

By: Bucy

H.B. No. 4000

A BILL TO BE ENTITLED

AN ACT

relating to the public retirement systems for employees of certain municipalities.

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

SECTION 1. Section 2, Chapter 451, Acts of the 72nd Legislature, Regular Session, 1991 (Article 6243n, Vernon's Texas Civil Statutes), is amended by adding Subdivisions (2A), (3A), (5A), (5B), (10A), (10B), (13A), (13B), (13C), (19A), (19B), (19C), (20A), (26A), (26B), (26C), (26D), (26E), (29A), (31A), (31B), (33A), (33B), (35A), (44A), and (44B) to read as follows:

(2A) "Actuarial accrued liability" means the portion of the actuarial present value of projected benefits of the retirement system attributed to past periods of member service based on the cost method used in the risk sharing valuation study under Section 10B or 10C of this Act, as applicable.

(3A) "Actuarial value of assets" means the value of the retirement system's assets as calculated using the asset smoothing method used in the risk sharing valuation study under Section 10B or 10C of this Act, as applicable.

(5A) "Amortization period" means:

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

(B) if referring to the amortization period of the retirement system as a whole, the number of years incorporated

1 in a weighted average amortization factor for the sum of the legacy
2 liability and all liability layers as determined in each annual
3 actuarial valuation of assets and liabilities of the system.

4 (5B) "Amortization rate" means, for a given calendar
5 year, the percentage rate determined by:

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

8 (B) subtracting the city legacy contribution
9 amount for the same calendar year, as determined in the risk sharing
10 valuation study under Section 10B or 10C of this Act, as applicable,
11 from the sum under Paragraph (A); and

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

14 (10A) "City" means a municipality described in Section
15 1 of this Act.

16 (10B) "City legacy contribution amount" means, for
17 each calendar year, a predetermined payment amount expressed in
18 dollars in accordance with a payment schedule amortizing the legacy
19 liability for the calendar year ending December 31, 2022, that is
20 included in the initial risk sharing valuation study under Section
21 10B of this Act.

22 (13A) "Corridor" means the range of employer
23 contribution rates that are:

24 (A) equal to or greater than the minimum employer
25 contribution rate; and

26 (B) equal to or less than the maximum employer
27 contribution rate.

1 (13B) "Corridor margin" means five percentage points.

2 (13C) "Corridor midpoint" means the projected
3 employer contribution rate specified for each calendar year for 30
4 years as provided by the initial risk sharing valuation study under
5 Section 10B of this Act, rounded to the nearest hundredths decimal
6 place.

7 (19A) "Employer contribution rate" means, for a given
8 calendar year, a percentage rate equal to the sum of the employer
9 normal cost rate and the amortization rate, as adjusted under
10 Section 10D or 10E of this Act, as applicable.

11 (19B) "Employer normal cost rate" means, for a given
12 calendar year, the normal cost rate minus the applicable member
13 contribution rate determined under Section 10 of this Act.

14 (19C) "Estimated employer contribution rate" means,
15 for a given calendar year, an employer contribution rate equal to
16 the sum of the employer normal cost rate and the amortization rate
17 of the liability layers, as applicable, excluding the legacy
18 liability layer, and before any adjustments under Section 10D or
19 10E of this Act.

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

22 (26A) "Legacy liability" means the unfunded actuarial
23 accrued liability determined as of December 31, 2022, and for each
24 subsequent calendar year, adjusted as follows:

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

1 (B) adjusted by the assumed rate of return
2 adopted by the retirement system for the calendar year;

3 (26B) "Level percent of payroll method" means the
4 amortization method that defines the amount of a liability layer
5 recognized each calendar year as a level percent of pensionable
6 payroll until the amount of the liability layer remaining is
7 reduced to zero.

8 (26C) "Liability gain layer" means a liability layer
9 that decreases the unfunded actuarial accrued liability.

10 (26D) "Liability layer" means:

11 (A) the legacy liability established in the
12 initial risk sharing valuation study under Section 10B or 10C of
13 this Act, as applicable; or

14 (B) for calendar years after December 31, 2022,
15 the amount that the retirement system's unfunded actuarial accrued
16 liability increases or decreases, as applicable, due to the
17 unanticipated change for the calendar year as determined in each
18 subsequent risk sharing valuation study under Section 10C of this
19 Act.

20 (26E) "Liability loss layer" means a liability layer
21 that increases the unfunded actuarial accrued liability. For
22 purposes of this Act, the legacy liability is a liability loss
23 layer.

24 (29A) "Maximum employer contribution rate" means, for
25 a given calendar year, the rate equal to the corridor midpoint plus
26 the corridor margin.

27 (31A) "Minimum employer contribution rate" means, for

1 a given calendar year, the rate equal to the corridor midpoint minus
2 the corridor margin.

3 (31B) "Normal cost rate" means, for a given calendar
4 year, the salary weighted average of the individual normal cost
5 rates determined for the current active member population, plus the
6 assumed administrative expenses determined in the most recent
7 actuarial experience study.

8 (33A) "Payoff year" means the year a liability layer
9 is fully amortized under the amortization period.

10 (33B) "Pensionable payroll" means the aggregate basic
11 hourly earnings of all active-contributory members for a calendar
12 year or pay period, as applicable.

13 (35A) "Projected pensionable payroll" means the
14 estimated pensionable payroll for the calendar year beginning 12
15 months after the date of any risk sharing valuation study under
16 Section 10B or 10C of this Act, as applicable, at the time of
17 calculation by:

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

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

25 (44A) "Unanticipated change" means, with respect to
26 the unfunded actuarial accrued liability in each subsequent risk
27 sharing valuation study under Section 10B or 10C of this Act, as

applicable, the difference between:

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

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

(44B) "Unfunded actuarial accrued liability" means the difference between the actuarial accrued liability and the actuarial value of assets.

SECTION 2. Section 3, Chapter 451, Acts of the 72nd Legislature, Regular Session, 1991 (Article 6243n, Vernon's Texas Civil Statutes), is amended to read as follows:

Sec. 3. ESTABLISHMENT AND APPLICABILITY. Subject to the authority granted under ~~[the retirement board in Section 7(d) of]~~ this Act:

(1) members who retired, and the beneficiaries of members who died, prior to October 1, 2011, shall continue to receive the same retirement allowances or benefits they were entitled to receive prior to that date, together with any benefit increase authorized under this Act;

(2) members of the retirement system on or before December 31, 2011, shall be enrolled as members of Group A; and

(3) persons that first become members of the retirement system on or after January 1, 2012, shall be enrolled in Group B.

SECTION 3. Section 4(b), Chapter 451, Acts of the 72nd Legislature, Regular Session, 1991 (Article 6243n, Vernon's Texas

1 Civil Statutes), is amended to read as follows:

2 (b) The retirement board consists of 11 members as follows:

3 (1) place one: one member of the governing body,
4 designated by the governing body;

5 (2) place two: the city manager of the municipality or
6 the manager's designee;

7 (3) places three through five: three qualified voters
8 of the city who:

9 (A) have been city residents for the preceding
10 five years;

11 (B) have experience in the field of securities
12 investment, pension administration, pension law, or governmental
13 finance; and

14 (C) [who] are not employees, former employees, or
15 officers of an employer;

16 (4) place [places] six: the director of finance of the
17 municipality or the director's designee;

18 (5) places seven through nine: three ~~[four]~~
19 active-contributory members elected by the active-contributory
20 members; and

21 (6) [5] ~~[5]~~ places ten and eleven: two retired members
22 elected by the retired members.

23 SECTION 4. Section 4(c)(3), Chapter 451, Acts of the 72nd
24 Legislature, Regular Session, 1991 (Article 6243n, Vernon's Texas
25 Civil Statutes), is amended to read as follows:

26 (3) The places seven ~~[six]~~ through nine retirement
27 board members each serve on the retirement board for a four-year

term, unless service is earlier terminated by the death, resignation, termination of employment, disability, retirement, or removal of the retirement board member. The retirement board shall appoint an active-contributory member to fill a vacancy in each of places seven [~~six~~] through nine for the remainder of the unexpired term if the remainder of the unexpired term is 364 days or fewer. If the remainder of the unexpired term is 365 days or more, the vacancy shall be filled by the active-contributory members voting at a special election.

SECTION 5. Sections 4(d), (e), (f), (k), (t), and (w), Chapter 451, Acts of the 72nd Legislature, Regular Session, 1991 (Article [6243n](#), Vernon's Texas Civil Statutes), are amended to read as follows:

(d) Members for places seven [~~six~~] through eleven shall be elected in accordance with Subsections (e)-(m) of this section.

(e) Only active-contributory members shall be eligible for election for places seven [~~six~~] through nine. Only retired members shall be eligible for election for places ten and eleven. Not more than one active-contributory member shall be eligible for election from any one department or office or similar organizational unit that is established in the annual budget of an employer and is not part of any department.

(f) Members for places seven [~~six~~] through nine shall be elected to four-year [~~staggered~~] terms with the place seven term beginning January 1, 2024, and the terms of places eight and nine [~~two of such retirement board members~~] beginning January 1 of the following [~~each~~] even-numbered year.

1 (k) Elections for places seven [~~six~~] through nine shall be
2 held in December of odd-numbered years. Elections for places 10 and
3 11 shall be held in December of every second even-numbered year.
4 The candidates receiving the highest number of eligible votes shall
5 be deemed elected. In case of a tie vote, selection shall be by lot
6 drawn by an existing member of the retirement board at a meeting of
7 the retirement board held after the election but before the first
8 day of January of the year after the election.

9 (t) The retirement board shall have charge of and administer
10 the fund as trustee of the fund and [~~7~~] shall order payments from
11 the fund in accordance with this Act [~~7, and may increase, under~~
12 ~~Section 10(g) of this Act, the benefits and allowances the board~~
13 ~~pays from the fund~~]. If practicable, the retirement board shall
14 collect underpayments and refund overpayments. The retirement
15 board shall report annually to the members on the condition of the
16 fund and the receipts and disbursements on account of the fund.

17 (w) At least once every five years [~~From time to time on the~~
18 ~~advice of the actuary and the direction of the retirement board~~],
19 the actuary shall make an actuarial investigation of the mortality,
20 service, and compensation experience of members, retired members,
21 surviving spouses, and beneficiaries of the retirement system and
22 shall make a valuation of the assets and liabilities of the funds of
23 the system. Taking into account the result of such investigation
24 and valuation, the retirement board shall adopt for the retirement
25 system such mortality, service, and other actuarial tables or rates
26 as are deemed necessary. On the basis of tables and rates adopted
27 by the retirement board, the actuary shall make a valuation at least

once every two years of the assets and liabilities of the funds of the retirement system.

SECTION 6. Chapter 451, Acts of the 72nd Legislature, Regular Session, 1991 (Article 6243n, Vernon's Texas Civil Statutes), is amended by adding Section 4A to read as follows:

Sec. 4A. EXPERIENCE STUDY AND DETERMINING ACTUARIAL ASSUMPTIONS. (a) At least once every five years, the retirement board shall cause the retirement system's actuary to conduct an experience study to review the actuarial assumptions and methods adopted by the retirement board for the purposes of determining the actuarial liabilities and actuarially determined contribution rates of the system. The system shall notify the city at the beginning of an upcoming experience study by the system's actuary.

(b) In connection with the retirement system's experience study, the city may:

(1) conduct a separate experience study using an actuary chosen by the city;

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

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

(c) If the city conducts a separate experience study using the city's actuary, the city shall complete the study not later than the 91st day after the date the retirement system notified the city of the system's intent to conduct an experience study.

(d) If the city elects to have the city's actuary review the retirement system's experience study, the city shall complete the

1 review not later than the 31st day after the date the preliminary
2 results of the experience study are presented to the retirement
3 board.

4 (e) If the city chooses to have the city's own experience
5 study performed or to have the city's actuary review the system's
6 experience study, the system's actuary and the city's actuary shall
7 determine what the hypothetical employer contribution rate would be
8 using the proposed actuarial assumptions from the experience
9 studies and data from the most recent actuarial valuation.

10 (f) If the difference between the hypothetical employer
11 contribution rates determined by the retirement system's actuary
12 and the city's actuary:

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

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

22 (A) as a result of the reconciliation efforts
23 under this subdivision, the difference between the employer
24 contribution rates determined by the system's actuary and the
25 city's actuary is reduced to less than or equal to two percentage
26 points, no further action is needed and the retirement board shall
27 use the experience study performed by the system's actuary in

1 determining actuarial assumptions; or

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

9 (g) The independent third-party actuary retained under this
10 section must be chosen by the city from a list of three actuarial
11 firms provided by the retirement system.

12 (h) If a third-party actuary is retained under this section,
13 the third-party actuary's findings must be presented to the
14 retirement board with the experience study conducted by the
15 system's actuary and, if applicable, the city's actuary. If the
16 retirement board adopts actuarial assumptions or methods contrary
17 to the third-party actuary's findings:

18 (1) the system shall provide a formal letter
19 describing the rationale for the retirement board's action to the
20 governing body and State Pension Review Board; and

21 (2) the system's actuary and executive director shall
22 be made available at the request of the governing body or the State
23 Pension Review Board to present in person the rationale for the
24 retirement board's action.

25 (i) If the retirement board proposes a change to actuarial
26 assumptions or methods that is not in connection with an experience
27 study described by this section, the retirement system and the city

1 shall follow the same process prescribed by this section with
2 respect to an experience study in connection with the proposed
3 change.

4 SECTION 7. Effective January 1, 2024, Section 5(e), Chapter
5 451, Acts of the 72nd Legislature, Regular Session, 1991 (Article
6 6243n, Vernon's Texas Civil Statutes), is amended to read as
7 follows:

8 (e) Any person who has ceased to be a member and has received
9 a distribution of the person's accumulated deposits may have the
10 person's membership service in the original group in which the
11 membership service was earned reinstated if the person is
12 reemployed as a regular full-time employee and deposits into the
13 system the accumulated deposits withdrawn by that person, together
14 with an interest payment equal to the amount withdrawn multiplied
15 by an interest factor. The interest factor is equal to the annually
16 compounded interest rate assumed to have been earned by the fund
17 beginning with the month and year in which the person withdrew the
18 person's accumulated deposits and ending with the month and year in
19 which the deposit under this subsection is made. The interest rate
20 assumed to have been earned by the fund for any period is equal to
21 the actuarial assumed ~~[interest]~~ rate of return in effect on the
22 date of purchase ~~[credited for that period to the accumulated~~
23 ~~deposits of members, divided by 0.75]~~.

24 SECTION 8. Section 6(b), Chapter 451, Acts of the 72nd
25 Legislature, Regular Session, 1991 (Article 6243n, Vernon's Texas
26 Civil Statutes), is amended to read as follows:

27 (b) The retirement board shall determine by

nondiscriminatory rules and regulations consistently applied, subject to the provisions of this Act, in case of absence, illness, or other temporary interruption in service as a regular full-time employee, the portion of each calendar year to be allowed as creditable service. No credit shall be allowed as creditable service for any period exceeding one month during which an employee was absent continuously without pay, except for an authorized leave of absence as provided in this Act. Subject ~~[The retirement board shall verify the records for creditable service claims filed by the members of the retirement system, subject]~~ to the provisions of this Act and in accordance with such administrative rules and regulations as the retirement board may from time to time adopt, the retirement board shall:

(1) verify the records for creditable service claims filed by the members of the retirement system; and

(2) establish time frames during which a member must act to ensure that the purchase of creditable service or the conversion of sick leave to creditable service coincides with the member's retirement.

SECTION 9. Effective January 1, 2024, Section 6(c)(3), Chapter 451, Acts of the 72nd Legislature, Regular Session, 1991 (Article 6243n, Vernon's Texas Civil Statutes), is amended to read as follows:

(3) A member may establish uniformed creditable service for active federal duty service in the armed forces of the United States, other than service as a student at a service academy, as a member of the reserves, or any continuous active military

service lasting less than 90 days, performed before the first day of employment of the member's most recent membership in the retirement system or its predecessor system. To establish creditable service under this subdivision, the member must contribute at retirement a lump-sum payment equal to ~~[25 percent of]~~ the full actuarial cost of the additional creditable service, as determined by the retirement board acting on the advice of the actuary ~~[estimated cost of the retirement benefits the member will be entitled to receive]~~. The retirement board will determine the required contribution based on a procedure recommended by the actuary and approved by the retirement board.

SECTION 10. Effective January 1, 2024, Sections 6(e), (e-1), and (e-2), Chapter 451, Acts of the 72nd Legislature, Regular Session, 1991 (Article [6243n](#), Vernon's Texas Civil Statutes), are amended to read as follows:

(e) At ~~[any time before a member's actual]~~ retirement ~~[date]~~, the member may purchase noncontributory creditable service equal in amount to the period the member:

(1) was on verifiable workers' compensation leave due to an injury sustained in the course and scope of employment by an employer;

(2) was on an authorized leave of absence from an employer; or

(3) performed service for an employer in a position the service for which is not otherwise creditable in the retirement system.

(e-1) An active contributory member that is eligible for

1 retirement may file a written application to convert to creditable
2 service at retirement all or part of the member's sick leave accrued
3 with the employer that is eligible for conversion. The application
4 must be approved by the retirement board. The member may not
5 convert sick leave for which the member is entitled to be paid by
6 the employer. Sick leave hours may be converted in pay period
7 increments for the purpose of increasing creditable service that is
8 used in the calculation of benefits. Sick leave hours may not be
9 used to reach retirement eligibility. The ~~[Both the employer and~~
10 ~~the]~~ member must make the equivalent amount of retirement
11 contributions that would have been made had the sick hours been
12 exercised and used as sick leave hours. The employer's cost for
13 sick leave conversions must be funded through the contribution
14 rates.

15 (e-2) Nonqualified permissive creditable service may be
16 purchased only as provided by this subsection. At retirement, a ~~[A]~~
17 member may purchase nonqualified permissive creditable service:

18 (1) only to the extent permitted under both this
19 subsection and Section 415(n) of the code;

20 (2) in an amount that:

21 (A) for each purchase, is not less than one
22 month; and

23 (B) when all amounts purchased under this
24 subsection are combined, is not more than 60 months; and

25 (3) only if the member has reinstated all prior
26 membership service in:

27 (A) Groups A and B if the member was initially

1 enrolled as a member of Group A, but ceased to be a member of Group
2 A, by:

3 (i) first reinstating all prior membership
4 service in Group A;

5 (ii) next reinstating all prior membership
6 service in Group B; and

7 (iii) then purchasing the nonqualified
8 permissive creditable service; or

9 (B) Group B, if the member was initially enrolled
10 as a member of Group B, by:

11 (i) first reinstating all prior membership
12 service in Group B; and

13 (ii) then purchasing the nonqualified
14 permissive creditable service.

15 SECTION 11. Sections 7(h) and (hh), Chapter 451, Acts of the
16 72nd Legislature, Regular Session, 1991 (Article 6243n, Vernon's
17 Texas Civil Statutes), are amended to read as follows:

18 (h) Before a cost of living ~~[Prior to the retirement board's~~
19 ~~authorizing the payment of an]~~ adjustment or additional payment to
20 retirees, beneficiaries, or other payees may be provided:

21 (1) [7] the retirement system's actuary must
22 ~~[recommend such an adjustment or additional payment to the~~
23 ~~retirement board and]~~ certify in writing that, based on the sound
24 application of actuarial assumptions and methods consistent with
25 sound actuarial principles and standards, it is demonstrable that
26 the fund has and likely will continue to have the ability to pay
27 such an amount ~~[out of its realized income]~~ after all other

obligations of the fund have been paid;

(2) the retirement board must approve the adjustment or additional payment;

(3) the governing body must approve the adjustment or additional payment; and

(4) this Act must be amended to provide for the adjustment or additional payment.

(hh) Forfeitures that may result from the termination of any right of a member may not be used to increase benefits to remaining members. This subsection shall not preclude an increase in benefits by amendment to this Act, including by amendment ~~[or action of the retirement board]~~ in accordance with Subsection (h) ~~[(d)]~~ of this section, if applicable, that is made possible by forfeitures or for any other reason.

SECTION 12. Chapter 451, Acts of the 72nd Legislature, Regular Session, 1991 (Article [6243n](#), Vernon's Texas Civil Statutes), is amended by amending Section 10 and adding Sections 10A through 10G to read as follows:

Sec. 10. MEMBER CONTRIBUTIONS ~~[METHOD OF FINANCING]~~.

(a) Subject to adjustment under this Act and except as provided by Subsection (a-2) of this section, each ~~[Each]~~ active-contributory member shall make deposits to the retirement system at a rate equal to:

(1) beginning with the first pay period of:

(A) the 2024 calendar year, nine ~~[eight]~~ percent of the member's base ~~[compensation]~~ pay, ~~[or salary]~~, exclusive of overtime, incentive, or terminal pay; and

(B) the 2025 calendar year, 10 percent of the member's base pay exclusive of overtime, incentive, or terminal pay; or

(2) the member contribution rate otherwise prescribed by this section ~~[at a higher contribution rate approved by a majority vote of regular full-time employee members]~~.

(a-1) Deposits shall be made by payroll deduction each pay period. If a regular full-time employee works at least 75 percent of a normal 40-hour work week but less than the full 40 hours, the employee shall make deposits as though working a normal 40-hour work week even though the rate of contribution may exceed the member contribution prescribed by this section ~~[eight percent of the employee's actual compensation, pay, or salary]~~, and the employee's average final compensation shall be computed on the basis of the compensation, pay, or salary for a normal 40-hour work week. No deposits may be made nor membership service credit received for periods during which an employee's authorized normal work week is less than 75 percent of a normal 40-hour work week. A person who is eligible for inactive-contributory membership status and who chooses to be an inactive-contributory member shall make deposits to the retirement system each pay period in an amount that is equal to the amount of the member's deposit for the last complete pay period that the member was a regular full-time employee.

(a-2) The contribution rate of active-contributory ~~[regular full-time employee]~~ members may be increased ~~[increase]~~ by a majority vote of all such members voting at an election to consider an increase in contributions to a rate ~~[, each member's~~

1 ~~contributions]~~ above 10 ~~[eight]~~ percent or a ~~[above the]~~ higher
2 rate than the rate that was in effect at the time of the election
3 ~~[and approved by majority vote in whatever amount the retirement~~
4 ~~board recommends]~~.

5 Sec. 10A. EMPLOYER CONTRIBUTIONS. (a) Beginning with the
6 first pay period of:

7 (1) calendar year 2024, and before the first pay
8 period of calendar year 2025, the ~~[Each]~~ employer shall contribute
9 an amount ~~[amounts]~~ equal to the sum of:

10 (A) the employer contribution rate, as
11 determined in the initial risk sharing valuation study as of
12 December 31, 2022, multiplied by the pensionable payroll for the
13 applicable pay period; and

14 (B) 1/26 of the city's legacy contribution amount
15 for the 2024 calendar year, as determined and adjusted in the
16 initial risk sharing valuation study conducted under Section 10B of
17 this Act; and

18 (2) calendar year 2025, and for each subsequent
19 calendar year, the employer shall contribute an amount equal to the
20 sum of:

21 (A) the employer's contribution rate for the
22 applicable calendar year, as determined in a subsequent risk
23 sharing valuation study conducted and adjusted under Section 10C of
24 this Act, as applicable, multiplied by the pensionable payroll for
25 the applicable pay period; and

26 (B) 1/26 of the city's legacy contribution amount
27 for the applicable calendar year, as determined and adjusted in the

1 initial risk sharing valuation study conducted under Section 10B of
2 this Act ~~[eight percent of the compensation, pay, or salary of each~~
3 ~~active-contributory member and each inactive-contributory member~~
4 ~~employed by the employer, exclusive of overtime, incentive, or~~
5 ~~terminal pay, or a higher contribution rate agreed by the~~
6 ~~employer]~~.

7 **(b) If the employer elects to change the employer's payroll**
8 **period to a period other than a biweekly payroll period, the**
9 **fractional amounts of the employer's legacy contribution stated in**
10 **Subsections (a)(1)(B) and (a)(2)(B) of this section must be**
11 **adjusted such that the employer's calendar year contribution equals**
12 **the contribution required under Subsection (a)(1) or (a)(2), as**
13 **applicable.**

14 **Sec. 10B. INITIAL RISK SHARING VALUATION STUDY. (a) The**
15 **retirement system's actuary shall prepare an initial risk sharing**
16 **valuation study as of December 31, 2022. The initial risk sharing**
17 **valuation study must:**

18 **(1) except as otherwise provided by this section, be**
19 **prepared in accordance with the requirements of Section 10C of this**
20 **Act;**

21 **(2) be based on the actuarial assumptions that were**
22 **used by the system's actuary in the valuation completed for the year**
23 **ended December 31, 2022;**

24 **(3) project the corridor midpoint for the next 30**
25 **calendar years beginning with the calendar year that begins on**
26 **January 1, 2024;**

27 **(4) include a schedule of city legacy contribution**

amounts for 30 calendar years beginning with the calendar year that begins on January 1, 2024; and

(5) include an employer contribution:

(A) for the calendar years under Sections 10A(a)(1) and (2) of this Act that begin on January 1, 2024, and January 1, 2025, that must be adjusted to reflect the impact of the phase-in prescribed by Subsection (b) of this section; and

(B) for each calendar year under Section 10A(a)(2) of this Act that begins on January 1, 2026, through January 1, 2053, that must reflect a city legacy contribution amount that is three percent greater than the city legacy contribution amount for the preceding calendar year.

(b) The schedule of city legacy contribution amounts under Subsection (a)(4) of this section must be determined such that the total annual city legacy contribution amount for the first two calendar years results in a phase-in of the anticipated increase in the employer's contribution rate from the calendar year that begins on January 1, 2023, to the rate equal to the sum of the estimated contribution rate for the calendar year that begins on January 1, 2024, and the rate of pensionable payroll equal to the city legacy contribution amount for January 1, 2024, determined as if there was no phase-in of the increase to the city legacy contribution amount. The phase-in must reflect approximately one-half of the increase each year over the two-year phase-in period.

(c) The estimated employer contribution rate for the calendar year that begins on January 1, 2024, must be based on the projected pensionable payroll, as determined under the initial risk

sharing valuation study required by this section, assuming a payroll growth rate adopted by the retirement board.

Sec. 10C. SUBSEQUENT RISK SHARING VALUATION STUDIES. (a) For each calendar year beginning with January 1, 2024, the retirement system shall cause the system's actuary to prepare a risk sharing valuation study in accordance with this section and actuarial standards of practice. Each risk sharing valuation study must:

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

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

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

(4) determine the employer contribution rate and the member contribution rate for the following calendar year, taking into account any adjustments required under this section, as applicable; and

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

(A) closed layered amortization of liability layers to ensure that the amortization period for each liability layer begins 12 months after the date of the risk sharing valuation

study in which the liability layer is first recognized;

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

(C) each liability loss layer is amortized at the remaining amortization period of the legacy liability but not less than 20 years from the first day of the calendar year beginning 12 months after the date of the risk sharing valuation study in which the liability loss layer is first recognized, except that the legacy liability must be amortized over a 30-year period beginning January 1, 2024;

(D) each liability gain layer is amortized over:

(i) a period equal to the remaining amortization period on the largest remaining liability loss layer; or

(ii) if there is no liability loss layer, a period of 20 years from the first day of the calendar year beginning 12 months after the date of the risk sharing valuation study in which the liability gainlayer is first recognized;

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

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

(G) the employer contribution rate is calculated each calendar year without inclusion of the legacy liability.

(b) The city may contribute an amount in addition to the

scheduled city legacy contribution amounts to reduce the number or amount of scheduled future city legacy contribution payments. If the city contributes an additional amount under this subsection, the retirement system's actuary shall create a new schedule of city legacy contribution amounts that reflects payment of the additional contribution.

(c) The city and the retirement board may agree on a written transition plan for resetting the corridor midpoint, member contribution rates, or employer contribution rates:

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

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

(d) The retirement board may, by rule, adopt actuarial principles other than those required under this section, provided the actuarial principles:

(1) are consistent with actuarial standards of practice;

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

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

Sec. 10D. ADJUSTMENT TO EMPLOYER CONTRIBUTION RATE IF ESTIMATED EMPLOYER CONTRIBUTION RATE LOWER THAN CORRIDOR MIDPOINT. (a) Subject to Subsection (b) of this section, for the calendar year beginning January 1, 2024, and for each subsequent calendar year, if the estimated employer contribution rate is lower

1 than the corridor midpoint, the employer contribution rate for the
2 applicable year is:

3 (1) the corridor midpoint if the funded ratio is less
4 than 90 percent; or

5 (2) the estimated employer contribution rate if the
6 funded ratio is 90 percent or greater.

7 (b) The employer contribution rate may not be lower than the
8 minimum employer contribution rate.

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

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

13 (2) the city legacy contribution amount may no longer
14 be included in the employer contribution.

15 Sec. 10E. ADJUSTMENT TO EMPLOYER CONTRIBUTION RATE IF
16 ESTIMATED EMPLOYER CONTRIBUTION RATE EQUAL TO OR GREATER THAN
17 CORRIDOR MIDPOINT. For the calendar year beginning January 1,
18 2024, and for each subsequent calendar year, if the estimated
19 employer contribution rate is equal to or greater than the corridor
20 midpoint and:

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

24 (2) greater than the maximum employer contribution
25 rate for the corresponding calendar year, the employer contribution
26 rate is the maximum employer contribution rate.

27 Sec. 10F. ADJUSTMENT TO MEMBER CONTRIBUTION RATE IF

1 ESTIMATED EMPLOYER CONTRIBUTION RATE GREATER THAN CORRIDOR
2 MAXIMUM. (a) Except as provided by Subsection (b) of this section,
3 if the estimated employer contribution rate is ever greater than
4 the corridor maximum, the member contribution rate will increase by
5 an amount equal to the difference between the estimated employer
6 contribution rate and the maximum employer contribution rate.

7 (b) The member contribution rate may not be increased by
8 more than two percentage points under Subsection (a) of this
9 section.

10 (c) If the estimated employer contribution rate is more than
11 two percentage points above the maximum employer contribution rate,
12 the city and the retirement board shall enter into discussions to
13 determine additional funding solutions.

14 Sec. 10G. ADDITIONAL EMPLOYER CONTRIBUTIONS; OTHER
15 PROVISIONS GOVERNING METHODS OF FINANCING. (a) If a regular
16 full-time employee of the employer works at least 75 percent of a
17 normal 40-hour work week but less than the full 40 hours, the
18 employer shall make contributions for that employee as though that
19 employee works a normal 40-hour work week even though the rate of
20 contribution may exceed the member contribution rate required by
21 Section 10 of this Act ~~[eight percent of that employee's actual~~
22 ~~compensation, pay, or salary]~~. The governing body of the city may
23 authorize the city to make additional contributions to the system
24 in whatever amount the governing body may determine. If the
25 governing body authorizes additional contributions to the system by
26 the city for city employees, the board of each other employer shall
27 increase the contributions for such employer's respective

1 employees by the same percentage. Employer contributions shall be
2 made each pay period.

3 (b) In addition to the contributions [~~by the city~~] required
4 by Section 10A of this Act [~~Subsection (a) of this section~~], the
5 city shall contribute to the retirement fund each month two-thirds
6 of such amounts as are required for the payment of prior service
7 pensions that are payable during that month, and one-third of each
8 prior service pension payable that month shall be made from Fund
9 No. 2.

10 (c) Employer contributions shall be paid to the retirement
11 system after appropriation by the respective governing body or
12 board.

13 (d) Expenses for administration and operation of the
14 retirement system that are approved by the retirement board shall
15 be paid by the retirement board from funds of the retirement
16 system. Such expenses shall include salaries of retirement board
17 employees and fees for actuarial services, legal counsel services,
18 physician services, accountant services, annual audits by
19 independent certified public accountants, investment manager
20 services, investment consultant services, preparation of annual
21 reports, and staff assistance.

22 (e) Each employer shall pick up the contributions required
23 to be made to the fund by its respective employees. Active
24 contributory member deposits will be picked up by each employer by a
25 reduction in each such employee's monetary compensation. All such
26 employee contributions shall be treated as employer contributions
27 in accordance with Section 414(h)(2) of the code for the purpose of

1 determining tax treatment of the amounts under the code. Such
2 contributions are not includable in the gross income of the
3 employee until such time as they are distributed or made available
4 to the employee. Each employee deposit picked up as provided by
5 this subsection shall be credited to the individual accumulated
6 deposits account of each such employee and shall be treated as
7 compensation of the employee for all other purposes of this Act and
8 for the purpose of determining contributions to social
9 security. The provisions of this subsection shall remain in effect
10 as long as the plan covering employees of the employers is a
11 qualified retirement plan under Section 401(a) of the code and its
12 related trust is tax exempt under Section 501(a) of the code.

13 (f) Under no circumstances and in no event may any of the
14 contributions and income of the retirement system revert to the
15 employer or otherwise be diverted to or used for any purpose other
16 than the exclusive benefit of the members, retirees and their
17 beneficiaries. It shall be impossible for the diversion or use
18 prohibited by the preceding sentence to occur, whether by operation
19 or natural termination of the retirement system, by power of
20 revocation or amendment, by the happening of a contingency, by
21 collateral arrangement, or by any other means.

22 SECTION 13. Sections 7(d), (e), (f), (g), (i), and (j),
23 Chapter 451, Acts of the 72nd Legislature, Regular Session, 1991
24 (Article [6243n](#), Vernon's Texas Civil Statutes), are repealed.

25 SECTION 14. (a) In this section, "retirement board" has the
26 meaning assigned by Section 2, Chapter 451, Acts of the 72nd
27 Legislature, Regular Session, 1991 (Article [6243n](#), Vernon's Texas

1 Civil Statutes).

2 (b) Section 4, Chapter 451, Acts of the 72nd Legislature,
3 Regular Session, 1991 (Article 6243n, Vernon's Texas Civil
4 Statutes), as amended by this Act, does not affect the term of a
5 member of the retirement board appointed or elected under that
6 section, as that section existed immediately before the effective
7 date of this Act, and serving on the board on the effective date of
8 this Act.

9 (c) When the terms of the members serving in place six and
10 place seven of the retirement board elected under Section 4(b)(4),
11 Chapter 451, Acts of the 72nd Legislature, Regular Session, 1991
12 (Article 6243n, Vernon's Texas Civil Statutes), as that section
13 existed immediately before the effective date of this Act, who have
14 terms that expire in December 2023, expire:

15 (1) the resulting vacancy in place six on the
16 retirement board shall be filled by the director of finance of the
17 municipality or the director's designee in accordance with Section
18 4(b)(4), Chapter 451, Acts of the 72nd Legislature, Regular
19 Session, 1991 (Article 6243n, Vernon's Texas Civil Statutes), as
20 amended by this Act; and

21 (2) the resulting vacancy in place seven on the board
22 shall be filled by election of the active-contributory members in
23 accordance with Section 4, Chapter 451, Acts of the 72nd
24 Legislature, Regular Session, 1991 (Article 6243n, Vernon's Texas
25 Civil Statutes), as amended by this Act.

26 SECTION 15. Section 5(e), Chapter 451, Acts of the 72nd
27 Legislature, Regular Session, 1991 (Article 6243n, Vernon's Texas

1 Civil Statutes), as amended by this Act, applies only to a person
2 who applies to reinstate membership service on or after the
3 effective date of this Act. A person who applies to reinstate
4 membership service before the effective date of this Act is
5 governed by the law in effect immediately before the effective date
6 of this Act, and the former law is continued in effect for that
7 purpose.

8 SECTION 16. Section 6, Chapter 451, Acts of the 72nd
9 Legislature, Regular Session, 1991 (Article [6243n](#), Vernon's Texas
10 Civil Statutes), as amended by this Act, applies to a person who
11 retires on or after the effective date of this Act. A person who
12 retires before the effective date of this Act is governed by the law
13 in effect immediately before that date, and the former law is
14 continued in effect for that purpose.

15 SECTION 17. This Act takes effect September 1, 2023.