

SENATE AMENDMENTS

2nd Printing

By: Johnson of Dallas, Rose, Bryant,
González of Dallas, Frazier, et al.

H.B. No. 4034

A BILL TO BE ENTITLED

AN ACT

relating to certain disability and death benefits payable by the public retirement systems for police and fire fighters in certain municipalities.

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

SECTION 1. Section 6.04(f), Article 6243a-1, Revised Statutes, is amended to read as follows:

(f) Subject to Subsections (f-1), (f-3), and (g) of this section, the disability pension of a Group B member shall be calculated as follows:

(1) for a member who began active service before March 1, 2011, the member's disability pension shall be the sum of:

(A) the member's number of years of pension service earned before September 1, 2017, prorated for fractional years, times three percent of the average computation pay determined over the 36 consecutive months of pension service in which the member received the highest computation pay; plus

(B) the number of years of pension service, including pension service credit imputed under Section 6.05(c) of this article, earned on or after September 1, 2017, prorated for fractional years, times 2.5 percent [~~the applicable percentage prescribed by Section 6.02(b-1) of this article~~] of the average computation pay determined over the 60 consecutive months of pension service in which the member received the highest

1 computation pay; or

2 (2) for a member who began active service on or after
3 March 1, 2011, the member's disability pension shall be the number
4 of years of pension service, including pension service credit
5 imputed under Section 6.05(c) of this article, prorated for
6 fractional years, times 2.5 percent of the average computation pay
7 determined over the 60 consecutive months of pension service in
8 which the member received the highest computation pay.

9 SECTION 2. Section 6.08, Article 6243a-1, Revised Statutes,
10 is amended by amending Subsections (b) and (b-2) and adding
11 Subsections (b-4) and (b-5) to read as follows:

12 (b) Subject to Subsection (b-2) of this section, death
13 benefits shall be computed as follows for the qualified survivors
14 of Group B members who die while on active service:

15 (1) the death benefit of a qualified survivor who is
16 the spouse of a member who began active service:

17 (A) before March 1, 2011, shall be the sum of:

18 (i) the number of years of pension service
19 earned before September 1, 2017, prorated for fractional years,
20 times, except as provided by Subsection (b-4) of this section, 1.5
21 percent of the average computation pay determined over the 36
22 consecutive months of pension service in which the Group B member
23 received the highest computation pay; plus

24 (ii) the number of years of pension
25 service, including pension service credit imputed under Section
26 6.05(c) of this article, after September 1, 2017, prorated for
27 fractional years, times, except as provided by Subsection (b-4) of

1 this section, 1.25 percent [~~the applicable percentage rate set~~
 2 ~~forth below~~] of the average computation pay determined over the 60
 3 consecutive months of pension service in which the Group B member
 4 received the highest computation pay[+]

5 [Age of Member When Retirement Pension Begins	Percent
6 [58 and older	1.25%
7 [57	1.2%
8 [56	1.15%
9 [55	1.10%
10 [54	1.05%
11 [53 and younger	1.0%]; or

12 (B) on or after March 1, 2011, shall be the number
 13 of years of pension service, including pension service imputed
 14 under Section 6.05(c) of this article, prorated for fractional
 15 years, times, except as provided by Subsection (b-4) of this
 16 section, 1.25 percent of the average computation pay determined
 17 over the 60 consecutive months of pension service in which the Group
 18 B member received the highest computation pay;

19 (2) the death benefit of qualified survivors who are a
 20 member's children shall be computed in the same manner as a spouse's
 21 benefit is computed under Subdivision (1)(A) or (B) of this
 22 subsection, as applicable, and shall be divided equally among all
 23 of the children who are qualified survivors; and

24 (3) the death benefit of each qualified survivor who
 25 is a member's dependent parent shall be computed in the same manner
 26 as a spouse's Group B benefit is computed under Subdivision (1)(A)
 27 or (B) of this subsection, as applicable.

1 (b-2) The death benefit calculated under Subsection (b) of
2 this section may not exceed the greater of:

3 (1) except as provided by Subsection (b-4) of this
4 section, 45 percent of the member's average computation pay
5 determined over the 36 or 60 consecutive months, as applicable, in
6 which the Group B member received the highest computation pay; or

7 (2) the vested and accrued death benefit as determined
8 on August 31, 2017.

9 (b-4) If a member dies in the line of duty, as determined by
10 the board under Subsection (b-5) of this section, the percentage
11 rate applied to the member's average computation pay under:

12 (1) Subsection (b)(1)(A)(i) of this section is 3
13 percent instead of 1.5 percent at such time as there are qualified
14 survivors who are either the member's children or surviving spouse,
15 but not both;

16 (2) Subsection (b)(1)(A)(ii) of this section is 2.5
17 percent instead of 1.25 percent at such time as there are qualified
18 survivors who are either the member's children or surviving spouse,
19 but not both;

20 (3) Subsection (b)(1)(B) of this section is 2.5
21 percent instead of 1.25 percent at such time as there are qualified
22 survivors who are either the member's children or surviving spouse,
23 but not both; and

24 (4) Subsection (b-2)(1) is 90 percent instead of 45
25 percent.

26 (b-5) A member is considered to have died in the line of duty
27 if the member's death is caused by the performance of the member's

1 duties for the member's department. The board shall determine
2 whether a member died in the line of duty. In making a determination
3 under this subsection, the board may consider as guidance the
4 determination of the same or similar issue made by another
5 governmental entity.

6 SECTION 3. The changes in law made by this Act apply only to
7 a disability pension or death benefit for which an application is
8 filed on or after the effective date of this Act. A disability
9 pension or death benefit for which an application is filed before
10 the effective date of this Act is governed by the law in effect
11 immediately before the effective date of this Act, and the former
12 law is continued in effect for that purpose.

13 SECTION 4. This Act takes effect September 1, 2023.

ADOPTED

MAY 18 2023

By: Johnson

Lacey Spaw
Secretary of the Senate

H.B. No. 4034

Substitute the following for ___B. No. _____:

By: WJA

C.S. ___B. No. _____

A BILL TO BE ENTITLED

1

AN ACT

2 relating to certain disability and death benefits payable by the
3 public retirement systems for police and fire fighters in certain
4 municipalities.

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

6 SECTION 1. This Act may be cited as the David Walters Act.

7 SECTION 2. Section 6.04(f), Article 6243a-1, Revised
8 Statutes, is amended to read as follows:

9 (f) Subject to Subsections (f-1), (f-3), and (g) of this
10 section, the disability pension of a Group B member shall be
11 calculated as follows:

12 (1) for a member who began active service before March
13 1, 2011, the member's disability pension shall be the sum of:

14 (A) the member's number of years of pension
15 service earned before September 1, 2017, prorated for fractional
16 years, times three percent of the average computation pay
17 determined over the 36 consecutive months of pension service in
18 which the member received the highest computation pay; plus

19 (B) the number of years of pension service,
20 including pension service credit imputed under Section 6.05(c) of
21 this article, earned on or after September 1, 2017, prorated for
22 fractional years, times 2.5 percent [~~the applicable percentage~~
23 ~~prescribed by Section 6.02(b-1) of this article~~] of the average
24 computation pay determined over the 60 consecutive months of

1 pension service in which the member received the highest
2 computation pay; or

3 (2) for a member who began active service on or after
4 March 1, 2011, the member's disability pension shall be the number
5 of years of pension service, including pension service credit
6 imputed under Section 6.05(c) of this article, prorated for
7 fractional years, times 2.5 percent of the average computation pay
8 determined over the 60 consecutive months of pension service in
9 which the member received the highest computation pay.

10 SECTION 3. Section 6.08, Article 6243a-1, Revised Statutes,
11 is amended by amending Subsections (b) and (b-2) and adding
12 Subsections (b-4) and (b-5) to read as follows:

13 (b) Subject to Subsection (b-2) of this section, death
14 benefits shall be computed as follows for the qualified survivors
15 of Group B members who die while on active service:

16 (1) the death benefit of a qualified survivor who is
17 the spouse of a member who began active service:

18 (A) before March 1, 2011, shall be the sum of:

19 (i) the number of years of pension service
20 earned before September 1, 2017, prorated for fractional years,
21 times, except as provided by Subsection (b-4) of this section, 1.5
22 percent of the average computation pay determined over the 36
23 consecutive months of pension service in which the Group B member
24 received the highest computation pay; plus

25 (ii) the number of years of pension
26 service, including pension service credit imputed under Section
27 6.05(c) of this article, after September 1, 2017, prorated for

1 fractional years, times, except as provided by Subsection (b-4) of
 2 this section, 1.25 percent [~~the applicable percentage rate set~~
 3 ~~forth below~~] of the average computation pay determined over the 60
 4 consecutive months of pension service in which the Group B member
 5 received the highest computation pay[+]

6 [Age of Member When Retirement Pension Begins	Percent
7 [58 and older	1.25%
8 [57	1.2%
9 [56	1.15%
10 [55	1.10%
11 [54	1.05%
12 [53 and younger	1.0%]; or

13 (B) on or after March 1, 2011, shall be the number
 14 of years of pension service, including pension service imputed
 15 under Section 6.05(c) of this article, prorated for fractional
 16 years, times, except as provided by Subsection (b-4) of this
 17 section, 1.25 percent of the average computation pay determined
 18 over the 60 consecutive months of pension service in which the Group
 19 B member received the highest computation pay;

20 (2) the death benefit of qualified survivors who are a
 21 member's children shall be computed in the same manner as a spouse's
 22 benefit is computed under Subdivision (1)(A) or (B) of this
 23 subsection, as applicable, and shall be divided equally among all
 24 of the children who are qualified survivors; and

25 (3) the death benefit of each qualified survivor who
 26 is a member's dependent parent shall be computed in the same manner
 27 as a spouse's Group B benefit is computed under Subdivision (1)(A)

1 or (B) of this subsection, as applicable.

2 (b-2) The death benefit calculated under Subsection (b) of
3 this section may not exceed the greater of:

4 (1) except as provided by Subsection (b-4) of this
5 section, 45 percent of the member's average computation pay
6 determined over the 36 or 60 consecutive months, as applicable, in
7 which the Group B member received the highest computation pay; or

8 (2) the vested and accrued death benefit as determined
9 on August 31, 2017.

10 (b-4) If a member dies in the line of duty, as determined by
11 the board under Subsection (b-5) of this section, the percentage
12 rate applied to the member's average computation pay under:

13 (1) Subsection (b)(1)(A)(i) of this section is 3
14 percent instead of 1.5 percent at such time as there are qualified
15 survivors who are either the member's children or surviving spouse,
16 but not both;

17 (2) Subsection (b)(1)(A)(ii) of this section is 2.5
18 percent instead of 1.25 percent at such time as there are qualified
19 survivors who are either the member's children or surviving spouse,
20 but not both;

21 (3) Subsection (b)(1)(B) of this section is 2.5
22 percent instead of 1.25 percent at such time as there are qualified
23 survivors who are either the member's children or surviving spouse,
24 but not both; and

25 (4) Subsection (b-2)(1) is 90 percent instead of 45
26 percent.

27 (b-5) A member is considered to have died in the line of duty

1 if the member's death is caused by the performance of the member's
2 duties for the member's department. The board shall determine
3 whether a member died in the line of duty. In making a determination
4 under this subsection, the board may consider as guidance the
5 determination of the same or similar issue made by another
6 governmental entity.

7 SECTION 4. Section 6.04(f), Article 6243a-1, Revised
8 Statutes, as amended by this Act, applies only to a disability
9 pension for which an application is filed on or after the effective
10 date of this Act. A disability pension for which an application is
11 filed before the effective date of this Act is governed by the law
12 in effect immediately before the effective date of this Act, and the
13 former law is continued in effect for that purpose.

14 SECTION 5. (a) In this section, "board" and "member" have
15 the meanings assigned by Section 2.01, Article 6243a-1, Revised
16 Statutes.

17 (b) Subject to Subsection (c) of this section, Section 6.08,
18 Article 6243a-1, Revised Statutes, as amended by this Act, applies
19 only to a death benefit payable on or after the effective date of
20 this Act.

21 (c) If a member died in the line of duty before September 1,
22 2023, as determined by the board in accordance with Section
23 6.08(b-5), Article 6243a-1, Revised Statutes, as added by this Act,
24 the death benefit payable on or after September 1, 2023, to the
25 member's surviving spouse or children shall be adjusted in
26 accordance with Section 6.08(b-4), Article 6243a-1, Revised
27 Statutes, as added by this Act, as applicable. The surviving spouse

1 or children of a member described by this subsection are not
2 entitled to payment of any adjusted benefits relating to death
3 benefits paid before September 1, 2023.

4 SECTION 6. This Act takes effect September 1, 2023.

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 88TH LEGISLATIVE REGULAR SESSION

May 19, 2023

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

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB4034 by Johnson, Julie (Relating to certain disability and death benefits payable by the public retirement systems for police and fire fighters in certain municipalities.), **As Passed 2nd House**

No significant fiscal implication to the State is anticipated.

The bill would make changes to certain death and disability benefits for members of the Dallas Police and Fire Pension System. It is assumed any costs associated with implementing the provisions of the bill could be absorbed using existing resources.

Local Government Impact

According to the Dallas Police and Fire Pension System (DPFP), implementing the provisions of the bill will increase the total liability reported by DPFP from \$5.159 billion to \$5.167 billion, an increase of \$8 million or 0.155%.

Source Agencies: 326 Texas Emergency Services Retirement System

LBB Staff: JMc, SD, KK, JPO, CMA, MOc, LCO

LEGISLATIVE BUDGET BOARD

Austin, Texas

FISCAL NOTE, 88TH LEGISLATIVE REGULAR SESSION

May 16, 2023

TO: Honorable Joan Huffman, Chair, Senate Committee on Finance

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB4034 by Johnson, Julie (relating to certain disability and death benefits payable by the public retirement systems for police and fire fighters in certain municipalities.), **Committee Report 2nd House, Substituted**

No significant fiscal implication to the State is anticipated.

The bill would make changes to certain death and disability benefits for members of the Dallas Police and Fire Pension System. It is assumed any costs associated with implementing the provisions of the bill could be absorbed using existing resources.

Local Government Impact

According to the Dallas Police and Fire Pension System (DPFP), implementing the provisions of the bill will increase the total liability reported by DPFP from \$5.159 billion to \$5.167 billion, an increase of \$8 million or 0.155%.

Source Agencies: 326 Texas Emergency Services Retirement System

LBB Staff: JMc, KK, JPO, CMA, MOc, LCO

LEGISLATIVE BUDGET BOARD

Austin, Texas

FISCAL NOTE, 88TH LEGISLATIVE REGULAR SESSION

May 5, 2023

TO: Honorable Joan Huffman, Chair, Senate Committee on Finance

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB4034 by Johnson, Julie (Relating to certain disability and death benefits payable by the public retirement systems for police and fire fighters in certain municipalities.), **As Engrossed**

No significant fiscal implication to the State is anticipated.

The bill would make changes to certain death and disability benefits for members of the Dallas Police and Fire Pension System. It is assumed any costs associated with implementing the provisions of the bill could be absorbed using existing resources.

Local Government Impact

According to the Dallas Police and Fire Pension System (DPFP), implementing the provisions of the bill will increase the total liability reported by DPFP from \$5.159 billion to \$5.161 billion, an increase of \$2 million or 0.039%.

Source Agencies: 326 Texas Emergency Services Retirement System

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

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 88TH LEGISLATIVE REGULAR SESSION

March 29, 2023

TO: Honorable Giovanni Capriglione, Chair, House Committee on Pensions, Investments & Financial Services

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB4034 by Johnson, Julie (Relating to certain disability and death benefits payable by the public retirement systems for police and fire fighters in certain municipalities.). **As Introduced**

No significant fiscal implication to the State is anticipated.

The bill would make changes to certain death and disability benefits for members of the Dallas Police and Fire Pension System. It is assumed any costs associated with implementing the provisions of the bill could be absorbed using existing resources.

Local Government Impact

According to the Dallas Police and Fire Pension System (DPFP), implementing the provisions of the bill will increase the total liability reported by DPFP from \$5.159 billion to \$5.161 billion, an increase of \$2 million or 0.039%.

Source Agencies: 326 Texas Emergency Services Retirement System

LBB Staff: JMc, MOc, LCO, JPO

LEGISLATIVE BUDGET BOARD

Austin, Texas

ACTUARIAL IMPACT STATEMENT

88TH LEGISLATIVE REGULAR SESSION

May 16, 2023

TO: Honorable Joan Huffman, Chair, Senate Committee on Finance

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB4034 by Johnson, Julie (relating to certain disability and death benefits payable by the public retirement systems for police and fire fighters in certain municipalities.), **Committee Report 2nd House, Substituted**

COST ESTIMATE

Based on the January 1, 2022, Actuarial Valuation.

Dallas Police & Fire Pension System (DPFPS)	Current	Proposed	Difference
Normal Cost (% of payroll)	17.1%	17.2%	0.1%
Unfunded Actuarial Accrued Liability (millions)	\$3,041	\$3,049	\$8
Funded Ratio	41.1%	41.0%	-0.1%
Funding Period	68	70	2

ACTUARIAL EFFECTS

The actuarial analysis (AA) shows minor impacts to the normal cost, unfunded actuarial accrued liability (UAAL), and funded ratio. The funding period would increase by two years, projecting the system to become 100 percent funded in 2092 rather than 2090.

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 to 25 years being the preferable target range. Under Sections 802.2015 and 802.2016 of the Government Code, certain systems with funding periods over 30 years are required to prepare a Funding Soundness Restoration Plan (FSRP) to make changes to the pension plan to put the system on a path to eventually achieve full funding.

The Dallas Police and Fire Pension System DFPF is already subject to the FSRP requirement due to its 68-year amortization period as of January 1, 2022, 63-year amortization period as of January 1, 2021, and 55-year amortization period as of January 1, 2020. Enactment of this bill would make the system further unsound by increasing the amortization period from 68 to 70 years.

SYNOPSIS OF PROVISIONS

The bill would make changes to certain death and disability benefits for members of DFPF. It would change the multiplier for disability benefits for members who began service before March 1, 2011, to 2.5 percent rather than between 2.0 and 2.5 percent based on the member's age when retirement begins. It would set the standard death benefit multiplier for service after September 1, 2017, to 1.25 percent rather than between 1 and 1.25 percent based on a member's age when retirement begins.

It would also increase death benefits if the system board determined a member died in the line of duty, doubling the benefit from 50 percent of the member's accrued benefit with a maximum of 45 percent of average pay to 100 percent of the member's accrued benefit with a maximum of 90 percent of average pay.

The changes would only apply for disability or death benefits for which an application is filed on or after the bill's effective date on September 1, 2023.

FINDINGS AND CONCLUSIONS

The actuarial review states the most impactful change is doubling the line of duty death benefit from 50 percent of the member's accrued benefit with a maximum of 45 percent of average pay to 100 percent of the member's accrued benefit with a maximum of 90 percent of average pay.

The bill would improve the benefit received for members who become disabled, or beneficiaries of members who died, while in active duty.

METHODOLOGY AND STANDARDS

DPPFP analysis relies on the participant data, financial information, benefit structure and actuarial assumptions and methods used in the DPPFP actuarial valuations for January 1, 2022, with a new assumption for line of duty deaths. The assumption is that 30 percent of pre-retirement active deaths will occur in line of duty deaths. According to the PRB Staff Actuary, 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 is based on the assumption that no other legislative changes affecting the funding or benefits of DPPFP 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 Jeffrey S. Williams, FCA, ASA, MAAA, EA The Segal Group, Inc., March 24, 2023.
Actuarial Review by David Fee, ASA, EA, Staff Actuary, Pension Review Board, March 24, 2023.

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 State Pension Review Board 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, KK, CMA, JPO, MOc, LCO

LEGISLATIVE BUDGET BOARD
Austin, Texas

ACTUARIAL IMPACT STATEMENT

88TH LEGISLATIVE REGULAR SESSION

March 29, 2023

TO: Honorable Giovanni Capriglione, Chair, House Committee on Pensions, Investments & Financial Services

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB4034 by Johnson, Julie (Relating to certain disability and death benefits payable by the public retirement systems for police and fire fighters in certain municipalities.), **As Introduced**

COST ESTIMATE

Based on the January 1, 2022, Actuarial Valuation.

Dallas Police & Fire Pension System (DPFPS)	Current	Proposed	Difference
Normal Cost (% of payroll)	17.1%	17.2%	0.1%
Unfunded Actuarial Accrued Liability (millions)	\$3,041	\$3,049	\$8
Funded Ratio	41.1%	41.0%	-0.1%
Funding Period	68	70	2

ACTUARIAL EFFECTS

The actuarial analysis (AA) shows minor impacts to the normal cost, unfunded actuarial accrued liability (UAAL), and funded ratio. The funding period would increase by two years, projecting the system to become 100 percent funded in 2092 rather than 2090.

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 to 25 years being the preferable target range. Under Sections 802.2015 and 802.2016 of the Government Code, certain systems with funding periods over 30 years are required to prepare a Funding Soundness Restoration Plan (FSRP) to make changes to the pension plan to put the system on a path to eventually achieve full funding.

The Dallas Police and Fire Pension System DFPF is already subject to the FSRP requirement due to its 68-year amortization period as of January 1, 2022, 63-year amortization period as of January 1, 2021, and 55-year amortization period as of January 1, 2020. Enactment of this bill would make the system further unsound by increasing the amortization period from 68 to 70 years.

SYNOPSIS OF PROVISIONS

The bill would make changes to certain death and disability benefits for members of DFPF. It would change the multiplier for disability benefits for members who began service before March 1, 2011, to 2.5 percent rather than between 2.0 and 2.5 percent based on the member's age when retirement begins. It would set the standard death benefit multiplier for service after September 1, 2017, to 1.25 percent rather than between 1 and 1.25 percent based on a member's age when retirement begins.

It would also increase death benefits if the system board determined a member died in the line of duty, doubling the benefit from 50 percent of the member's accrued benefit with a maximum of 45 percent of average pay to 100 percent of the member's accrued benefit with a maximum of 90 percent of average pay.

The changes would only apply for disability or death benefits for which an application is filed on or after the bill's effective date on September 1, 2023.

FINDINGS AND CONCLUSIONS

The actuarial review states the most impactful change is doubling the line of duty death benefit from 50 percent of the member's accrued benefit with a maximum of 45 percent of average pay to 100 percent of the member's accrued benefit with a maximum of 90 percent of average pay.

The bill would improve the benefit received for members who become disabled, or beneficiaries of members who died, while in active duty. The actuarial review also notes that the analysis assumed current beneficiaries of members who died in the line of duty would receive the enhanced benefits, but the bill did not seem to indicate as much.

METHODOLOGY AND STANDARDS

DPFP analysis relies on the participant data, financial information, benefit structure and actuarial assumptions and methods used in the DPFP actuarial valuations for January 1, 2022, with a new assumption for line of duty deaths. The assumption is that 30 percent of pre-retirement active deaths will occur in line of duty deaths. According to the PRB Staff Actuary, 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 is based on the assumption that no other legislative changes affecting the funding or benefits of DPFP 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

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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 State Pension Review Board 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, MOc, LCO, JPO