funding status of the system, as they would only affect members hired after January 1, 2022, the long-term cost of the system would be reduced, and the contribution changes would move the system from an infinite amortization period to an effective amortization period of 31 years. The analysis further notes that the assets for the system are expected to be depleted within the 50 years if no action is taken.

The review notes that the analysis does not include a projection of the expected corridor mid-point or the amortization schedule of the legacy liability. Below is the anticipated contribution changes for fiscal year 2022, based on the December 31, 2019 actuarial valuation.

<b>Contributions (in millions)</b>	<b>Current</b>	<b>If Bill enacted</b>
Member	\$23.30	\$26.90
Employer	\$38.20	\$57.30
Total	\$61.50	\$84.20

Based on the information included in the analysis, the projected \$57.3 million employer contribution for fiscal year 2022 is approximately one-third employer normal cost and two-thirds amortization of the legacy liability. The initial legacy liability payment of approximately \$39 million, as calculated by the PRB, would continue to increase by 3 percent per year. While the corridor mid-point would be dependent on the actuary's assumptions regarding how quickly current members will be replaced by new members, the corridor midpoint would be expected to decrease as a percent of total pay but increase on a dollar basis over the near term. At some point the increase in total compensation would be outpaced by the transition from Group A members to Group B members such that the expected corridor mid-point would decrease on both a dollar and percent of pay basis.

If the long-term normal cost does not go down by as much as projected, the required employer contribution rate could exceed the corridor maximum. The bill does not address action steps to be taken in the event the required contribution exceeds the maximum, and instead directs the system and the employer to enter into discussions. This structure creates future uncertainty and could cause the system and the employer to make additional, de facto benefit and/or contribution changes.

## **METHODOLOGY AND STANDARDS**

The APRS analysis relies on the participant data, financial information, benefit structure and actuarial assumptions and methods used in the APRS actuarial valuation for December 31, 2019. According to the PRB actuaries, the actuarial assumptions, methods, and procedures are reasonable for the purpose of this analysis. All actuarial projections have a degree of uncertainty because they are based on the probability of occurrence of future contingent events. Accordingly, actual results will be different from the results contained in the analysis to the extent actual future experience varies from the experience implied by the assumptions. This analysis assumes that no other legislative changes affecting the funding or benefits of APRS will be adopted. It should be noted that when several proposals are adopted, the effect of each may be compounded, resulting in a cost that is greater (or less) than the sum of each proposal considered independently.

## **SOURCES**

Actuarial Analysis by Lewis Ward and Ryan Falls, FSA, EA, MAAA, Gabriel, Roeder, Smith & Company, April 12, 2021.

Actuarial Review by Marcia Dush, FSA, EA, MAAA, Board Actuary and Kenneth J. Herbold, ASA, EA, MAAA, Staff Actuary, Pension Review Board, April 14, 2021.

## **GLOSSARY**

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Amortization Period - The specified length of time used when calculating the amortization payment portion of an actuarially determined contribution, or as the time it would theoretically take to fully fund the UAAL or fully recognize a surplus. The PRB recommends that funding should be sufficient to cover the normal cost and to amortize the UAAL over as brief a period as possible, but not to exceed 30 years, with 10-25 years being the preferable target range.

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Normal Cost (NC) - Computed differently under different actuarial cost methods, the normal cost generally represents the current value of benefits attributed to the present year. The employer normal cost equals the total normal cost of the plan reduced by employee contributions.

Present Value of Future Benefits (PVFB) - The current value of all benefits expected to be paid from the plan to current plan participants.

Present Value of Future Normal Costs (PVFNC) - The current value of benefits attributed to the present year and all future years (includes the normal cost as the first year).

Unfunded Actuarial Accrued Liability (UAAL) - The difference between the actuarial accrued liability and the actuarial value of assets; therefore, the UAAL is the amount that is still owed to the fund for past obligations.

**Source** 338 Pension Review Board

**Agencies:**

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