



TEXAS PENSION REVIEW BOARD

ACTUARIAL COMMITTEE MEETING
SEPTEMBER 29, 2020

TEXAS PENSION REVIEW BOARD

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**TEXAS PENSION REVIEW BOARD
ACTUARIAL COMMITTEE MEETING**

AGENDA

**Tuesday, September 29, 2020 – 1:00 PM
By Teleconference**

**Public Participation Dial-in Number: (877) 853-5247 (Toll-free)
Meeting ID: 868 0284 6406**

The September 29, 2020 meeting of the Actuarial Committee of the PRB will be held by teleconference call as authorized under Sections 551.125 and 551.127 of the Texas Government Code. THIS MEETING WILL BE CONDUCTED BY TELECONFERENCE IN ACCORDANCE WITH THE GOVERNOR'S AUTHORIZATION OF MARCH 16, 2020, CONCERNING SUSPENSION OF CERTAIN OPEN MEETING LAW REQUIREMENTS IN RESPONSE TO THE DECLARATION OF STATE DISASTER OF MARCH 13, 2020 CONCERNING THE COVID-19 (CORONAVIRUS) PANDEMIC. A quorum of members of the committee will participate in the meeting and will be audible to the public. Members of the public may provide public comment by registering first with the Office Manager by submitting an email to Lindsay.Seymour@prb.texas.gov identifying the name of the speaker and topic, no later than 8:00 am on September 29, 2020. The presiding officer will call roll of committee members, followed by calling roll of members of the public who have registered. The presiding officer will then ask if other attendees wish to provide comment, at which time each such attendees shall identify themselves by name and topic of the comment. Members of the public who have registered during roll call will be called by name at the appropriate time in the agenda. Attendees are requested to mute their connections when not addressing the committee members.

Access to the agenda materials of the meeting is provided at www.prb.texas.gov. A recording of the meeting will be available at www.prb.texas.gov.

The Committee may discuss or take action regarding any of the items on this agenda.

1. Meeting called to order
2. Roll call of Committee members
3. Roll call of members of the public
4. August 6, 2020 Committee meeting minutes
5. Update on review of funding policy requirements under Section 802.2011 and Funding

Soundness Restoration Plan (FSRP) requirements under Sections 802.2015 and 802.2016 of the Government Code, including

- a. Comments received on *Funding Policy and Funding Soundness Restoration Plan Requirements - Policy Objectives and Considerations*
 - b. Possible recommended changes to statutory requirements
6. Systems with funding policies that use rolling ADC benchmarking, including the following:
 - a. Abilene Firemen's Relief & Retirement Fund
 - b. Odessa Firemen's Relief & Retirement Fund
 - c. Orange Firemen's Relief & Retirement Fund
 - d. San Angelo Firemen's Relief & Retirement Fund
 - e. Wichita Falls Firemen's Relief & Retirement Fund
 - f. Austin Fire Fighters Relief & Retirement Fund
7. Systems subject to the FSRP Requirement, including the following:
 - a. Irving Firemen's Relief & Retirement Fund
 - b. Longview Firemen's Relief & Retirement Fund
8. Date and location of next Actuarial Committee meeting – [TBD]
9. Invitation for public comment
10. Adjournment

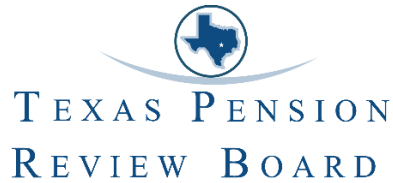
NOTE: The Committee may go into closed session concerning any item on this agenda if authorized under the Texas Open Meetings Act, Government Code, Code Ch. 551. Persons with disabilities who plan to attend this meeting and who may need special assistance are requested to contact Mr. Wes Allen at (800) 213-9425/ (512) 463-1736 three to five (3-5) working days prior to the meeting date so that appropriate arrangements can be made.

1. Meeting called to order

2. Roll call of Committee members

3. Roll call of members of the public

4. August 6, 2020 Committee meeting minutes



**Actuarial Committee Minutes
August 6, 2020**

1. Meeting called to order (0:20)

The Pension Review Board (PRB) Actuarial Committee Meeting was called to order by Chair Keith Brainard on Thursday, August 6, 2020 at 10:00 am via teleconference.

2. Roll call of Committee members (0:33)

Board members present:

Chair Keith Brainard
Marcia Dush
Stephanie Leibe

A quorum being present, the meeting was called to order by Chair Brainard.

3. Roll call of members of the public (1:32)

Pre-registered members of the public present (representatives from Orange and Midland):

On behalf of Orange: Mike Kunst; John Bilbo; Tony Kay; Brad Heinrichs; Guy Goodson; and Cheryl Zeto

On behalf of Midland: Brian McGary (did not respond); David Stacy; James Martin; Van Percy; Mayor Patrick Payton; Mark Mason; Shera Crow; Mark Fenlaw; and Claude Parenteau

4. May 7, 2020 Committee meeting minutes (4:50)

Chair Brainard entertained a motion to suspend the reading of the minutes of the May 7, 2020 joint meeting of the Investment and Actuarial committees and approve them as circulated.

The motion was made by Ms. Dush and seconded by Ms. Leibe.

The motion passed unanimously.

Chair Brainard entertained a motion to suspend the reading of the minutes of the May 7, 2020 Actuarial committee meeting and approve them as circulated.

The motion was made by Ms. Dush and seconded by Ms. Leibe.

The motion passed unanimously.

5. Systems subject to the Funding Soundness Restoration Plan (FSRP) requirement, including the following (6:11):

A. Update on second revised FSRP from City of Orange and Orange Fireman's Relief and Retirement Fund (6:38)

Mike Kunst, City Manager for the City of Orange (the City), discussed future increases in contributions and acknowledged the Orange Firemen's Relief and Retirement Fund (the Plan) still would not achieve the recommended 30-year amortization period with the changes. He noted the Plan recently hired a new investment consultant, but plan benefits remained unadjusted.

John Bilbo, Plan Chair, echoed Mr. Kunst's statement and noted a positive change in the City, Plan, and union leadership in past years led to a unified outlook of all involved to improve the Plan's funding soundness.

Ms. Dush noted the Plan's 7.75% assumed rate of return had not been achieved, which contributed greatly to its unfunded liability. She encouraged the Plan to employ an achievable interest rate.

Tony Kay of AndCo Consulting, an investment consultant for the Plan, discussed how the Plan moderately increased its exposure to equity and intended to diversify assets. He noted the Plan implemented a stricter investment benchmark measurement and a quarterly compliance checklist.

Ms. Dush recommended the City work with the Plan's actuary and board to determine a reasonable asset allocation while considering the Plan's negative cash flow. She stated an achievable portfolio should be built before calculating a reasonable rate of return.

Chair Brainard discussed with the Plan the reasonability of a 7.75% rate of return while concurrently experiencing a large negative cashflow. Brad Heinrichs, the Plan's actuary, commented that the increase in contributions would help lower its annual payroll deficit. He added voting regulations had made enacting a benefit reduction difficult. Chair Brainard noted Plan members were paying the entire cost of their benefit which produced a need for the City to put forth a more substantial effort to fund the Plan.

B. Update on revised FSRP from City of Midland and Midland Firemen's Relief and Retirement Fund (33:35)

David Stacy presented on behalf of Midland Firemen's Relief and Retirement Fund (Midland Fire). He explained the fact that Midland Fire's extensive use of overtime had not been properly taken into consideration, which greatly contributed to the reason the plan now showed an infinite amortization period. He stated that Midland Fire's board was in the process of examining ways to change its benefit structure.

Mark Mason, Midland Fire board member and Finance Director for City of Midland (the City), stated that after the 2019 actuarial valuation was completed, the City planned to hire a consultant to secure Midland Fire's funding and shorten its infinite amortization period.

Ms. Dush cautioned Midland Fire that the combination of several of its current assumptions may not be reasonable. She noted the plan provision concerning an automatic cost-of-living adjustment (COLA) once Midland Fire reached 8.25% rate of return over five years should temper its investment assumption. Ms. Dush asked Mr. Stacy whether another problem the Midland Fire was having was due to pay periods and the calculation of highest average salary. Mr. Stacy confirmed, noting that switching from

twice monthly to biweekly pay periods artificially created months with higher gross salary amounts.

Mr. Brainard inquired about future goals to bring Midland Fire into compliance with state reporting requirements. Mark Fenlaw, from Rudd and Wisdom, Inc., replied Midland Fire was provided two options with amortization periods below 30 years in a January 2020 special study. He noted the City and Midland Fire were at an impasse on how to correct the City's payroll system to exclude unscheduled overtime from salary used to calculate employee benefits.

Mr. Mason stated he had been unaware of the options provided by Rudd and Wisdom, Inc. Mr. Brainard noted that as a plan sponsor, the City is an equal party to the plan. He encouraged the City to help improve Midland Fire's funding status.

Anumeha Kumar stated close contact with staff and regular updates to the Actuarial committee from Midland Fire would be beneficial to help Midland Fire achieve compliance.

6. Funding policies received as required by Government Code Section 802.2011 (SB 2224), including actuarially determined contribution benchmarks based on rolling amortization periods (1:00:15)

Ms. Kumar summarized staff's contact with plans that utilized a rolling 30-year ADC benchmark in their funding policies. She noted the Dallas Police and Fire Pension System converted from a rolling 30-year ADC benchmark to a closed 30-year ADC benchmark. Ms. Kumar stated El Paso Firemen & Policemen's Pension Fund, Big Spring Firemen's Relief & Retirement Fund, and The Woodlands Firefighters' Retirement System indicated to staff that each was working on updating its rolling ADC benchmark to a closed period.

Ms. Kumar stated plans using the actuarial firm Foster & Foster, provided identical responses to a letter from the PRB which asked how the plans would target a 100% funding while utilizing a benchmark that resets annually and was therefore not designed to move towards 100% funding. The plans' responses stated that if all assumptions were met and its fixed contribution rate were at or above a 30-year rolling ADC benchmark, then the plan would achieve 100% funding within 30 years. Ms. Kumar recommended inviting these systems to speak to the committee at its September meeting.

Ms. Dush stated her belief that through Senate Bill 2224 (SB 2224) and SB 322, the Legislature attempted to address a needed change in Texas public pension funding management. She noted the PRB's interim study on Funding Policies for Fixed Rate Plans showed that the funded status for fixed-rate plans deteriorated, performing worse after a 10-year bull market in 2019 than in 2004. Conversely, she noted, plans funded with an ADC were able to increase their funded ratios back to almost where they were in the early 2000s. She believed it to be due to three main contributing factors: overly optimistic actuarial assumptions, investment returns below actuarial interest rate assumptions, and contributions that have been lower than the "tread water" rate.

Ms. Dush stated her belief that setting a benchmark contribution using a rolling 30-year period did not meet the requirements of the law to target 100% funding. She added that the Legislature was looking for plans, especially those with low funded ratios, to improve their funding in ways unique to the individual plan. Prior to the Board's report to the Legislature in November, Ms. Dush recommended that staff continue communicating with plans concerning rolling ADC benchmarks and whether plans are targeting 100% funding or greater, as the legislation intended.

Chair Brainard entertained a motion to direct staff to reach out to plans with funding policies that used ADC benchmarks based on rolling amortization periods and ask those plans to appear before the Actuarial committee at its September meeting.

The motion was made by Ms. Dush and seconded by Ms. Leibe.

The motion passed unanimously.

7. Review of Funding Policy requirement under Section 802.2011 and Funding Soundness Restoration Plan (FSRP) requirements under Sections 802.2015 and 802.2016 of the Government Code (1:22:15)

Michelle Downie Kranes presented an overview of objectives and potential changes to the funding policy and FSRP statutory requirements. She provided relevant examples from funding remediation processes employed by other states. Ms. Downie Kranes noted funding policies and FSRPs had different goals that could be revised in statute to be more compatible with one another.

Chair Brainard commented that the PRB intended to set standards with these objectives, which would create transparency and incentives for plans to reach sustainable funding. He instructed staff to return to the September committee meeting with suggested statutory language which would better align FSRP and funding policy requirements.

Chair Brainard noted the Governmental Standards Accounting Board (GASB) did not intend 30-40-year amortization periods to be the standard amortization period, but rather a maximum. He added that the recommendation was now outdated.

Ms. Dush commented that she preferred a 20-year closed amortization period to become the goal for all Texas plans in the future, as any ADC benchmark above 20 years would have negative amortization.

The committee discussed the fiscal detriment of allowing plans multiple years before being required to complete an FSRP. The committee decided to ask plans to provide input on how to structure immediate FSRP triggers, including a transition or grandfathering mechanism for plans which have recently improved their funding.

Ms. Downie Kranes discussed the need to clarify the role of future actions in FSRPs, highlighting suggested changes that would provide a level of assurance that future actions were supported by the plan and sponsor. Mr. Brainard asked whether state law required plans to implement the actions in their FSRPs. Ms. Downie Kranes stated that plans are only required to adopt the FSRP, which must achieve the maximum threshold amortization period within 10 years. Ms. Kumar added that plans and sponsors must jointly develop the FSRP.

Mr. Brainard asked staff to prepare suggestions for statutory changes that required the FSRP to be implemented in a good faith effort by plans.

Ms. Downie Kranes discussed the need for a clarified FSRP documentation process where plans provided an analysis of the combined effect of changes, including an actuarial projection showing the unfunded liability decreasing to zero within the required period.

Ms. Dush discussed economic assumptions (ASOP 27) and cautioned actuaries of plans subject to an FSRP that assuming the participant group would grow was often not appropriate when performing an actuarial analysis.

The committee supported an enhanced documentation process and stated a preference of input from systems on a more prescriptive format for complying with an FSRP requirement.

Ms. Leibe asked if other states had data that reflected successful implementation after their documentation requirement was changed. Ms. Downie Kranes answered that staff had looked for performance evaluation data, but that the statutes were so new that they had likely not been assessed yet. She stated staff could reach out to those states to inquire directly about remediation plan effectiveness. Ms. Leibe asked staff to consider plans' various internal requirements, such as charter caps or election requirements, when developing suggested statutory changes. Ms. Downie Kranes stated that staff considered various internal requirements for implementing plan changes when reviewing FSRPs and would continue to consider plans' situations when making decisions on suggested changes to current FSRP requirements, such as deadlines.

The committee discussed the fact that plans' individual governance provisions could require alteration before the desired FSRP and funding targets were able to become achievable.

Ms. Downie Kranes noted the issue of plans submitting perpetual revised FSRPs, which meant a plan may never achieve the minimum amortization period threshold. She stated staff sought input from the committee and systems on how to incentivize meaningful changes.

The committee discussed shortening the 10-year period that statute allowed for a plan to get to a 40-year rolling amortization period. Mr. Brainard supported a 10-year period for a plan to get to a 30-year rolling amortization period but stated his preference for plans to be compliant with the PRB's more stringent *Pension Funding Guidelines*. The committee discussed required pairing of projected milestones when a plan submitted an FSRP with interim progress reports on achieved objectives over a 10-year period. Mr. Brainard noted the need for interim progress reports to be spaced out in a way that allowed for external factors that could affect a plan, such as a stock market crash, to be smoothed out.

Mr. Brainard asked staff to create, in consultation with systems, a proposal that reduced the likelihood of plans continually being subject to multiple FSRPs.

Ms. Downie Kranes stated statute could be updated to include a six-month deadline and possibly provide for an extension process if a reasonable draft was submitted with an extension request so that all interested parties could be made aware of the plan and sponsor's intended course of action. She noted a standardized form could be useful for this requirement.

Ms. Leibe asked generally how long the plans and sponsors had taken to develop their FSRPs, and whether a six-month deadline was reasonable. Ms. Downie Kranes responded staff could investigate that and follow up with the information.

Ms. Dush encouraged staff to structure the changes in a way that gives credit to the plans that have made recent reforms and worked towards fiscal soundness compared to those who had not.

Chair Brainard entertained a motion to direct staff to work with the Chair to finalize a funding policy and funding soundness restoration plan requirements, policy objectives, and considerations document to be sent to the systems and other stakeholders for public comment. Staff would summarize the comments for the Actuarial committee at its September meeting.

The motion was made by Ms. Dush and seconded by Ms. Leibe.

The motion passed unanimously.

8. Date and location of next Actuarial Committee meeting- September 29, 2020 (2:31:51)

Chair Brainard stated the next meeting of the Actuarial committee would be held on September 29, 2020.

9. Invitation for public comment (2:32:38)

There were no comments from the public.

10. Adjournment (2:33:17)

Chair Brainard adjourned the meeting at 12:34 PM.

In Attendance:

PRB Staff Present

Westley Allen	Bryan Burnham
Kenny Herbold	James King
Michelle Downie Kranes	Anumeha Kumar
Mariah Miller	Robert Munter
Ashley Rendon	Lindsay Seymour
Benjamin Warden	Joshua White

Chair Keith Brainard

5. Update on review of funding policy requirements under Section 802.2011 and Funding Soundness Restoration Plan (FSRP) requirements under Sections 802.2015 and 802.2016 of the Government Code, including:

5a. Comments received on *Funding Policy and Funding Soundness Restoration Plan Requirements - Policy Objectives and Considerations*

Funding Policy and Funding Soundness Restoration Plan Requirements

Policy Objectives and Considerations

Comments

Background:

On August 6, the Actuarial Committee had preliminary discussion on the objectives and potential statutory changes below and asked staff to solicit stakeholder input to bring to the next committee meeting on September 29. The comment period fell between August 28, 2020 and September 14, 2020. This document provides an overview of the received comments.

1. Funding policy and funding soundness restoration plan requirements should be in sync.

Funding policy and FSRP requirements are currently separate and do not tie together to form a continuum of funding support to plans and sponsors. The funding policy requirement, enacted in 2019, requires plans to adopt a funding policy targeting full funding. The FSRP statute, enacted in 2015, requires plans and their sponsors to adopt a remediation plan if the unfunded liability cannot be amortized over 40 or fewer years.

Now that plans have funding policies, they have long-term plans to achieve full funding. However, the remediation plan requirement for plans that face serious funding shortfalls operates independently of the newer funding policy mandate and does not require plans to target full funding over a reasonable closed period.

To provide an effective continuum of funding support for Texas pension plans, the FSRP, which is designed to quickly shore up dramatic funding problems, should tie back to the funding policy, which is designed to prevent funding deficiencies.

No comments received on Objective 1.

2. Plan sponsors should share in plan ownership and needed changes.

Plan sponsors are not required to be involved in the funding policy development process. The PRB has continually recommended that funding policies should be established in conjunction with the plan sponsor. Funding policies received from plans that did collaborate with their sponsors included risk-sharing components, such as splitting needed contribution increases and considering benefit changes, ensuring the sponsor shared in the ownership of the plan. Through intensive actuarial reviews, the PRB has also worked with sponsors and plan representatives to assist plans with addressing funding deficiencies, recommending in all 11 intensive reviews that the plan and sponsor collaborate on an appropriate funding policy to prevent further problems.

Potential Change to Funding Policy Requirement

2a) Add the sponsor to the funding policy requirement so that both the pension board and plan sponsor have ownership in the plan to achieve full funding rather than only in the remediation plan once funding problems require immediate action. Specifically, require the plan and sponsor to jointly develop the funding policy.

Potential Changes to FSRP Requirement (also addresses Objective 1)

2b) Since the sponsor is already part of the FSRP process in Texas, one way to link the two laws and enhance sponsor ownership could be to incorporate the funding policy into the FSRP. For example, if an FSRP were triggered, the plan and sponsor could be required to do two things: adopt a remediation plan (FSRP) and revise the funding policy, together, to ensure both parties are involved in long-term improvement. For FSRP plans, the revised funding policy could have to include certain elements such as a detailed plan to share the cost of unexpected actuarial losses that could derail progress toward the FSRP goal.

2c) Require the sponsor's governing body (e.g., city council) to adopt the FSRP through resolution to ensure full sponsor involvement and ownership.

Respondent	Response
John Harrell, Cleburne Firefighter's Relief and Retirement Fund	<p>As a TLFFRA plan we have struggled with getting our plan sponsor to share ownership, and I believe most plans share the same problems. Our 2016 valuation had such a large increase in UAAL strictly from the city adjusting their funding policy because they want keep it tied to the ADC that they use for their TMRS plan. The plan membership had to make the necessary changes to our fund because of this and it was definitely not a shared ownership. In the past few weeks our plan voted and adopted many more changes including employee contribution increases and reductions in every aspect of our benefit, while yet again the city does not make any changes. I feel that these potential changes presented would help our fund have more leverage in creating a shared ownership with the plan sponsor.</p> <p>When a plan goes to change their contribution, it has to be "studied" and approved by the actuarial firm to show that a plan could decrease it's rate. Why do we not go through the same process for the plan sponsor? When our plan sponsor decided to change their contribution rate, it increased our UAAL by over 17 years, and the membership had to make changes because of this. Why do we not have something in the statute that says a plan sponsor would have to have the effects of the rate change approved/studied prior to implementing it? We have to do it as members but the sponsor doesn't and as we found out they can cause a large negative effect on the plan. Pg. 8 of our 2016 valuation- "5. The change in the assumed average city contribution rate from 23.5% to 21% had the effect of increasing the amortization period by 17.2 years." This should have not been allowed, we did not even have a chance to discuss it with the sponsor, they simply implemented the change.</p>

Robert Studer, City of El Paso Employees Retirement Trust	We suggest the best option would be option 2b wherein the funding policy and FSRP would be linked at the time a FSRP would be required.
Tyler Grossman, El Paso Police and Fire Pension Fund	<p>(2a) - We fully support joint participation by plan sponsors in the development of funding policy and believe every effort should be made to encourage meaningful sponsor input in the planning process. However, while this is an undeniably worthy objective, what happens when the sponsoring entity does not or will not participate? Does the Fund simply share a copy of its funding proposal with the plan sponsor, document its attempts to forge agreement and then submit its written policy document to the PRB unilaterally? In our view, the enforceability of the broad mandate proposed in 2a is uncertain. A more practical alternative would be the objectives proposed in 2b and 2c. Plan sponsors for the most part have appeared to understand the importance of participation in the Funding Soundness Restoration Plan process, thus 2b and 2c represent logical, reasonable next steps.</p> <p>2b appears logical in order to show what the two parties are attempting to do.</p> <p>We feel 2c should occur to place it on the record.</p>
Ryan Falls, Gabriel, Roeder, Smith & Company	The funding policy requirements that were recently put into law were a great first step. They prompted a lot of retirement systems and plan sponsors to discuss what proper plan funding should really look like. Since the plan sponsors are not obligated to contribute in accordance with the funding policy, the effectiveness of the requirement is somewhat limited.
Art Alfaro, Texas Association of Public Employee Retirement Systems (TEXPERS)	We agree with you that more can be done by plan sponsors to address chronic underfunding of some systems. This has always been a problem and we appreciate the PRB's recognition of this fact.

3. Clarify that funding policies must include actuarial methods that achieve 100% funding.

The PRB Actuarial Committee at its May 7, 2020 meeting discussed how rolling amortization periods were not designed to achieve full funding. Most standard-setting bodies listed below under Objective 4 utilize closed amortization approaches.

Potential Change to Funding Policy Requirement

3a) Require funding policies to utilize actuarial methods (amortization policies for ADC plans or ADC benchmarks for fixed-rate plans) that are based on a closed amortization period, and thus, move toward, and ultimately achieve, 100% funding.

Respondent	Response
Robert Studer, City of El Paso Employees Retirement Trust	We have no objection to this suggestion.
Tyler Grossman, El Paso Fire and Police Pension Fund	Due to the variances and constraints in the discrete laws that govern each plan, we believe this requirement would be difficult to achieve and likely unenforceable without modifying individual statutes.

4. Reduce the 40-year amortization period/threshold of an FSRP.

A rolling 40-year amortization period threshold is no longer reasonable. Generally, an amortization period over 20 years will cause a plan to experience negative amortization, which means the unfunded liability will grow, rather than decrease, as contributions will not cover the interest accrued. The following sources recommend shorter amortization periods.

[CCA White Paper](#) - recommends a layered, fixed period amortization depending on the source of the UAAL, with a 25-yr max.

[SOA Blue Ribbon Panel](#) - recommends gains/losses to be amortized over a period of no more than 15-20 years.

[GFOA](#) - recommends using a closed period never to exceed 25 years, but to fall between 15-20 years.

PRB [Pension Funding Guidelines](#) - utilize a 30-year threshold, with a preferred period of 10-25 years.

ASOP 4 Second Exposure Draft - states that each amortization base must either have payments that fully pay off the balance within a reasonable timeframe; or reduce the unfunded balance by a reasonable amount each year.

Potential Change to FSRP Requirement

4a) Bring the FSRP trigger in line with *PRB Guidelines* and other standard-setting bodies by changing 40 years (11 plans currently subject to FSRP) to:

- 30 years (*PRB Guidelines* upper bound) – 19 additional plans would become subject to FSRP, for a total of 30 plans;
- 25 years (*PRB Guidelines* target range upper bound) – 34 additional plans would become subject to FSRP, for a total of 45 plans; or

- 20 years (within *PRB Guidelines* and GFOA target range, SOA Blue Ribbon Panel upper bound) – 51 additional plans would become subject to FSRP, for a total of 62 plans.

Respondent	Response
Paul Barham, CPS Energy Pension Plan	Regarding the recommendation to modify funding guidelines to shorten the amortization period, CPS Energy has been proactively working with our actuaries to perform analyses of how the proposed changes would impact our plan. The initial data shows minimal impact on CPS Energy, but we understand that is not going to be the case for all pensions plans. Other stakeholders have raised concerns with this recommendation and we appreciate the PRB's willingness to consider all perspectives as you continue discussing it, especially considering that many Texas entities have been significantly affected by both pandemic and economic global pressures.
Robert Studer, City of El Paso Employees Retirement Trust	We agree that 25-years or 30-years seems reasonable. A 20-years amortization period seems to short and may require FSRP plans when temporary market corrections occur.
Tyler Grossman, El Paso Fire and Police Pension Fund	Given that the PRB just three years ago adjusted its guidelines to a 30-year amortization period as the upper end funding target for all plans, it would be unreasonable this soon to impose in statute anything lower than 30 years as an FSRP trigger. Additionally, consistent with the latest PRB guidelines, a fair and realistic phase-in period for triggering the FSRP should remain an essential part of the statute. It is also important that the policy objectives proposed in items 4 and 5 not be viewed as separate, unrelated issues; rather we respectfully request that any proposed changes to the amortization period threshold and time allowed to trigger an FSRP be considered holistically so as to prevent any unintended harsh repercussions for the impacted plans. (Please also see comments on Objective 5.)
Mark Fenlaw and Rebecca Morris, Rudd and Wisdom, Inc.	We recommend that you not ask for a change in the trigger for the Funding Soundness Restoration Plan (FSRP) in Section 802.2015(c). Keep the "over 40 years" part of the trigger since the PRB Pension Funding Guidelines consider 40 years the acceptable maximum until 2025 when 30 years becomes effective.
Art Alfaro, TEXPERS	We think that adjusting HB 3310 so that more systems must develop FSRPs is rushed. Pension systems need time for their investment, contribution, and workforce dynamics to show in actuarial numbers. The 3- to 4- year implementation period which has been granted by the PRB for the 10-year time frame of HB 3310 needs the opportunity to accomplish its original intent. Waving a magic wand for intermediate-term results is not realistic.

Art Alfaro, TEXPERS (cont)	Also, asking the 14 systems which initially implemented plans to go back to the drawing board for another plan that reaches 25- or 30- years imposes additional costs on them and their sponsors, even while their first plans seem to be working in most cases.
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5. Reduce the period between identification of an amortization period beyond the threshold and trigger of an FSRP.

The time period between the first actuarial valuation over the threshold and when the FSRP is triggered can be lengthy. The FSRP requirement is triggered after three consecutive annual AVs, or two consecutive AVs if the systems conduct the valuations every two or three years, which could allow funding problems to grow considerably worse between valuations.

Potential Changes to FSRP Requirement

Timing of Trigger

5a) The FSRP requirement is triggered immediately for plans that receive an AV with the amortization period over a higher threshold only; existing law applies to amortization periods over a lower threshold.

For example, if an AV showing an amortization period over 40 is received, the FSRP would be immediately required, given that at higher amortization periods, funding problems can quickly accelerate, as higher amortization periods are much more volatile (i.e., can jump from 40 to infinite over one valuation cycle). For amortization periods above 25 but not above 40, existing law would continue to apply (the FSRP is triggered after three consecutive annual AVs, or two consecutive AVs if the systems conduct the valuations every two or three years).

OR

5b) The FSRP requirement is triggered immediately for plans that receive an AV with the amortization period over a higher threshold only; for plans reporting amortization periods over a lower threshold, an additional metric would apply to determine FSRP status.

For example, if an AV showing an amortization period over 40 is received, the FSRP would be immediately required. For amortization periods above 25 but not above 40, only plans that also had funded ratios of less than 65% would become subject to the FSRP, as the two factors considered together provide a clearer picture of the severity of funding problems.

Setting the Target Lower than the Threshold (also addresses Objective 1)

5c) If the threshold to trigger an FSRP was 30 years, the FSRP would be required to achieve an amortization period within 10-25 years.

Consideration for Plans Having Made Funding Reforms

5d) Plans with amortization periods between 30 and 40 years do not become subject to the FSRP requirement if they are implementing an ADC or modified-ADC contribution structure and their AVs indicate they are on a path towards full funding.

Respondent	Response
Robert Studer, City of El Paso Employees Retirement Trust	We believe option identified as 5a is most appropriate and will adequately address the issue without the need for a substantial change in the law.
Tyler Grossman, El Paso Fire and Police Pension Fund	<p>(5a suggested change) For amortization periods above 25 30 but not above 40, existing law would continue to apply (the FSRP is triggered after three consecutive annual AVs, or two consecutive AVs if the systems conduct the valuations every two or three years).</p> <p>As stated in comments related to Objective 4 above, the Fund strongly believes a reasonable and fair minimum amortization period would be no lower than 30 in the FSRP statute. Of the options presented under Objective 5, 5a is 2nd choice with the change provided.</p> <p>(5b) - Please see example below for alternative approach:</p> <p>For example, if an AV showing an amortization period over 40 is received, the FSRP would be immediately required. For amortization periods above 25 30 (see our comments in 4a for rationale) but not above 40, only plans that also had funded ratios of less than 65% would become subject to the FSRP, as the two factors considered together provide a clearer picture of the severity of funding problems. The Fund agrees that an immediate trigger at 40 years AM is reasonable and appropriate. While we also believe there is merit in using the 65 percent funded ratio as an additional metric in determining if plans in the 30-40 AM range should be subject to an immediate FSRP, existing law's provision allowing multiple valuations before an FSRP is triggered should continue to apply when the Fund is between 30-40 AM but above 65%. A bad AV cycle due to investments could move a Fund briefly above 30. Consideration of such a brief fluctuation would be accounted for if this important component of existing law is preserved.</p> <p>(5c) - We believe this is problematic due its complexity—too many elements; simple is better.</p> <p>(5d) - Again, we believe this is overly complex and would unfairly fail to take into account other improvements Funds have voluntarily made to improve funding health.</p>

Mark Fenlaw and Rebecca Morris, Rudd and Wisdom, Inc.	<p>We think the multiple valuations requirement provides an opportunity for a plan to avoid being subject to the FSRP. We encourage our clients to start working to make changes to restore an adequate contribution arrangement the first time we present an actuarial valuation with an amortization period of over 40 years. Please continue to allow boards the opportunity to take appropriate actions, working with the active plan participants and the sponsoring employer, to avoid being subject to the FSRP.</p> <p>Change the target amortization period to 30 years in Section 802.2015(e)(2) in anticipation of the maximum acceptable period in the PRB Pension Funding Guidelines beginning in 2025.</p> <p>Remove the 10-year period to achieve the target amortization period in Section 802.2015(e)(2).</p>
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6. Clarify the role of future actions in FSRPs.

Some FSRPs rely on future actions that may or may not happen. Staff seeks clarification as to what extent future actions may be incorporated in FSRPs. For example, can an FSRP include a benefit change that has not yet been voted on by members; feature contribution increases not yet approved by the sponsor; or rely on future increases in active plan population for the existing amortization period calculations?

Potential Changes to FSRP Requirement

6a) When changes must be made that require significant time to implement or are contingent on a voting process or other approval, require the FSRP to include evidence of intent, such as the following:

- a) a resolution or motion from the sponsor approving additional funding or contribution schedules for contribution increases phased in overtime;
- b) draft ballot language and an estimated date the vote will take place.

6b) Clarify that any assumptions used in conjunction with future actions, such as hiring, must be made in accordance with ASOPs.

6c) The plan and sponsor must provide updates to the Board within 6 months on the implementation of the future actions outlined in the FSRP.

Respondent	Response
Robert Studer, City of El Paso Employees Retirement Trust	<p>We believe the options identified as 6b or 6c would both provide the clarity requested by SPRB staff.</p>

Tyler Grossman, El Paso Fire and Police Pension Fund	The Fund feels 6c is logical and best choice.
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7. Clarify documentation required to demonstrate that FSRP will achieve the amortization period requirement.

Supporting documentation requirements are unclear. Staff seeks clarification regarding what evidence must be provided to show that the FSRP meets the amortization period requirement. For example, does an analysis of individual pieces of the changes and assurance from the system and/or plan actuary that the combined impact will achieve the necessary amortization period suffice, or must the FSRP contain an analysis of the combined impact of all changes?

Potential Change to FSRP Requirement

7a) FSRPs must provide an aggregate analysis of multiple changes specifically showing how the combined impact of the changes in the FSRP would result in meeting the statutory requirements. The analysis must include an actuarial projection that shows the unfunded liability decreasing to zero within the required time period.

Respondent	Response
Robert Studer, City of El Paso Employees Retirement Trust	Appears reasonable.
Tyler Grossman, El Paso Fire and Police Pension Fund	The Fund feels this is logical but also feels the cost should be shared 50/50 as it should be with any reports required by the FSRP.
Mark Fenlaw and Rebecca Morris, Rudd and Wisdom, Inc.	It would be reasonable to require an FSRP to be accompanied by an actuarial analysis signed by the board's retained actuarial firm that would indicate how the FSRP would be expected to result in no more than a 30-year amortization period as of the date of the most recently completed actuarial valuation. An actuarial projection would be an unnecessary expense, and one is not required by the Actuarial Standards of Practice in an actuarial valuation report.

8. Identify consequences that should apply when an FSRP does not result in statutory compliance. Perpetual revised FSRPs should be discouraged.

Preparing a revised FSRP does not ensure a plan is back on track towards the original FSRP goal. Statute calls for a revised FSRP if the original is not adhered to. To date, several systems have been required to formulate revised FSRPs, and some are on their second revised FSRP. There are no consequences in place to prevent perpetual revised FSRPs, which means a plan may never achieve the minimum amortization period threshold and may have no incentive to make meaningful changes in the original FSRP.

Potential Change to FSRP Requirement

8a) If the original FSRP will no longer achieve the statutory amortization period requirement, the plan and sponsor should become subject to stricter requirements for funding restoration, such as adopting risk-sharing mechanisms in their funding policy or an ADC-based contribution structure.

Respondent	Response
Robert Studer, City of El Paso Employees Retirement Trust	We suggest that the SPRB adopt different wording. Public plans are too varied for a “one-size fits all approach.” We are not in favor of limiting the “consequences” to implementing risk sharing or the adoption of an ADC methodology for contributions. These may be options but plans should not be limited to just those options for remediating a FSRP. Also of concern is when will it be determined a plan will not meet the requirements of the FSRP?
Tyler Grossman, El Paso Fire and Police Pension Fund	If Objective 7 is in place and a professional actuary has attested that the proposed FSRP is practical, then the plan should work. However, if it doesn’t, then there should be an additional chance to revise without imposing structural changes or other measures. While it is fair to allow a second chance with an actuary’s approval, if the revised FSRP is not successful, or if the parties fail to comply with its terms a second time, then it is reasonable for the PRB to include such non-compliance in its ongoing reporting to the Legislature, which is the appropriate venue to address structural changes to plans.
Ryan Falls, Gabriel, Roeder, Smith & Company	Including adjustable benefit and/or adjustable contribution provisions into future FSRPs could limit the number of plans that have to go through the FSRP process multiple times. Examples of this would be COLAs that reduce or contributions that increase based on the actuarial condition of the plan. A simplified version of this could be an “automatic Plan B” that kicks in after a few years if “Plan A” is not working. As example of this is the Fort Worth ERF contribution increases that will begin in 2022 if the first set of reforms enacted in 2019 are not meeting the predetermined funding goals. These types of provisions allow all of the parties to decide what happens if the initial round of reforms do not work without having to start the negotiation process all over again in the future and also reducing the chances that the plan has to go through the FSRP another time.

Mark Fenlaw and Rebecca Morris, Rudd and Wisdom, Inc.	<p>It is in the long-term interest of the plan board of trustees, the active plan participants, and the sponsoring employer for their plan to have an adequate contribution arrangement. It is unlikely in our opinion that any additional consequence of having an inadequate contribution arrangement put into Section 802.2015 would help. We applaud you for initiating the Intensive Actuarial Reviews. Those are very effective in our opinion in getting the attention of key stakeholders and will gradually have their intended effects.</p>
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9. Clarify effective dates and required documentation for FSRP triggers and progress.

Progress updates and criteria for determining adherence to the FSRP require clarification. Statute requires systems and sponsors that formulate an FSRP to report “any updates of progress made by the entities toward improved actuarial soundness” to the PRB every two years. A revised FSRP must be formulated if the “system’s amortization period exceeds 40 years and the previously formulated FSRP has not been adhered to.”

Staff seeks clarification as to what the 2-year progress updates should include and what indicates the prior FSRP has been “adhered to.” What evidence should the system provide to illustrate that the required 40-year amortization period is still expected to be achieved by the original deadline? Does a plan’s actuarial valuation provide enough evidence?

Potential Change to FSRP Requirement (also addresses Objective 2)

9a) To track progress on the FSRP, plans and sponsors should provide updates to the Board at least every two years, based on actual progress made.

9b) Updates should be provided on a PRB form and signed by the sponsor and/or adopted by city council. Updates should include an actuarial projection that shows the unfunded liability decreasing to zero within the required time period. Statute should clarify that the actuarial valuation alone does not qualify as an FSRP update.

Respondent	Response
Robert Studer, City of El Paso Employees Retirement Trust	<p>We believe the option identified as 9a is the better of the two options provided.</p>

Tyler Grossman, El Paso Fire and Police Pension Fund	(9a) - It should be evident in the AV and if not, then the Actuary should simply add a page to the AV addressing the changes proposed as part of the FSRP, whether these changes have been implemented and if they appear to be working or it is too early to tell. We believe this issue can be adequately addressed in the AV by incorporating the Actuary's professional opinion in a page/letter/addendum directly required to address the FSRP.
Mark Fenlaw and Rebecca Morris, Rudd and Wisdom, Inc.	We believe that an actuarial valuation report is a key update to an FSRP. We do not believe a required PRB form or actuarial projection would add value to an actuarial valuation report as an update. If the PRB staff need to ask follow-up questions about an actuarial valuation, that would be more effective in our opinion than any standardized reporting form.

10. Clarify deadline for submittal of FSRPs.

FSRP deadlines do not prevent substantial delays or speak to the time period over which a revised FSRP must achieve results. Although the bill author clarified the deadline to formulate an FSRP is 6 months from the adoption of the AV that triggers the formulation requirement, this deadline is not currently in statute. Plans and sponsors subject to the FSRP have missed the 6-month FSRP formulation deadline, sometimes by several years. Understandably, sometimes the plan and sponsor need more time to finalize their FSRP.

Statute does not address how to handle late FSRPs, which requires striking a balance between allowing time for the development of a thorough joint plan but also preventing extremely delayed FSRPs.

Potential Changes to FSRP Requirement

10a) Statute should be updated to include the 6 month deadline and to provide for an extension process that the PRB may grant if a reasonable draft is submitted with an extension request, so that the PRB, Legislature, and other stakeholders could be made aware of the plan and sponsor's intended plan of action. If the allowed number of extensions is met and the FSRP is still not submitted or accepted by the PRB, the plan and sponsor would be noncompliant with statute.

OR

10b) Statute should be amended to allow one year, rather than 6 months, for the completion of the FSRP, but also to require a progress update at 6 months which should include a draft plan or changes under consideration.

Respondent	Response
Robert Studer, City of El Paso Employees Retirement Trust	We believe that in some cases it may take more than a year to develop the most effective FSRP. We would favor up to one-year with possible extensions to be considered/granted by the SPRB based upon specific circumstances.
Tyler Grossman, El Paso Fire and Police Pension Fund	10b is the best choice as it adds structure and certainty to the existing law. The PRB should not be granting extensions. The PRB could potentially allow themselves to become a reason why a Fund is not compliant (ie “the Fund would be compliant but the PRB refused an extension for no good reason!”).
Mark Fenlaw and Rebecca Morris, Rudd and Wisdom, Inc.	Six months is an unrealistic deadline for developing a well-designed FSRP. The plan board of trustees has to authorize actuarial studies of potential changes and decide on a package of changes to take to the active participants and the sponsoring employer. The communications required to develop an FSRP can be challenging. Not only must active plan participants be educated on potential changes but also the sponsoring employer will often require multiple people to hear presentations (city manager, CFO, city council), all of which takes time. It is probably unrealistic to enforce a deadline, but you could require a report to the PRB of what progress has been made toward completing an FSRP if not submitted after a year.

General

Respondent	Response
Paul Barham, CPS Energy Pension Plan	<p>Given the unprecedented circumstances presented by COVID-19, we would like to take this opportunity to express our preference that policy discussions of this nature be postponed until a later date. That being said, we have closely followed the PRB’s discussions and appreciate the opportunity to remain engaged and provide input at future points along the way.</p> <p>CPS Energy, the Plan’s sponsor, is directly involved with the Plan’s funding policy and does not have multiple major concerns at this time with the PRB Actuarial Committee’s proposal to include engaging pension plan sponsors in pension funding requirements.</p>
Tyler Grossman, El Paso Fire and Police Pension Fund	<p>We thought it was relevant to first lay out some overarching principles and concerns that we respectfully submit are vital to any fair and workable legislative reform effort:</p> <ul style="list-style-type: none"> • One size does not fit all. In any policy reform effort, there should be an explicit acknowledgement and understanding that local retirement systems in Texas each have unique requirements and constraints imposed

<p>Tyler Grossman, El Paso Fire and Police Pension Fund (cont)</p>	<p>upon them by their governing statutes, and, in some cases, their city charters, ordinances, and contractual labor agreements. We would request that the Board continue to recognize that each system brings discrete legal and historical context to any initiative to revise public policy impacting all funds.</p> <ul style="list-style-type: none"> • Fair and reasonable transition period essential: Without a reasonable phase-in period, significant policy shifts, such as structural changes to the current Funding Soundness Restoration Plan, can immediately and perhaps inadvertently cast otherwise well-performing or improving plans in a negative light. Consistent with the fair transition period approved by the Board when updated PRB Funding guidelines were implemented in 2017, it would also be reasonable to include a more realistic phased-in approach that allows plans to adapt to any new requirements without being subjected to immediate harsh repercussions. • Credit where credit is due: The Fund appreciates the Committee’s recognition that plans that continuously seek to improve their funding health should be given proper “credit” for such improvements, most of which have been made without statutory or regulatory intervention, including, for example, the members of the El Paso Firemen and Policemen’s Pension Fund voting in 2017 to voluntarily approve a contribution rate increase that brought their contribution level to parity with the City of El Paso (18 percent). We request that any recommendations for legislative reform account for the range of actions taken in good faith by local plans to improve funding health. • Reasonable expectations about plan sponsor participation: While the Fund applauds any legislative recommendation that would require and result in more participation on the part of plan sponsors, we remain concerned about the enforceability of such mandates, given the historical preference of plan sponsors to engage mostly when a growing funding problem gets the attention of the rating agencies. Over time, our Fund has made strides in communicating with our City sponsor and building a greater understanding of funding realities. But realistically, the impetus for change has rarely come from Austin; but rather has emanated from a looming credit crisis. We believe this dynamic—i.e., concerns about their growing risk exposure and cost of debt—has played the biggest role in compelling cities to participate in the Funding Soundness Restoration Plan and should inform policymakers’ expectations regarding future plan sponsor participation.
<p>Robert Rodriguez, City of Harlingen</p>	<p>In reviewing the funding policy and FSRP requirements policy objective and consideration, we understand the need to move toward a funding policy with a closed amortization period that achieves 100% funding and also the need for reducing the FSRP requirement below 40 years. For our City and its plan members, this may impose a significant financial burden and may trigger our plan to continually be under an FSRP for the foreseeable future. It is also concerning with the time frame in which this may be implemented and with the ripple effect this may have on the City’s financial position. We are open for further discussion and guidance, as we are currently still reviewing what the full financial affect this may have on our City, its plan members and to our citizens.</p>

Mark Fenlaw and Rebecca Morris, Rudd and Wisdom, Inc.	<p>Please consider giving more time for the existing funding policies to have their intended effects before asking the Legislature to make additional and more complex changes to Section 802.2011 of the Government Code.</p> <p>We believe that the more measured approach to making changes will advance both the legal and PRB oversight environment to provide encouragement for adequate contribution arrangements for public employee defined benefit plans in Texas.</p>
Art Alfaro, TEXPERS	<p>After careful review of the almost four-year history of implementation of HB 3310, we are not in agreement that changes causing 3/4s of the plans to end up on a FSRP would be advisable.</p>

**5b – Plans subject to FSRP immediately with am period > 40-yr, or am period > 30-yr and funded ratio < 65%;
or after 2 or 3 valuations with am period between 30 and 40 years**

Plan Name	Contribution Type	Current Actuarial Valuation*			1-yr Prior Val Date Am Period	2-yr Prior Val Date Am Period	FSRP Required
		Valuation Date	Am Period	Funded Ratio %			
Atlanta Firemen's Relief & Retirement Fund	Fixed	12/31/2018	Infinite	80.0	N/A	28.4	Yes
Austin Police Retirement System	Fixed	12/31/2018	Infinite	58.1	35.0	27.3	Yes
Conroe Fire Fighters' Retirement Fund	Fixed	12/31/2018	Infinite	58.1	39.0	31.4	Yes
McAllen Firemen's Relief & Retirement Fund	Fixed	9/30/2018	Infinite	68.2	N/A	33.4	Yes
Lubbock Fire Pension Fund	Other	12/31/2018	52.9	69.3	N/A	33.5	Yes
Cleburne Firemen's Relief & Retirement Fund	Other	12/31/2018	48.6	59.6	N/A	28.8	Yes
Plainview Firemen's Relief & Retirement Fund	Fixed	12/31/2017	44.8	37.7	N/A	31.6	Yes
Amarillo Firemen's Relief & Retirement Fund	Fixed	12/31/2017	43.5	81.5	N/A	34.5	Yes
Laredo Firefighters Retirement System	Fixed	9/30/2018	43.0	59.9	N/A	28.0	Yes
Texas City Firemen's Relief & Retirement Fund	Fixed	12/31/2018	41.1	45.9	N/A	28.0	Yes
Killeen Firemen's Relief & Retirement Fund	Fixed	9/30/2018	39.8	69.4	N/A	22.8	No
Brownwood Firemen's Relief & Retirement Fund	Fixed	12/31/2017	38.6	45.0	N/A	36.1	Yes
Big Spring Firemen's Relief & Retirement Fund	Fixed	1/1/2019	38.3	53.2	N/A	36.2	Yes
Dallas Police & Fire Pension System-Combined Plan	Other	1/1/2019	38.0	48.1	45.0	44.0	Yes
Harlingen Firemen's Relief & Retirement Fund	Fixed	9/30/2019	38.0	64.5	N/A	59.1	Yes
Paris Firefighters' Relief & Retirement Fund	Fixed	12/31/2018	32.1	30.5	N/A	41.9	Yes
Austin Employees' Retirement System	Fixed	12/31/2018	32.0	67.6	30	31.0	Yes
Abilene Firemen's Relief & Retirement Fund	Fixed	10/1/2017	31.9	55.7	N/A	31.5	Yes
San Angelo Firemen's Relief & Retirement Fund	Fixed	12/31/2017	31.3	64.9	N/A	38.5	Yes
Lufkin Firemen's Relief & Retirement Fund	Fixed	12/31/2018	30.7	48.8	N/A	33.1	Yes
El Paso Police Pension Fund	Fixed	1/1/2018	30.5	78.3	N/A	33.0	Yes

* This data is as of July 28, 2020.

FSRP immediate with > 40 yr am pd	FSRP immediate with 30-40 yr am pd and <65% funded ratio	FSRP required with 30-40 yr am pd after 2-3 valuations
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Ashley Rendon

From: John Harrell <John.Harrell@cleburne.net>
Sent: Friday, August 28, 2020 9:11 PM
To: PRB
Subject: Re: Comments Requested: PRB Funding Policy and FSRP Requirements - Policy Objectives and Considerations

Categories: Ben

Thank you, all of these changes are much needed. As a TLFFRA plan we have struggled with getting our plan sponsor to share ownership, and I believe most plans share the same problems. Our 2016 valuation had such a large increase in UAAL strictly from the city adjusting their funding policy because they want keep it tied to the ADC that they use for their TMRS plan. The plan membership had to make the necessary changes to our fund because of this and it was definitely not a shared ownership. In the past few weeks our plan voted and adopted many more changes including employee contribution increases and reductions in every aspect of our benefit, while yet again the city does not make any changes. I feel that these potential changes presented would help our fund have more leverage in creating a shared ownership with the plan sponsor.

Thank you,

John Harrell

Chairman

Cleburne Firefighter's Relief and Retirement fund

From: PRB <PRB@prb.state.tx.us>
Sent: Friday, August 28, 2020 12:08 PM
Subject: Comments Requested: PRB Funding Policy and FSRP Requirements - Policy Objectives and Considerations

Texas Public Retirement Systems and Interested Parties:

The Pension Review Board (PRB) discussed possible changes to the funding policy and funding soundness restoration plan statutes at its August 6th Actuarial Committee meeting based on ten outlined objectives. These potential changes, linked in a document below, are not fully developed.

At this time, the PRB would appreciate comments, creative thoughts, and feedback on what is included in the document, or other ideas on how to accomplish the outlined objectives.

Staff will present submitted comments at the September 29th Actuarial Committee meeting, where the Committee will consider changes to recommend to the full Board at its November 12th meeting for possible legislative recommendations.

To review the document, please click

here<https://linkprotect.cudasvc.com/url?a=https%3a%2f%2fwww.prb.texas.gov%2ftxpen%2fwp-content%2fuploads%2f2020%2f08%2fFunding-Policy-and-FSRP-Policy-Objectives-Draft-for-Comment.pdf&c=E,1,QiTHqP4KgN6HTitTQ6COpiMF-jrxVeO2h0emUAZFeoA-Oi0YX7XxLubpSdWfLD35C4QFc1k1xzR6mmX_RnjW5kKV9z1N-UWJ9hBn8_V1hWO6gplmRKAa58I,&typo=1>.

Mariah Miller

From: John Harrell <John.Harrell@cleburne.net>
Sent: Tuesday, September 1, 2020 6:10 AM
To: PRB
Subject: Re: Comments Requested: PRB Funding Policy and FSRP Requirements - Policy Objectives and Considerations
Attachments: val-12-31-2016-draft (3).pdf
Categories: Ben

I have something else I would like considered.

When a plan goes to change their contribution it has to be "studied" and approved by the actuarial firm to show that a plan could decrease it's rate. Why do we not go through the same process for the plan sponsor? When our plan sponsor decided to change their contribution rate, it increased our UAAL by over 17 years, and the membership had to make changes because of this. Why do we not have something in the statute that says a plan sponsor would have to have the effects of the rate change approved/studied prior to implementing it? We have to do it as members but the sponsor doesn't and as we found out they can cause a large negative effect on the plan. Pg. 8 of our 2016 valuation- "5. The change in the assumed average city contribution rate from 23.5% to 21% had the effect of increasing the amortization period by 17.2 years.". This should have not been allowed, we did not even have a chance to discuss it with the sponsor, they simply implemented the change.

John Harrell

From: PRB <PRB@prb.state.tx.us>
Sent: Monday, August 31, 2020 2:13 PM
To: John Harrell
Subject: RE: Comments Requested: PRB Funding Policy and FSRP Requirements - Policy Objectives and Considerations

Good afternoon John,

Thank you for your comments. We will include this information in our report to the Committee.

Please let us know if you have any questions.

Regards,

Texas Pension Review Board
https://linkprotect.cudasvc.com/url?a=https%3a%2f%2fprb.texas.gov&c=E,1,c-vFpwoiOG_CH9kEJ700ZrXKwh9FHHkPZSLguMDr65eNCOB1M2xGJ0px2nIZPBnt_8II63GjZok9zQS-yATVAyLSO8q4j70tz8QZ41KbwuhF&typo=1 | prb@prb.texas.gov | P.O. Box 13498 | Austin, TX 78711-3498 | P 512-463-1736 or 800-213-9425 | F 512-463-1882

-----Original Message-----

From: John Harrell <John.Harrell@cleburne.net>
Sent: Friday, August 28, 2020 9:11 PM
To: PRB <PRB@prb.state.tx.us>
Subject: Re: Comments Requested: PRB Funding Policy and FSRP Requirements - Policy Objectives and Considerations

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September 14, 2020

To the Members of the Actuarial Committee,

The CPS Energy Pension Plan ("Plan") appreciates the opportunity to provide comments as the Pension Review Board (PRB) considers potential modifications to its funding soundness restoration plan statutes.

Given the unprecedented circumstances presented by COVID-19, we would like to take this opportunity to express our preference that policy discussions of this nature be postponed until a later date. That being said, we have closely followed the PRB's discussions and appreciate the opportunity to remain engaged and provide input at future points along the way.

CPS Energy, the Plan's sponsor, is directly involved with the Plan's funding policy and does not have multiple major concerns at this time with the PRB Actuarial Committee's proposal to include engaging pension plan sponsors in pension funding requirements.

As you may be aware, the Plan has significant oversight to ensure financial soundness. It is governed by our CPS Energy Employee Benefits Oversight Committee ("EBOC"), which includes the President & CEO, Chief Financial Officer (CFO), and the Audit & Finance Committee members of our Board of Trustees. Plan assets are segregated from our operational assets and are separately managed by an experienced seven-member internal Administrative Committee, which is supported by an external investment advisory team.

Regarding the recommendation to modify funding guidelines to shorten the amortization period, CPS Energy has been proactively working with our actuaries to perform analyses of how the proposed changes would impact our plan. The initial data shows minimal impact on CPS Energy, but we understand that is not going to be the case for all pensions plans. Other stakeholders have raised concerns with this recommendation and we appreciate the PRB's willingness to consider all perspectives as you continue discussing it, especially considering that many Texas entities have been significantly affected by both pandemic and economic global pressures.

Thank you again for the opportunity to engage in these discussions. We appreciate the PRB's ongoing efforts to ensure the benefits of public employees are protected through sound pension plan design and funding. Moreover, we appreciate the PRB's work with all impacted stakeholders throughout the process and your understanding as we all work through these challenging times together.

For questions or additional information, please contact Shannon Albert at (210) 319-0250 or sralbert@cpsenergy.com or Paul Barham at (210) 218-6030 or psbarham@cpsenergy.com.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul Barham".

Paul Barham, Chairman

PSB/ktm

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Kenny Herbold

From: Ryan.Falls@grsconsulting.com
Sent: Thursday, September 17, 2020 3:20 PM
To: Kenny Herbold
Cc: Lewis.Ward@grsconsulting.com
Subject: RE: FSRP reforms

Kenny,

The two primary things we discussed were the following:

- The funding policy requirements that were recently put into law were a great first step. They prompted a lot of retirement systems and plan sponsors to discuss what proper plan funding should really look like. Since the plan sponsors are not obligated to contribute in accordance with the funding policy, the effectiveness of the requirement is somewhat limited.
- Including adjustable benefit and/or adjustable contribution provisions into future FSRPs could limit the number of plans that have to go through the FSRP process multiple times. Examples of this would be COLAs that reduce or contributions that increase based on the actuarial condition of the plan. A simplified version of this could be an "automatic Plan B" that kicks in after a few years if "Plan A" is not working. As example of this is the Fort Worth ERF contribution increases that will begin in 2022 if the first set of reforms enacted in 2019 are not meeting the predetermined funding goals. These types of provisions allow all of the parties to decide what happens if the initial round of reforms do not work without having to start the negotiation process all over again in the future and also reducing the chances that the plan has to go through the FSRP another time.

Please let us know if we can help out further.

Thanks,
Ryan



R. Ryan Falls, F.S.A., E.A., M.A.A.A.
Senior Consultant & Actuary
5605 N MacArthur Blvd | Suite 870 | Irving, TX 75038-2631
Office: 469.524.1802 | Mobile: 214.289.7869
ryan.falls@grsconsulting.com

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Mariah Miller

From: Rodriguez, Robert <robertr@myharlingen.us>
Sent: Friday, September 18, 2020 5:35 PM
To: PRB
Cc: Serna, Dan; Gonzalez, Gabriel
Subject: Comment on PRB Funding Policy and FSRP Requirements - Policy Objectives and Considerations

Categories: Ben

Texas Pension Review Board:

In reviewing the funding policy and FSRP requirements policy objective and consideration, we understand the need to move toward a funding policy with a closed amortization period that achieves 100% funding and also the need for reducing the FSRP requirement below 40 years. For our City and its plan members, this may impose a significant financial burden and may trigger our plan to continually be under an FSRP for the foreseeable future. It is also concerning with the time frame in which this may be implemented and with the ripple effect this may have on the City's financial position. We are open for further discussion and guidance, as we are currently still reviewing what the full financial affect this may have on our City, its plan members and to our citizens.

Thank you,

Robert Rodriguez
Finance Director
City of Harlingen
Harlingen, Texas 78550
robertr@myharlingen.us
(956) 216-5064



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September 18, 2020

Via E-Mail: kenny.herbold@prb.texas.gov

Pension Review Board
Actuarial Committee
c/o Mr. Kenny Herbold

Re: Potential Changes

Dear Committee Members:

We have considered the ten objectives and potential changes in the August 28, 2020 document for which you and the PRB staff have requested input. Instead of commenting on each of the specific potential changes in the document, we have decided to offer selective comments and recommendations in a summary fashion.

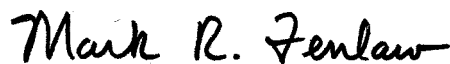
1. Please consider giving more time for the existing funding policies to have their intended effects before asking the Legislature to make additional and more complex changes to Section 802.2011 of the Government Code.
2. We recommend that you not ask for a change in the trigger for the Funding Soundness Restoration Plan (FSRP) in Section 802.2015(c). Keep the “over 40 years” part of the trigger since the PRB Pension Funding Guidelines consider 40 years the acceptable maximum until 2025 when 30 years becomes effective. In addition, we think the multiple valuations requirement provides an opportunity for a plan to avoid being subject to the FSRP. We encourage our clients to start working to make changes to restore an adequate contribution arrangement the first time we present an actuarial valuation with an amortization period of over 40 years. Please continue to allow boards the opportunity to take appropriate actions, working with the active plan participants and the sponsoring employer, to avoid being subject to the FSRP.
3. Change the target amortization period to 30 years in Section 802.2015(e)(2) in anticipation of the maximum acceptable period in the PRB Pension Funding Guidelines beginning in 2025.
4. Remove the 10-year period to achieve the target amortization period in Section 802.2015(e)(2).
5. Six months is an unrealistic deadline for developing a well-designed FSRP. The plan board of trustees has to authorize actuarial studies of potential changes and decide on a package of changes to take to the active participants and the sponsoring employer. The communications

required to develop an FSRP can be challenging. Not only must active plan participants be educated on potential changes but also the sponsoring employer will often require multiple people to hear presentations (city manager, CFO, city council), all of which takes time. It is probably unrealistic to enforce a deadline, but you could require a report to the PRB of what progress has been made toward completing an FSRP if not submitted after a year.

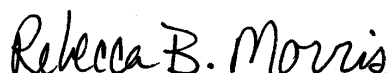
6. It would be reasonable to require an FSRP to be accompanied by an actuarial analysis signed by the board's retained actuarial firm that would indicate how the FSRP would be expected to result in no more than a 30-year amortization period as of the date of the most recently completed actuarial valuation. An actuarial projection would be an **unnecessary** expense, and one is **not required** by the Actuarial Standards of Practice in an actuarial valuation report.
7. It is in the long-term interest of the plan board of trustees, the active plan participants, and the sponsoring employer for their plan to have an adequate contribution arrangement. It is unlikely in our opinion that any additional consequence of having an inadequate contribution arrangement put into Section 802.2015 would help. We applaud you for initiating the Intensive Actuarial Reviews. Those are very effective in our opinion in getting the attention of key stakeholders and will gradually have their intended effects.
8. We believe that an actuarial valuation report is a key update to an FSRP. We do **not** believe a required PRB form or actuarial projection would add value to an actuarial valuation report as an update. If the PRB staff need to ask follow-up questions about an actuarial valuation, that would be more effective in our opinion than any standardized reporting form.

We believe that the more measured approach to making changes described above will advance both the legal and PRB oversight environment to provide encouragement for adequate contribution arrangements for public employee defined benefit plans in Texas. Thank you for the opportunity to provide this input. Please let us know if you have any questions about our comments.

Sincerely,



Mark R. Fenlaw, F.S.A.



Rebecca B. Morris, A.S.A.

MRF/RBM:nlg

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STAFF

ART ALFARO

Executive Director

June 25, 2020

Dear Members of the Pension Review Board,

We at the Texas Association of Public Employee Retirement Systems thank you for your dedication to the men and women who serve Texans as police, firefighters, and municipal employees. We appreciate your concern for their retirement security and the deferred benefits they earned.

We want to offer some thoughts about recent discussions on HB 3310, the 2015 law which established Funding Soundness Restoration Plans for systems with amortization periods greater than 40 years.

After careful review of the almost four-year history of implementation of HB 3310, we are not in agreement that changes causing 3/4s of the plans to end up on a FSRP would be advisable.

First, we have reviewed PRB data on the first 14 systems originally required to formulate FSRPs. Their deadline for FSFP formulation was November 1, 2016, less than four years ago. Our findings show that:

- 12 of 14 lowered their annual target rates below 8 percent (and we are not sure about the other two).
- After lowering their target rates, 6 have achieved amortization periods below 40 years, which is in line with the law. This is a significant achievement because the law requires them to do so in 10 years, not four.
- 3 have achieved lower amortization periods, but they are not yet lower than 40. They are working towards it, and the law recognizes that it takes time to achieve this status.
- 5 have not yet achieved lower amortization periods and may need additional work between the system and their sponsor.

The data for these systems include the market drubbing in 2018, and some probably do not yet include a very good year in 2019. Of course, we do not know yet what 2020 returns will look like, but the markets certainly look much better today than during the doom-and-gloom surrounding the May PRB meeting.

But we do not want to focus solely on systems in FSRP status. We also want to draw attention to the other systems monitored by the PRB.

Texas Association of Public Employee Retirement Systems

1504 San Antonio Street, Suite 206 • Austin, Texas 78701 • 713-622-8018 • texpers@texpers.org • www.texpers.org

As a starting point, we have researched the overall recent history of target rates, especially because they factor significantly in amortization period calculations. The PRB has frequently signaled that pension systems should lower their target rates in line with capital market assumptions. Texas pension systems have responded.

Our research of PRB data shows that in October 2017, 21 systems had eight percent targets. Today, there are three. In October 2017, seven systems had seven percent targets. Today 19 systems have seven percent targets. The trend into lower target rates has been profound for most systems, and we agree with the PRB that more systems should continue their work in that direction. The trend indicates that most are.

But the downward revisions of target rates should be viewed alongside another interesting trend. Since 2015, TEXPERS has noted how the amortization periods of Texas pension funds have been steadily trending downwards. Overall, in the years for which we have PRB data, there have been about 20-25 systems with 40-year to infinity amortization periods. But the number of systems which have moved into the PRB's recommended ranges have increased from 29 to 47 in the same period. Systems on the bubble of improvement or decline, in the 25- to 40- year range, have decreased in number, from 44 to 27. Of course, this is a positive move. Put another way; many more systems have moved into the recommended range (18) than have declined into the FSRP range (5).

In sum, we agree with you that more can be done by plan sponsors to address chronic underfunding of some systems. This has always been a problem and we appreciate the PRB's recognition of this fact.

But we also think that adjusting HB 3310 so that more systems must develop FSRPs is rushed. Pension systems need time for their investment, contribution, and workforce dynamics to show in actuarial numbers. The 3- to 4- year implementation period which has been granted by the PRB for the 10-year time frame of HB 3310 needs the opportunity to accomplish its original intent. Waving a magic wand for intermediate-term results is not realistic.

Also, asking the 14 systems which initially implemented plans to go back to the drawing board for another plan that reaches 25- or 30- years imposes additional costs on them and their sponsors, even while their first plans seem to be working in most cases.

In the interest of time, these are our summary remarks. We have included charts and other observations in the following pages. They are our best efforts to understand the data and we would appreciate any review and feedback you have so that we are all working from the same set of facts.

We look forward to further discussions on this matter.

Sincerely,



Art Alfaro
Executive Director, TEXPERS

Chart 1

Systems First Subject to FSRP Formulation in Feb 2016 Compared with Most Recent Data

	Am Period – Feb 2016 ⁱ	Annual Target Rate 2016 ⁱⁱ	Am Period 2020 ⁱⁱⁱ	Annual Target Rate 2020 ^{iv}
Odessa Fire	Inf	8.25	77.5	7.75
Wichita Falls Fire	105.9	8	Infinite	7.75
Greenville Fire	65.9	8.25	40.7	7.75
Harlingen Fire	66.6	8	59.1	7.75
Irving Fire	63.4	8.25	Infinite	7.5
Midland Fire	59.1	n/a	Infinite	7.75
Sweetwater Fire	58.8	8	27.5	8
Orange Fire	58.2	8	Infinite	7.75
Galveston Police	55.1	n/a	30	7
University Park Fire	53.7	8	28.8	7.5
Galveston Fire	50.2	8	26.8	7.75
Longview Fire	41.4	8	Infinite	7.75
San Angelo Fire	40.9	n/a	31.3	7.9
Lufkin Fire	40.6	7.5	30.7	7.5

Chart 2


	Am Period 2016	Am Period 2020	Results
Odessa Fire	Inf	77.5	
Wichita Falls Fire	105.9	Infinite	
Greenville Fire	165.9	140.7	
Harlingen Fire	66.6	59.1	
Irving Fire	63.4	Infinite	
Midland Fire	59.1	Infinite	
Sweetwater Fire	58.8	27.5	
Orange Fire	58.2	Infinite	
Galveston Police	55.1	30	
University Park Fire	53.7	28.8	
Galveston Fire	50.2	26.8	
Longview Fire	41.4	Infinite	
San Angelo Fire	40.9	31.3	
Lufkin Fire	40.6	30.7	

Observations:

Of the 14 systems originally required to formulate FSRPs in November 2016, Chart 2 shows that:

- 12 of 14 lowered their annual target rates below 8 percent. (Two of the 12 are presumed to have lowered)
- 5 **did not** achieve lower amortization periods
- 3 achieved **lower** amortization periods, but they were not lower than 40, which is what the law wants systems to work towards.
- 6 achieved amortization periods **below 40**, which is line with the law.

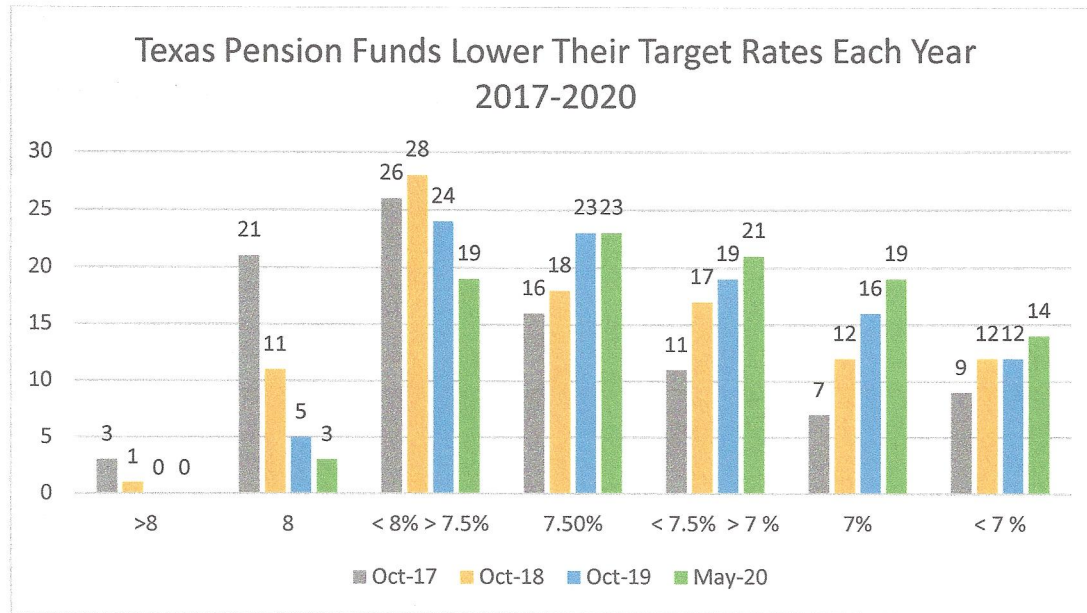
Chart 3

Amortization Periods for Texas State and Local Pension Funds									
Amortization Periods	2013	2014	2015	2016	2017	2018	2019	2020	
0 years (most healthy)	1	1	3	4	3	6	5	5	Pension Review Board recommended amortization period 0-25 years*
> 0 yr < 15 yrs	11	12	11	12	14	16	20	20	
≥ 15 yrs < 25 yrs	17	16	20	23	22	19	22	22	
≥ 25 yrs < 40 yrs	44	36	35	34	36	37	29	27	
≥ 40 yrs < Infinite	10	13	17	16	15	15	17	12	
Infinite (least healthy)	10	15	7	4	3	6	8	13	

Source: Texas Pension Review Board Actuarial Valuation Reports (AVR) for the following seven reporting periods (1) June 13, 2013 (2) June 12, 2014 (3) June 16, 2015 (4) August 4, 2016 (5) October 13, 2017. (6) October 4, 2018 (7) October 17, 2019 (8) May 7, 2020.

* In January 2017, the PRB adopted new [Pension Funding Guidelines](#), which went into effect June 30, 2017. The *Guidelines* lowered the maximum recommended amortization, or AM, period from 40 years to 30 years and made other changes. The PRB retained a 10-25 year "preferable target range." To maintain consistency for this trend comparison, TEXPERS has retained its AM Periods from previous AVR reports. It does not substantively affect the overall trend analysis. The 2018 column reflects the addition of 6 pension systems which had not previously reported data to the Pension Review Board.

Chart 4



i “[State Pension Review Board of Texas Board Meeting Agenda \(Packet\)](#)”, February 11, 2016. Agenda Item 6(C), Actuarial Committee, Discuss and consider the following matters: Update on Funding Soundness Restoration Plan requirement, including (ii) Retirement Systems subject to the new FSRP requirement, p. 87.

ii “Report on the Asset Allocation and Investment Performance of the Texas Association of Public Employees Retirement Systems,” March 2015, for periods ending September 30, 2014. The Pension Review Board website did not have documents containing discount/target rate information for the systems. The systems indicated reported their rates to TEXPERS for the purposes of this report. ‘N/a’ (not available) for those not participating. Pgs 23-24.

iii “Texas Pension Review Board Joint Meeting of the Investment/Actuarial Committees,” Select Plan Data & Metrics, May 7, 2020, p. 30.

iv “Texas Pension Review Board Joint Meeting of the Investment/Actuarial Committees,” Select Plan Data & Metrics, May 7, 2020, p. 30.

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Via Overnight mail delivery

State of Texas Pension Review Board

Anumeha Kumar; Executive Director

P.O. Box 13498

Austin, Texas 78711

RECEIVED

SEP 28 2020

Pension Review Board

September 22, 2020

Dear Members of the State Pension Review Board,

My name is Robert Studer and I am the Chairman of the Board of the City of El Paso Employees Retirement Trust. I have been granted authority by our Board of Trustees to respond to your request for comments regarding a list of potential policy issues related to funding policies and funding soundness restoration plans "herein after referred to as FSRP". I hope our comments will be considered at your Actuary Committee meeting scheduled for September 29, 2020.

In order to streamline our comments I have addressed each objective outlined in your email of August 28, 2020 in the order which they were outlined in the email. Each objective for which comments were solicited are outlined in bold font below.

1. **Funding policy and funding soundness restoration plan requirements should be in sync.** Plan Comment: None required as no specific change was suggested.
2. **Plan sponsors should share in plan ownership and needed changes.** Plan Comment: We suggest the best option would be option 2b wherein the funding policy and FSRP would be linked at the time a FSRP would be required.
3. **Clarify that funding policies must include actuarial methods that achieve 100 percent funding.** We have no objection to this suggestion.
4. **Reduce the 40-year amortization period.** Plan Comment: We agree that 25-years or 30-years seems reasonable. A 20-years amortization period seems too short and may require FSRP plans when temporary market corrections occur.
5. **Reduce the period between identification of an amortization period beyond the threshold and trigger of an FSRP.** Plan comment: We believe option identified as 5a is most appropriate and will adequately address the issue without the need for a substantial change in the law.
6. **Clarify the role of future actions in FSRP's.** Plan comment: We believe the options identified as 6b or 6c would both provide the clarity requested by SPRB staff.
7. **Clarify documentation required to demonstrate that FSRP will achieve the amortization period requirement.** Plan comment: Appears reasonable.

8. **Identify consequences that should apply when an FSRP does not result in statutory compliance.** Perpetual revised FSRPs should be discouraged. Plan comment: We suggest that the SPRB adopt different wording. Public plans are too varied for a “one-size fits all approach.” We are not in favor of limiting the “consequences” to implementing risk sharing or the adoption of an ADC methodology for contributions. These may be options but plans should not be limited to just those options for remediating a FSRP. Also of concern is when will it be determined a plan will not meet the requirements of the FSRP?
9. **Clarify effective dates and required documentation for FSRP triggers and progress.** Plan comment: We believe the option identified as 9a is the better of the two options provided.
10. **Clarify deadline for submittal of the FSRP’s.** Plan comment: We believe that in some cases it may take more than a year to develop the most effective FSRP. We would favor up to one-year with possible extensions to be considered/granted by the SPRB based upon specific circumstances.

We appreciate the work of the State Pension Review Board. We ask that you consider our comments and look forward to reviewing your recommendations.

Sincerely,

A handwritten signature in blue ink, appearing to read 'R. Studer', followed by a horizontal line.

Robert Studer
Board Chairman

C: Members of the City of El Paso Employees Retirement Trust

Robert Ash; Executive Director

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El Paso Firemen & Policemen's Pension Fund

909 East San Antonio • El Paso, Texas 79901-2523



Re: Pension Review Board Funding Policy and Funding Soundness Restoration Requirements—Policy Objectives and Considerations

Dear Pension Review Board,

Thank you for the opportunity to provide comments on behalf of the El Paso Firemen and Policemen's Pension Fund (hereinafter "the Fund") on the current working draft of "Pension Review Board Funding Policy and Funding Soundness Restoration Requirements—Policy Objectives and Considerations," dated August 28, 2020.

As requested, the Fund has provided feedback below on the various itemized objectives and associated recommendations for potential statutory modifications now being considered by the Actuarial Committee for presentation to the full Pension Review Board. However, we also thought it was relevant to first lay out some overarching principles and concerns that we respectfully submit are vital to any fair and workable legislative reform effort:

- **One size does not fit all.** In any policy reform effort, there should be an explicit acknowledgement and understanding that local retirement systems in Texas each have unique requirements and constraints imposed upon them by their governing statutes, and, in some cases, their city charters, ordinances, and contractual labor agreements. We would request that the Board continue to recognize that each system brings discrete legal and historical context to any initiative to revise public policy impacting all funds.
- **Fair and reasonable transition period essential:** Without a reasonable phase-in period, significant policy shifts, such as structural changes to the current Funding Soundness Restoration Plan, can immediately and perhaps inadvertently cast otherwise well-performing or improving plans in a negative light. Consistent with the fair transition period approved by the Board when updated PRB Funding guidelines were implemented in 2017, it would also be reasonable to include a more realistic phased-in approach that allows plans to adapt to any new requirements without being subjected to immediate harsh repercussions.
- **Credit where credit is due:** The Fund appreciates the Committee's recognition that plans that continuously seek to improve their funding health should be given proper "credit" for such improvements, most of which have been made without statutory or regulatory intervention, including, for example, the members of the El Paso Firemen and Policemen's Pension Fund voting in 2017 to voluntarily approve a contribution rate increase that brought their contribution level to parity with the City of El Paso (18 percent). We request that any recommendations for legislative reform account for the range of actions taken in good faith by local plans to improve funding health.

- **Reasonable expectations about plan sponsor participation:** While the Fund applauds any legislative recommendation that would require and result in more participation on the part of plan sponsors, we remain concerned about the enforceability of such mandates, given the historical preference of plan sponsors to engage mostly when a growing funding problem gets the attention of the rating agencies. Over time, our Fund has made strides in communicating with our City sponsor and building a greater understanding of funding realities. But realistically, the impetus for change has rarely come from Austin; but rather has emanated from a looming credit crisis. We believe this dynamic—i.e., concerns about their growing risk exposure and cost of debt—has played the biggest role in compelling cities to participate in the Funding Soundness Restoration Plan and should inform policymakers' expectations regarding future plan sponsor participation.

We have prepared our responses to the potential changes below imbedded in bold italic for easy correlation.

Thank you,



Tyler Grossman
Executive Director/CIO
El Paso Firemen & Policemen's Pension Fund

5b. Possible recommended changes to statutory requirements

6. Systems with funding policies that use rolling ADC benchmarking, including the following:

Summary of Funding Policies Received by Pension Review Board
Non-ADC Plans

System Name	Contribution Type	Benchmark and Actions Resulting			Additional Components			
		ADC Benchmark Am Pd	Condition(s) that Trigger Actions	Actions Resulting from Trigger	Risk Sharing	Contribution Change Parameters	Benefit Change Parameters	Additional Amortization Policy Provisions
Closed Benchmarks at/under 30 yrs								
Weslaco Firemen's Relief & Retirement Fund	Fixed	15-yr closed	2 AVs showing funding period > ADC benchmark am pd	Board will: - Notify the City and member employee groups - Work with the City and the active members to consider changes to benefit and contribution levels	None	Contribution changes as per TLFfRA statute ¹	Benefit changes as per TLFfRA statute ²	None
San Antonio Fire & Police Pension Fund	Fixed	25-yr closed	Effective am pd not sufficient to reach a 100% FR by 12/31/2044	Board will: - Work with the City to address contribution rate and/or plan modifications	None	Board may not recommend any changes that result in: - a FR < 90%; or - an effective am pd > 15 yrs	Board may not recommend any changes that result in: - a FR < 90%; or - an effective am pd > 15 yrs	30-yr amort of surpluses
The Woodlands Firefighters' Retirement System	Fixed	20-yr closed	3 AVs showing fixed contrib rates < ADC benchmark by more than 2%	Board will: - Work with system's actuary to develop proposals for changes to the system that results in 100% funding over 15-yr closed pd - Notify Township governing body and member assn - Request work together with Township and member assn to develop plan that will establish fixed contrib	None	Contribution changes as per TLFfRA statute ¹	Benefit changes as per TLFfRA statute ²	Payroll Growth Assumption for Benchmark: - Lesser of 3% and avg payroll growth of fire dept over the since Jan, 2016, or once 10 AVs have been performed, over the last 10
Amarillo Firemen's Relief & Retirement Fund	Fixed	30-yr closed	- Am pd is not reasonably in line with ADC benchmark am pd, such as within 5 yrs; or - Total contribution rate is not reasonably in line with ADC benchmark rate, such as within 2% of payroll	Positive Divergence: - Board may consider benefit increase, such as ad hoc COLA, that results in am pd somewhat less than ADC benchmark am pd Negative Divergence: - Board will notify the City and member employee group/assn - Board may consider contrib rate increase, benefit formula reduction or combination	None	Contribution changes as per TLFfRA statute ¹	Benefit changes as per TLFfRA statute ²	None
Atlanta Firemen's Relief & Retirement Fund	Fixed	30-yr closed	- Am pd is not reasonably in line with ADC benchmark am pd, such as within 5 yrs; or - Total contribution rate is not reasonably in line with ADC benchmark rate, such as within 2% of payroll	Positive Divergence: - Board may consider benefit increase, such as ad hoc COLA, that results in am pd somewhat less than ADC benchmark am pd Negative Divergence: - Board will notify the City and member employee group/assn - Board may consider contrib rate increase, benefit formula reduction or combination	None	Contribution changes as per TLFfRA statute ¹	Benefit changes as per TLFfRA statute ²	None
Beaumont Firemen's Relief & Retirement Fund	Fixed	30-yr closed	- Am pd is not reasonably in line with ADC benchmark am pd, such as within 5 yrs; or - Total contribution rate is not reasonably in line with ADC benchmark rate, such as within 2% of payroll	Positive Divergence: - Board may consider benefit increase, such as ad hoc COLA that results in am pd somewhat less than ADC benchmark am pd Negative Divergence: - Board will notify the City and member employee group/assn - Board may consider contrib rate increase, benefit formula reduction or combination	None	Contribution changes as per TLFfRA statute ¹	Benefit changes as per TLFfRA statute ²	None
Brownwood Firemen's Relief & Retirement Fund	Fixed	30-yr closed	- Am pd is not reasonably in line with ADC benchmark am pd, such as within 5 yrs; or - Total contribution rate is not reasonably in line with ADC benchmark rate, such as within 2% of payroll	Positive Divergence: - Board may consider benefit increase, such as ad hoc COLA, that results in am pd somewhat less than ADC benchmark am pd Negative Divergence: - Board will notify the City and member employee group/assn - Board may consider contrib rate increase, benefit formula reduction or combination	None	Contribution changes as per TLFfRA statute ¹	Benefit changes as per TLFfRA statute ²	None

Summary of Funding Policies Received by Pension Review Board
Non-ADC Plans

System Name	Contribution Type	Benchmark and Actions Resulting			Additional Components			
		ADC Benchmark Am Pd	Condition(s) that Trigger Actions	Actions Resulting from Trigger	Risk Sharing	Contribution Change Parameters	Benefit Change Parameters	Additional Amortization Policy Provisions
Cleburne Firemen's Relief & Retirement Fund	Fixed	30-yr closed	- Am pd is not reasonably in line with ADC benchmark am pd, such as within 5 yrs; or - Total contribution rate is not reasonably in line with ADC benchmark rate, such as within 2% of payroll	Positive Divergence: - Board may consider benefit increase, such as ad hoc COLA, that results in am pd somewhat less than ADC benchmark am pd Negative Divergence: - Board will notify the City and member employee group/assn - Board may consider contrib rate increase, benefit formula reduction or combination	None	Contribution changes as per TLFFRA statute ¹	Benefit changes as per TLFFRA statute ²	None
Corpus Christi Fire Fighters' Retirement System	Fixed	30-yr closed	- Am pd is not reasonably in line with ADC benchmark am pd, such as within 5 yrs; or - Total contribution rate is not reasonably in line with ADC benchmark rate, such as within 2% of payroll	Positive Divergence: - Board may consider benefit increase, such as ad hoc COLA, that results in am pd somewhat less than ADC benchmark am pd Negative Divergence: - Board will notify the City and member employee group/assn - Board may consider contrib rate increase, benefit formula reduction or combination	None	Contribution changes as per TLFFRA statute ¹	Benefit changes as per TLFFRA statute ²	None
Corsicana Firemen's Relief & Retirement Fund	Fixed	30-yr closed	- Am pd is not reasonably in line with ADC benchmark am pd, such as within 5 yrs; or - Total contribution rate is not reasonably in line with ADC benchmark rate, such as within 2% of payroll	Positive Divergence: - Board may consider benefit increase, such as ad hoc COLA, that results in am pd somewhat less than ADC benchmark am pd Negative Divergence: - Board will notify the City and member employee group/assn - Board may consider contrib rate increase, benefit formula reduction or combination	None	Contribution changes as per TLFFRA statute ¹	Benefit changes as per TLFFRA statute ²	None
Galveston Firefighter's Relief & Retirement Fund	Fixed	30-yr closed	- Am pd is not reasonably in line with ADC benchmark am pd, such as within 5 yrs; or - Total contribution rate is not reasonably in line with ADC benchmark rate, such as within 2% of payroll	Positive Divergence: - Board may consider benefit increase, such as ad hoc COLA, that results in am pd somewhat less than ADC benchmark am pd Negative Divergence: - Board will notify the City and member employee group/assn - Board may consider contrib rate increase, benefit formula reduction or combination	None	Contribution changes as per TLFFRA statute ¹	Benefit changes as per TLFFRA statute ²	None
Killeen Firemen's Relief & Retirement Fund	Fixed	30-yr closed	- Am pd is not reasonably in line with ADC benchmark am pd, such as within 5 yrs; or - Total contribution rate is not reasonably in line with ADC benchmark rate, such as within 2% of payroll	Positive Divergence: - Board may consider benefit increase, such as ad hoc COLA, that results in am pd somewhat less than ADC benchmark am pd Negative Divergence: - Board will notify the City and member employee group/assn - Board may consider contrib rate increase, benefit formula reduction or combination	None	Contribution changes as per TLFFRA statute ¹	Benefit changes as per TLFFRA statute ²	None
Laredo Firefighters Retirement System	Fixed	30-yr closed	- Am pd is not reasonably in line with ADC benchmark am pd, such as within 5 yrs; or - Total contribution rate is not reasonably in line with ADC benchmark rate, such as within 2% of payroll	Positive Divergence: - Board may consider benefit increase, such as ad hoc COLA, that results in am pd somewhat less than ADC benchmark am pd Negative Divergence: - Board will notify the City and member employee group/assn - Board may consider contrib rate increase, benefit formula reduction or combination	None	Contribution changes as per TLFFRA statute ¹	Benefit changes as per TLFFRA statute ²	None

Summary of Funding Policies Received by Pension Review Board
Non-ADC Plans

System Name	Contribution Type	Benchmark and Actions Resulting			Additional Components			
		ADC Benchmark Am Pd	Condition(s) that Trigger Actions	Actions Resulting from Trigger	Risk Sharing	Contribution Change Parameters	Benefit Change Parameters	Additional Amortization Policy Provisions
Lufkin Firemen's Relief & Retirement Fund	Fixed	30-yr closed	- Am pd is not reasonably in line with ADC benchmark am pd, such as within 5 yrs; or - Total contribution rate is not reasonably in line with ADC benchmark rate, such as within 2% of payroll	Positive Divergence: - Board may consider benefit increase, such as ad hoc COLA, that results in am pd somewhat less than ADC benchmark am pd Negative Divergence: - Board will notify the City and member employee group/assn - Board may consider contrib rate increase, benefit formula reduction or combination	None	Contribution changes as per TLFFRA statute ¹	Benefit changes as per TLFFRA statute ²	None
McAllen Firemen's Relief & Retirement Fund	Fixed	30-yr closed	- Am pd is not reasonably in line with ADC benchmark am pd, such as within 5 yrs; or - Total contribution rate is not reasonably in line with ADC benchmark rate, such as within 2% of payroll	Positive Divergence: - Board may consider benefit increase, such as ad hoc COLA, that results in am pd somewhat less than ADC benchmark am pd Negative Divergence: - Board will notify the City and member employee group/assn - Board may consider contrib rate increase, benefit formula reduction or combination	None	Contribution changes as per TLFFRA statute ¹	Benefit changes as per TLFFRA statute ²	None
Texarkana Firemen's Relief & Retirement Fund	Fixed	30-yr closed	- Am pd is not reasonably in line with ADC benchmark am pd, such as within 5 yrs; or - Total contribution rate is not reasonably in line with ADC benchmark rate, such as within 2% of payroll	Positive Divergence: - Board may consider benefit increase, such as ad hoc COLA, that results in am pd somewhat less than ADC benchmark am pd Negative Divergence: - Board will notify the City and member employee group/assn - Board may consider contrib rate increase, benefit formula reduction or combination	None	Contribution changes as per TLFFRA statute ¹	Benefit changes as per TLFFRA statute ²	None
Texas City Firemen's Relief & Retirement Fund	Fixed	30-yr closed	- Am pd is not reasonably in line with ADC benchmark am pd, such as within 5 yrs; or - Total contribution rate is not reasonably in line with ADC benchmark rate, such as within 2% of payroll	Positive Divergence: - Board may consider benefit increase, such as ad hoc COLA, that results in am pd somewhat less than ADC benchmark am pd Negative Divergence: - Board will notify the City and member employee group/assn - Board may consider contrib rate increase, benefit formula reduction or combination	None	Contribution changes as per TLFFRA statute ¹	Benefit changes as per TLFFRA statute ²	None
Travis County ESD #6 Firefighters' Relief and Retirement Fund	Fixed	30-yr closed	- Am pd is not reasonably in line with ADC benchmark am pd, such as within 5 yrs; or - Total contribution rate is not reasonably in line with ADC benchmark rate, such as within 2% of payroll	Positive Divergence: - Board may consider benefit increase, such as ad hoc COLA, that results in am pd somewhat less than ADC benchmark am pd Negative Divergence: - Board will notify the City and member employee group/assn - Board may consider contrib rate increase, benefit formula reduction or combination	None	Contribution changes as per TLFFRA statute ¹	Benefit changes as per TLFFRA statute ²	None
Tyler Firefighters' Relief & Retirement Fund	Fixed	30-yr closed	- Am pd is not reasonably in line with ADC benchmark am pd, such as within 5 yrs; or - Total contribution rate is not reasonably in line with ADC benchmark rate, such as within 2% of payroll	Positive Divergence: - Board may consider benefit increase, such as ad hoc COLA, that results in am pd somewhat less than ADC benchmark am pd Negative Divergence: - Board will notify the City and member employee group/assn - Board may consider contrib rate increase, benefit formula reduction or combination	None	Contribution changes as per TLFFRA statute ¹	Benefit changes as per TLFFRA statute ²	None

Summary of Funding Policies Received by Pension Review Board
Non-ADC Plans

System Name	Contribution Type	Benchmark and Actions Resulting			Additional Components			
		ADC Benchmark Am Pd	Condition(s) that Trigger Actions	Actions Resulting from Trigger	Risk Sharing	Contribution Change Parameters	Benefit Change Parameters	Additional Amortization Policy Provisions
Galveston Employees' Retirement Fund	Fixed	30-yr closed	- Am pd is not reasonably in line with ADC benchmark am pd, such as within 5 yrs; or - Total contribution rate is not reasonably in line with ADC benchmark rate, such as within 1% of payroll	Positive Divergence: - Board may consider benefit increases, such as inc in dollar cap on benefits or ad hoc COLA, or lowering investment return assumptions, that results in am pd somewhat less than ADC benchmark am pd Negative Divergence: - Board will notify the City and member employee group/assn - Board may consider contrib rate increase, benefit formula reduction or combination	None	None	None	None
Lubbock Fire Pension Fund	TMRS Linked	30-yr closed	None	Board will: - Take all appropriate measures to maintain a fiscally responsible fund such as make changes to benefits and eligibility requirements, inc/dec in member's contribution rate, changes to investment portfolio sector allocations, or changes to the assumed rate of return	None	Contribution changes as per TLFRA statute ¹	Benefit changes as per TLFRA statute ²	None
Funding Policies with Layered Closed Benchmarks at/under 30 yrs								
Irving Supplemental Benefit Plan	Fixed	20-yr layered closed	2 AVs showing actual contribution over/under ADC benchmark by more than 0.5%	Board will: - Notify the City - Consider and may recommend combined rate change ADC Contribution - It is the intent of the Board that the ADC determined by a given AV will be contributed in the calendar yr beginning 1 yr after the AV date	Contributions: - Increases capped for members/City at 0.5% of pay in one yr, or 1% total - If max contribution increase has been applied and contribution still insufficient, Board shall recommend corrective action, including benefit or contribution changes	Employer rate decreases only considered if: - FR ≥ 105% - Total contribution rate is not < normal cost	Enhancements may only occur when: - FR ≥ 110% after incorporating enhancement - ADC rate ≤ actual contribution rate	Negative Amortization: - Board's goal is to eliminate negative amortization as quickly as possible and ultimately maintain a contribution rate above the threshold that results in negative amortization
City of El Paso Employees Retirement Trust	Fixed	25-yr layered closed	ADC benchmark > City contribution rate in any yr	Board will: - Recommend additional City contribution	None	None	Enhancements may only occur when: - FR ≥ 80% after the increase - Decrease in FR due to enhancement not > 1% - Max COLA not > CPI since last COLA	None
San Benito Firemen Relief & Retirement Fund	Fixed	30-yr layered closed	2 AVs showing actual contributions > 2% over/under ADC benchmark	Board will: - Notify City - Recommend a contribution rate change	Jointly Developed with City: - Funding policy presented, approved and adopted by the City of San Benito City Commission. Signed by Mayor Contributions: - Increases split 60% sponsor/40% employee, max 2% each (or 4% total) - If max contribution increase has been applied and contribution still insufficient, Board shall recommend corrective action, including benefit or contribution changes Benefits: - COLAs tied to investment returns. Crediting rate the lesser of CPI or 100% of 5-yr smoothed return minus 5%, min 0%, max 4%	Employer contribution reductions considered if: - FR ≥ 105% - Benefit reductions for current active members implemented within the last 10 yrs reinstated; - Regular COLAs built into funding assumptions; - Total contribution rate not < normal cost	Enhancements considered if: - Annual COLAs built into funding assumptions; - FR > 120% after incorporating benefit enhancement; - ADC ≤ actual contrib rate Benefit changes as per TLFRA statute ²	Negative Amortization: - Board's goal is to eliminate negative amortization as quickly as possible and ultimately maintain a contribution rate above the threshold that results in negative amortization

Summary of Funding Policies Received by Pension Review Board
Non-ADC Plans

System Name	Contribution Type	Benchmark and Actions Resulting			Additional Components			
		ADC Benchmark Am Pd	Condition(s) that Trigger Actions	Actions Resulting from Trigger	Risk Sharing	Contribution Change Parameters	Benefit Change Parameters	Additional Amortization Policy Provisions
Denison Firemen's Relief & Retirement Fund	Fixed	30-yr layered closed	2 AVs showing actual contributions < ADC benchmark by more than 2%	Board and City will: - Develop a plan of action including contribution increases or benefit changes to bring the contribution rate to \geq ADC benchmark	Contributions: - Increases either split evenly between City and members or different agreed-upon amounts - May be phased in over time	Contribution changes per TLFFRA statute ¹	Benefit changes as per TLFFRA statute ²	Negative Amortization: - Board will periodically review whether contributions are sufficient to pay normal cost plus interest on UAAL
Sweetwater Firemen's Relief & Retirement Fund	Fixed	30-yr layered closed	2 AVs showing fixed contrib rates < ADC benchmark by more than 2%	Board and City will: - Develop a plan of action including contribution increases or benefit changes so that combined contribution rate will be \geq ADC benchmark	Contributions: - Increases either split evenly between City and members or different agreed-upon amounts - May be phased in over time	Contribution changes per TLFFRA statute ¹	Benefit changes as per TLFFRA statute ²	Negative Amortization: - Board will periodically review whether contributions are sufficient to pay normal cost plus interest on UAAL
Longview Firemen's Relief & Retirement Fund	Fixed	30-yr layered closed	4 AVs showing actual contrib > 2% over/under ADC benchmark	Board will: - Notify the City - Recommend City and member contributions to increase by no more than 1% of pay in one yr or 2% total - Employees will have option to increase contribution or make benefit changes	Contributions: - Increases split 50%/50% City and members	Reductions should only be considered if: - FR \geq 105% and total contribution rate not < normal cost Contribution changes per TLFFRA statute ¹	Board supports enhancements only when: - FR \geq 105% after incorporating enhancement - ADC rate \leq actual contrib rate Benefit changes as per TLFFRA statute ²	Negative Amortization: - Board's goal is to eliminate negative amortization as quickly as possible and ultimately maintain a contribution rate above the threshold that results in negative amortization
Port Arthur Firemen's Relief & Retirement Fund	TMRS Linked	30-yr layered closed	2 AVs showing fixed contrib rates < ADC benchmark by more than 2%	Board and City will: - Develop a plan of action including contribution increases or benefit changes so that combined contribution rate will be \geq ADC benchmark	Contributions: - Increases either split evenly between City and members or different agreed-upon amounts - May be phased in over time	Contribution changes per TLFFRA statute ¹	Benefit changes as per TLFFRA statute ²	Negative Amortization: - Board will periodically review whether contributions are sufficient to pay normal cost plus interest on UAAL
Closed Benchmarks at/under 30 yrs to Ultimate Layered Closed Benchmark at/under 30 yrs								
Waxahachie Firemen's Relief & Retirement Fund	TMRS Linked	25-yr closed to ultimate 15 yr layered closed	2 AVs showing funding period > ADC benchmark am pd	Board will: - Notify City and member group/assn of difference - Work with City and active members to consider benefit/contribution modifications to return funding pd to ADC benchmark	None	Contribution changes as per TLFFRA statute ¹	Benefit changes as per TLFFRA statute ²	None
Dallas Police & Fire Pension System - Combined Plan	Fixed	25-yr closed to ultimate 20 yr layered closed	2 AVs showing actual contribution varies from the ADC benchmark by > 2%	Negative Divergence: - With 2/3rds vote, Board will recommend an increase in City rate Positive Divergence: - With 2/3rds vote, Board may recommend a reduction in City rate if the reduction does not extend funding pd	Contributions/Benefits: - Per statute, in 2024 an analysis will be conducted to assess the adequacy of the funding of the plan and, if necessary, changes may be made at that time	City contributions may be decreased if: - 2/3rds Board vote and City in agreement - Does not increase the am pd	Granting COLA/Reduction of retirement age/ Reduction am pd of DROP annuities: - Per statutory criteria All other enhancements may only occur: - If funding pd would not exceed 25 yrs after adoption	None
Temple Firefighters' Relief & Retirement Fund	Fixed	25-yr closed to ultimate 20 yr layered closed	2 AVs showing funding period > ADC benchmark am pd	Board will: - Notify City and member group/assn of difference - Work with City and active members to consider benefit/contribution modifications to return funding pd to ADC benchmark	None	Contribution changes as per TLFFRA statute ¹	Benefit changes as per TLFFRA statute ²	None
Greenville Firemen's Relief & Retirement Fund	Fixed	30-yr closed to ultimate 15 yr layered closed	2 AVs showing funding period > ADC benchmark am pd	Board will: - Notify City and member group/assn of difference - Work with City and active members to consider benefit/contribution modifications to return funding pd to ADC benchmark	None	Contribution changes as per TLFFRA statute ¹	Benefit changes as per TLFFRA statute ²	None
Conroe Fire Fighters' Retirement Fund	Fixed	30-yr closed to ultimate 20 yr layered closed	2 AVs showing funding period > ADC benchmark am pd	Board will: - Notify City and member group/assn of difference - Work with City and active members to consider benefit/contribution modifications to return funding pd to ADC benchmark	None	Contribution changes as per TLFFRA statute ¹	Benefit changes as per TLFFRA statute ²	None
Paris Firemen's Relief & Retirement Fund	Fixed	30-yr closed to ultimate 20 yr layered closed	2 AVs showing funding period > ADC benchmark am pd	Board will: - Notify City and member group/assn of difference - Work with City and active members to consider benefit/contribution modifications to return funding pd to ADC benchmark	None	Contribution changes as per TLFFRA statute ¹	Benefit changes as per TLFFRA statute ²	None

Summary of Funding Policies Received by Pension Review Board
Non-ADC Plans

System Name	Contribution Type	Benchmark and Actions Resulting			Additional Components			
		ADC Benchmark Am Pd	Condition(s) that Trigger Actions	Actions Resulting from Trigger	Risk Sharing	Contribution Change Parameters	Benefit Change Parameters	Additional Amortization Policy Provisions
Closed Benchmarks over 30 yrs to Ultimate Layered Closed Benchmark at/under 30 yrs								
Plainview Firemen's Relief & Retirement Fund	Fixed	35-yr closed to ultimate 20 yr layered closed	2 AVs showing funding period > ADC benchmark am pd	Board will: - Notify the City and member group/assn of difference - Work with City and active members to consider benefit/contribution modifications to return funding pd to ADC benchmark	None	Contribution changes as per TLFFFRA statute ¹	Benefit changes as per TLFFFRA statute ²	None
Marshall Firemen's Relief & Retirement Fund	Fixed	35-yr closed to ultimate 20 yr layered closed	2 AVs showing funding period > ADC benchmark am pd	Board will: - Notify the City and member/group assn of difference - Work with City and active members to consider benefit/contribution modifications to return funding pd to ADC benchmark	None	Contribution changes as per TLFFFRA statute ¹	Benefit changes as per TLFFFRA statute ²	None
Harlingen Firemen's Relief & Retirement Fund	Fixed	35-yr closed to ultimate 30 yr layered closed	2 AVs showing funding period > ADC benchmark am pd	Board will: - Notify the City and member group/assn of difference - Work with City and active members to consider benefit/contribution modifications to return funding pd to ADC benchmark	None	Contribution changes as per TLFFFRA statute ¹	Benefit changes as per TLFFFRA statute ²	None
Layered Closed Benchmarks over 30 yrs								
Irving Firemen's Relief and Retirement Fund	Fixed	40-yr layered closed	2 AVs showing actual contribution over/under ADC benchmark by more than 0.5%	Board will: - Notify the City - Consider and may recommend combined rate change ADC Contribution - It is the intent of the Board that the ADC determined by a given AV will be contributed in the calendar yr beginning 1 yr after the AV date	Contributions: - Increases capped at 0.5% of pay in one yr or 1% total - Increases split 60%/40% between City and employees - If max contribution increase has been applied and contribution still insufficient, Board shall recommend corrective action, including benefit or contribution changes	Reductions in employer rate should only be considered if: - FR ≥ 105% - Benefit reductions for current active members implemented within the last 10 yrs have been reinstated - Total contribution rate is not < normal cost	Board supports enhancements only when: - FR ≥ 110% after incorporating enhancement - ADC rate ≤ actual contribution rate	Negative Amortization: - Board's goal is to eliminate negative amortization as quickly as possible and ultimately maintain a contribution rate above the threshold that results in negative amortization
Alternative Benchmark								
Employees Retirement System of Texas - including ERS, LECOS & JRS II	Fixed	Once 31 yr amortization pd achieved, the system will reset ADC benchmark to match the avg yrs/svc at retirement for the plan as of the AV date when the 31-yr pd was achieved. ³	Funding period > ADC benchmark am pd	Board will: - Direct staff to request funding from the legislature to achieve a 31-year funding period - After 31-yr period achieved, staff will request funding from the legislature to achieve the ADC benchmark	None	Min 6% contribution for members and a range of 6-10% of aggregate compensation for State contributions as per Texas Constitution	Board recommends that enhancements should occur only if: - Before and after enhancement, funding period is ≤ 25 yrs - Enhancement does not increase normal cost - FR ≥ 90% before and after enhancement ERS statute requires the am period to be < 31 yrs for the legislature to consider a benefit enhancement	None
Teacher Retirement System of Texas	Fixed	Declining UAAL	If after the phase-in of scheduled contribution rate increases, AV projects UAAL will not begin to decline by the 5th yr following AV	Board will: - Request a contribution change in legislative appropriations request	Contributions: - All contributions (sponsor, member, district) will increase per statutorily set schedule (5-year phase-in)	A minimum of 6% contribution for members and a range of 6-10% of aggregate compensation for State contributions as per Texas Constitution	TRS statute requires the am period to be under 31 years in order for the legislature to consider a benefit enhancement.	None
Rolling Benchmarks								
El Paso Firemen's & Policemen's Staff Plan and Trust	Fixed	10-yr rolling	2 AVs showing am pd > ADC benchmark am pd	Sponsor and Board shall adhere to FSRP policy set forth in the plan document: - Will increase employer and member contribution rates	Contributions: - Contribution changes (inc/dec) are proportional for employee and sponsor rates	Contributions may decrease if: - 2 AVs showing an am pd of 0 yrs (overfunded) - Sum of contribution decrease cannot exceed what is necessary to amortize UAAL over 0 yrs	Benefit increases may only occur if: - Board votes on and approves the change - Increase approved by an actuary - Approved by majority of members - Increase does not raise the am pd	None

Summary of Funding Policies Received by Pension Review Board
Non-ADC Plans

System Name	Contribution Type	Benchmark and Actions Resulting			Additional Components			
		ADC Benchmark Am Pd	Condition(s) that Trigger Actions	Actions Resulting from Trigger	Risk Sharing	Contribution Change Parameters	Benefit Change Parameters	Additional Amortization Policy Provisions
Abilene Firemen's Relief & Retirement Fund	Fixed	30-yr rolling	2 (or 3 if annual) AVs showing fixed contrib rates < ADC benchmark by more than 2%	Board will: - Notify City, members and member assn - Request meeting with City/members to develop a 20-yr (at the latest) plan that will establish fixed contrib rates that will result in 100% funding over a 30-yr closed period - Provide updates on progress after each AV	None	Contribution changes as per TLFFRA statute ¹	Benefit changes as per TLFFRA statute ²	Payroll Growth Assumption for Benchmark: - Lesser of 3% and avg payroll growth of fire dept over the last 10 yrs
Big Spring Firemen's Relief & Retirement Fund	Fixed	30-yr rolling	2 (or 3 if annual) AVs showing fixed contrib rates < ADC benchmark by more than 2%	Board will: - Notify City, members and member assn - Request meeting with City/members to develop a 20-yr (at the latest) plan that will establish fixed contrib rates that will result in 100% funding over a 30-yr closed period - Provide updates on progress after each AV	None	Contribution changes as per TLFFRA statute ¹	Benefit changes as per TLFFRA statute ²	Payroll Growth Assumption for Benchmark: - Lesser of 4.5% and avg payroll growth of fire dept over the last 10 yrs
Odessa Firemen's Relief & Retirement Fund	Fixed	30-yr rolling	2 (or 3 if annual) AVs showing fixed contrib rates < ADC benchmark by more than 2%	Board will: - Notify City and member assn - Request meeting with City/members to develop a 20-yr plan (at the latest) that will establish fixed contrib rates that will result in 100% funding over a 30-yr closed period - Provide updates on progress after each AV	None	Contribution changes as per TLFFRA statute ¹	Benefit changes as per TLFFRA statute ²	Payroll Growth Assumption for Benchmark: - Lesser of 3% and avg payroll growth of fire dept over the last 10 yrs
Orange Firemen's Relief & Retirement Fund	Fixed	30-yr rolling	2 (or 3 if annual) AVs showing fixed contrib rates < ADC benchmark by more than 2%	Board will: - Notify City and member assn - Request meeting with City/members to develop a 20-yr plan (at the latest) that will establish fixed contrib rates that will result in 100% funding over a 30-yr closed period - Provide updates on progress after each AV	None	Contribution changes as per TLFFRA statute ¹	Benefit changes as per TLFFRA statute ²	Payroll Growth Assumption for Benchmark: - Lesser of 3% and avg payroll growth of fire dept
San Angelo Firemen's Relief & Retirement Fund	Fixed	30-yr rolling	2 (or 3 if annual) AVs showing fixed contrib rates < ADC benchmark by more than 2%	Board will: - Notify City and member assn - Request meeting with City/members to develop a 20-yr plan (at the latest) that will establish fixed contrib rates that will result in 100% funding over a 30-yr closed period - Provide updates on progress after each AV	None	Contribution changes as per TLFFRA statute ¹	Benefit changes as per TLFFRA statute ²	Payroll Growth Assumption for Benchmark: - Lesser of 3% and avg payroll growth of fire dept over the last 10 yrs
Wichita Falls Firemen's Relief & Retirement Fund	TMRS Linked	30-yr rolling	2 AVs showing fixed contrib rates < ADC benchmark by more than 2%	Board will: - Notify City and member assn - Request meeting with City/members to develop a 20-yr plan (at the latest) that will establish fixed contrib rates that will result in 100% funding over 30-yr closed pd - Provide updates on progress after each AV	None	Contribution changes as per TLFFRA statute ¹	Benefit changes as per TLFFRA statute ²	Payroll Growth Assumption for Benchmark: - Lesser of 3% and avg payroll growth of fire dept
Austin Police Retirement System	Fixed	30-yr rolling System currently working with the City towards a goal to develop a schedule for contribution/plan changes to achieve 30-yr closed pd.	- 2 AVs showing effective funding period > ADC benchmark by 3+ yrs; OR - 2 AVs showing ADC benchmark > fixed contribution rates by 2% or more	Board will: - Notify the City - Engage in planning as needed to ensure continued progress toward policy goals	Board intends to maintain cost-sharing arrangement with City where: - City contributes ≥ 60% of increases - Members contribute ≤ 40% - If the increase is insufficient, the Board will consider/recommend corrective action including possible benefit changes and/or additional contribution increases	Per APRS statute: - Any member contribution rate change must be approved by majority vote of contributory members - City council must approve City contribution changes	Per APRS statute, before any enhancements: - Must be approved by Fund's actuary and otherwise permitted under the System's statute and policies	None

Summary of Funding Policies Received by Pension Review Board
Non-ADC Plans

System Name	Contribution Type	Benchmark and Actions Resulting			Additional Components			
		ADC Benchmark Am Pd	Condition(s) that Trigger Actions	Actions Resulting from Trigger	Risk Sharing	Contribution Change Parameters	Benefit Change Parameters	Additional Amortization Policy Provisions
Austin Fire Fighters Relief & Retirement Fund	Fixed	30-yr rolling	3 AVs showing fixed contrib rates < ADC benchmark by more than 2%	Board will: - Notify City and member assn - Request meeting with City/members to develop a 20-yr plan (at the latest) that will establish fixed contrib rates that will result in 100% funding over 30-yr closed pd - Provide updates on progress after each AV	None	None	Enhancements: - Policy references that enhancements must meet the requirements of the fund's Benefit Improvement Policy COLAs: - Policy references COLA Adjustment Policy, which contains parameters to determine when COLAs may be provided	None
El Paso Firemen's & Policemen's Pension Fund	Fixed	40-yr rolling	2 AVs showing funding period > 40 yrs	Board and City shall adhere to FSRP policy set forth in El Paso F&PPF Statute: - City may increase contribution rate	Contributions: - Contribution changes (inc/dec) are proportional for employee and employer - If City rate inc/dec, member rate must change proportionately	City/member contribution decreases may be considered if: - 2 AVs showing funding pd < 25 yrs - Decrease cannot exceed what is necessary to amortize UAAL over a 25-yr period City/member increases: - Sum of contribution increase cannot exceed what is necessary to amortize UAAL over 40 yrs	Enhancement may only occur if: - Am pd is not increased	None
No Benchmark								
Texas Emergency Services Retirement System	Fixed	None	None	None	None	Contributions: - Members do not contribute - If am pd > 30 yrs, state contributions required and limited to 1/3 of all contributions made by the governing bodies of participating departments - Participating departments may contribute more if local and state contributions are inadequate to bring am pd below 30 yrs	Enhancements: - Prohibited if am period > 30 yrs Reductions: - Future benefit accruals if local and state contributions are inadequate to bring am pd below 30 yrs	None
Austin Employees Retirement System	Fixed	None Funding policy originally developed in 2014. System awaiting results of City retirement study. System expects that not later than the fall of 2020, COAERS's review of its Funding Policy will be complete and the updated version will be provided to both the City and PRB.	None	None	None	Reductions may only occur if: - COLAs built into assumptions; and - FR will remain \geq 105%. Increases may occur after: - Majority vote from regular full-time members	Enhancements may only occur after: - COLA included in assumptions; - FR \geq 120% after incorp; and - Employer ADC \leq statutory rate COLAs only considered when: - Financially supported on a regular, periodic basis; - FR \geq 80% after incorporating COLA; - Am pd \leq 20 yrs after incorp COLA; and - Actual employer contrib rate \geq ADC rate but no more than 18% after incorp COLA	None

¹ Per TLFRA statute, City may change its rate by formal action by governing body, provided it does not reduce City contribution rate below minimum required TLFRA rate. Members may change rate by majority member vote as recommended by the Board, after actuary approval.

² Per TLFRA statute, any benefit changes must be approved by Fund's actuary and a majority of members.

³ 31 years is the "Actuarially Sound Contribution" (ASC) rate per Section 811.006 of the Texas Government Code. As an example, 22.1 years was the average years of service at retirement for a service retiree in the ERS plan as of 8/31/17.

Summary of Funding Policies Received by Pension Review Board
Modified ADC Plans

System Name	Components				
	Amortization Policy	Risk Sharing	Contribution Change Parameters	Benefit Change Parameters	Additional Provisions
Closed Amortization Periods at/under 30 yrs					
JPS Pension Plan - Tarrant County Hospital District (THA)	Preferred range of 10-25 yrs, never to exceed 30-yr am pd	Contribution changes may be: - Phased in over a period not to exceed 5 yrs	None	Benefit increases should not occur if: - Resulting am pd exceeds 25 yrs	Negative Amortization: - Contributions should always be sufficient to pay normal cost plus interest on UAAL. Negative amortization is not permitted.
Retirement Plan for Anson General Hospital (THA)	Preferred range of 10-25 yrs, never to exceed 30-yr am pd	Contribution changes may be: - Phased in over a period not to exceed 5 yrs	None	Benefit increases should not occur if: - Resulting am pd exceeds 25 yrs	Negative Amortization: - Contributions should always be sufficient to pay normal cost plus interest on UAAL. Negative amortization is not permitted.
Retirement Plan for Citizens Medical Center (THA)	Preferred range of 10-25 yrs, never to exceed 30-yr am pd	Contribution changes may be: - Phased in over a period not to exceed 5 yrs	None	Benefit increases should not occur if: - Resulting am pd exceeds 25 yrs	Negative Amortization: - Contributions should always be sufficient to pay normal cost plus interest on UAAL. Negative amortization is not permitted.
Retirement Plan for Guadalupe Regional Medical Center (THA)	Preferred range of 10-25 yrs, never to exceed 30-yr am pd	Contribution changes may be: - Phased in over a period not to exceed 5 yrs	None	Benefit increases should not occur if: - Resulting am pd exceeds 25 yrs	Negative Amortization: - Contributions should always be sufficient to pay normal cost plus interest on UAAL. Negative amortization is not permitted.
Retirement Plan for Sweeny Community Hospital (THA)	Preferred range of 10-25 yrs, never to exceed 30-yr am pd	Contribution changes may be: - Phased in over a period not to exceed 5 yrs	None	Benefit increases should not occur if: - Resulting am pd exceeds 25 yrs	Negative Amortization: - Contributions should always be sufficient to pay normal cost plus interest on UAAL. Negative amortization is not permitted.
Capital MTA Retirement Plan for Bargaining Unit Employees	Greater of: - 19-yr closed am pd as of 1/1/2020 with 3% annual increases or \$4M minus non-investment admin expenses incurred during the year	None	None	Plan is frozen and no benefit enhancements are being considered.	- Plan frozen as of 8/18/2020
Fort Worth Employees Retirement Fund	- 30-yr closed beginning 12/31/2018 - Goal of eliminating UAAL and attaining 100% funding by 12/31/2048	Contributions: - Increases split 60%/40% by City/members, capped at 2% of pay and 4% aggregate annually - If ADC benchmark < combined contribs 2 consecutive yrs, City Council may reduce contribs to the ADC (but not less), split 60%/40%	City rate reduction considered only if: - FR ≥ 120% - Member contribution reduced by same proportionate percentage - All members elig. for periodic COLA - Regular COLAs built into assumptions - Total contribution not < normal cost City rate changed/member rates increased after: - Actuary performs analysis of fiscal impact of proposed change - Majority of elig. members vote in favor; and - Approved by Board (if City called vote) or City Council (if Board called vote)	COLAs may be granted to certain groups if: - Am pd < 28 yrs Benefit enhancements considered only if: - Annual COLAs incorporated into funding assumptions for all members - FR > 120% after enhancement - ADC benchmark < City contribution	Negative Amortization: - Board's goal is to eliminate negative amortization as quickly as possible and ultimately maintain a contribution rate that expected to result in the reduction of the UAAL each year
Layered Closed Amortization Periods at/under 30 yrs					
Houston Firefighter's Retirement & Relief Fund	30-yr layered closed as of 7/1/2017	Contributions: A "target contribution rate," along with an associated min/max corridor, is established via a risk sharing valuation	Contributions: - Contributions set by initial risk sharing valuation study unless rate falls outside of corridor.	Benefits: - Statutory corridor mechanism which allows for benefit changes if the plan's funded ratio and contribution rates reach certain thresholds.	- Per statute, if plan's FR falls below 65% any time after 6/30/2021, plan must establish separate cash balance plan for new hires
Houston Municipal Employees Pension System	30-yr layered closed as of 7/1/2017	Contributions: A "target contribution rate," along with an associated min/max corridor, is established via a risk sharing valuation	Contributions: - Contributions set by initial risk sharing valuation study unless rate falls outside of corridor.	Benefits: - Statutory corridor mechanism which allows for benefit changes if the plan's funded ratio and contribution rates reach certain thresholds.	- Per statute, if plan's FR falls below 60% any time after 6/30/2021, plan must establish separate cash balance plan for new hires
Houston Police Officers' Pension System	30-yr layered closed as of 7/1/2017	Contributions: A "target contribution rate," along with an associated min/max corridor, is established via a risk sharing valuation study (RSVS).	Contributions: - Contributions set by initial risk sharing valuation study unless rate falls outside of corridor.	Benefits: - Statutory corridor mechanism which allows for benefit changes if the plan's funded ratio and contribution rates reach certain thresholds.	- Per statute, if plan's FR falls below 65% any time after 6/30/2021, plan must establish separate cash balance plan for new hires

Summary of Funding Policies Received by Pension Review Board
Modified ADC Plans

System Name	Components				
	Amortization Policy	Risk Sharing	Contribution Change Parameters	Benefit Change Parameters	Additional Provisions
Galveston Employee's Retirement Plan for Police	30-yr layered closed beginning 1/1/2019	Contributions: - Per Galveston Ret Plan for Police statute, beginning 1/1/2025, any increases will be split equally between members and City	Reductions may only occur if: - Am pd would not exceed 25 yrs	Enhancements may only occur if: - Am pd would not exceed 25 yrs	Negative Amortization: - Board's goal is to eliminate negative amortization as quickly as possible and ultimately maintain a contribution rate above the threshold that results in negative amortization
Rolling Amortization Periods					
Northwest Texas Healthcare System Retirement Plan	5-yr rolling	The UAAL measured in each annual actuarial valuation will be re-amortized over a 5-year period.	Contribution Changes Contributions may be reduced to provide a reasonable margin for adverse experience. A Partial ADC is permitted when the year-over-year ADC increase is greater than 25% and the funded ratio is over 105% after reduction. The shortfall will be amortized over a 10-year closed period.	None	None
Dallas Employees' Retirement Fund	- 30-yr rolling for valuations prior to retirement of POBs - After retirement of POBs, determined by DERF board in place at the time	None	Contribution adjustments: - Automatically occur for both members and City under Chapter 40A - City contributions capped at 36% of payroll	Board supports enhancements only when: - FR >= 100% after enhancements	None

Summary of Funding Policies Received by Pension Review Board
ADC Plans

System Name	Components			
	Amortization Policy	Contribution Change Parameters	Benefit Change Parameters	Additional Provisions
Fully Funded				
Arlington Employees Deferred Income Plan	- Plan is over 100% funded and continues to pay ADC - Uses layers to amortize the cost of benefits over the expected remaining service of active employees	None	None	None
Closed Amortization Periods at/under 30 yrs				
Guadalupe-Blanco River Authority	10-yr closed period beginning 1/1/2019	Plan participants do not make contributions Supplemental contributions recommended when funds are available and deemed appropriate	Benefit enhancements evaluated on a case-by-case basis taking into consideration: - actuarial soundness, - its relationship to targeted funding ratio, - stress testing of performance in down market conditions	- Targets 110% funding of TPL - Frozen plan as of 12/31/2018 Adverse experience: - Could work with actuary to test effects of extending the closed am pd to mitigate contribution volatility
Lower Neches Valley Authority Employee Benefits Plan	10-yr closed	Plan trustees will notify LNVA and consider reductions only when: - 2 AVs showing actual contribution more than 2% over/under ADC - FR >= 105% and total contribution rate is not < normal cost. In such case, may consider reduction in employer contribution	None	None
Brazos River Authority Retirement Plan	- 20-yr closed period beginning 3/1/2012 - As of 3/1/2019, there are 13 years remaining	Partial contribution reductions (i.e. deferral from the ADC) are permitted when: - Year-over-year ADC contribution increase exceeds 25%. Shortfall amortized over 5-yr pd and added to the ADC beginning with next AV	None	- Plan closed to new members and frozen as of 9/30/2007
Dallas/Fort Worth Airport Board Retirement Plan	- 30-yr closed effective 1/1/2004 - Will be fully funded by 12/31/2034	None	None	None
Corpus Christi Regional Transportation Authority	15-yr closed effective 1/1/2019	None	None	None
Lower Colorado River Authority Retirement Plan	- 20-yr closed beginning 2020	None	None	- Closed plan to new hires effective 5/1/2012 Adverse experience: - Could work with actuary to test effects of extending the closed am pd to mitigate contribution volatility
Houston MTA Non-Union Pension Plan	- 30-yr closed effective 2013 - As of 2019, 24-yr period remaining	None	Enhancements only considered if: - Contributions meet or exceed the ADC	- Closed to new hires effective 9/30/2007
Houston MTA Workers Union Pension Plan	- 30-yr closed effective 2013 - As of 2019, 24-yr period remaining	None	Enhancements only considered if: - Contributions meet or exceed the ADC	- Closed to new hires effective 10/1/2012
Dallas County Hospital District Retirement Income Plan	- 25-yr closed period beginning 1/1/2019 - Intent that the FR will be 100% on/before 1/1/2044	None	None	None

Summary of Funding Policies Received by Pension Review Board
ADC Plans

System Name	Components			
	Amortization Policy	Contribution Change Parameters	Benefit Change Parameters	Additional Provisions
Denton Firemen's Relief & Retirement Fund	<ul style="list-style-type: none"> - 25-yr closed - City will maintain current contribution level of 18.5%. - Each yr, City's contribution level based on actuarial study which calculates rated needed to amortize UAAL over 25 yr closed pd 	City contributions: <ul style="list-style-type: none"> - Not lowered based on actuarial experience unless am pd <= 20 yrs - Not < City's contribution to TMRS 	Benefit enhancements: <ul style="list-style-type: none"> - May not be made during the term of the agreement 	Funding Policy adopted through Meet and Confer Agreement with City: <ul style="list-style-type: none"> - 4 yr agreement as of 9/2019 Contributions: <ul style="list-style-type: none"> - Actuarial gains will be used to pay down UAAL rather than reducing contribution rate during the first 5 yrs
Layered Closed Amortization Periods at/Under 30 yrs				
Refugio County Memorial Hospital	- 7-yr layered closed	None	None	- Plan frozen as of 12/31/2011
Dallas/Fort Worth Airport Board DPS Retirement Plan	<ul style="list-style-type: none"> - 15-yr layered closed effective 1/1/2020 - Each subsequent AV a new closed 15-yr amortization base will be established for any unanticipated changes in the UAAL from prior yr 	None	None	None
Plano Retirement Security Plan	<ul style="list-style-type: none"> - 15-yr layered closed effective 12/31/2019 - New amortization bases established and separately maintained for each AV on/after 12/31/2021 and amortized over closed 15-yr pd 	Contributions: <ul style="list-style-type: none"> - If net amortization cost is negative, then City's contribution will not be less than normal cost - expected earnings on surplus assets (determined as % payroll) to preserve assets to offset adverse experience that may occur in a future year 	None	None
Harris County Hospital District Pension Plan	20-yr layered closed	None	None	- Closed plan to new hires effective 1/1/2007
Dallas Police & Fire Pension System-Supplemental	<ul style="list-style-type: none"> - 20-yr closed as of 1/1/2020 - 10-yr amortization bases beginning 1/1/2021 	Contribution reductions may only occur if: <ul style="list-style-type: none"> - Reduction does not increase am pd 	Granting COLA/Reduction of retirement age/Reduction am pd of DROP annuities: <ul style="list-style-type: none"> - Per statute criteria Enhancements may only occur: <ul style="list-style-type: none"> - If funding pd would not exceed 25 yrs after adoption 	Contributions/Benefits: <ul style="list-style-type: none"> - Per statute, in 2024 an analysis will be conducted to assess the adequacy of the funding of the plan and, if necessary, changes may be made at that time
Retirement Plan for Employees of Brownsville Navigation District	<ul style="list-style-type: none"> - 20-yr layered closed - 15-yr amortization base for UAAL as of 1/1/2020 - 20-yr am pd base for actuarial gains/losses and assumption method 	Employee contribution increases may be considered if: <ul style="list-style-type: none"> - ADC becomes unsustainable 	Benefit reductions may occur if: <ul style="list-style-type: none"> - ADC becomes unsustainable 	If the ADC becomes unsustainable, District may consider adjusting the funding policy by potentially extending the amortization periods
Nacogdoches County Hospital District Retirement Plan	<ul style="list-style-type: none"> - 20-yr layered closed - All other changes in UAAL amortized over 20-yr closed pd - Level dollar amortization method will not result in an am pd of > 25 yrs 	None	Benefit enhancements and COLAs: <ul style="list-style-type: none"> - Are not anticipated to occur - Would only be granted if there would not be a substantial increase to the timeframe to full funding - Would result in a resetting of the am pd to 20 yrs 	- Plan frozen as of 9/4/2017

Summary of Funding Policies Received by Pension Review Board
ADC Plans

System Name	Components			
	Amortization Policy	Contribution Change Parameters	Benefit Change Parameters	Additional Provisions
Texas County & District Retirement System	- 20-yr layered closed - Benefit enhancements amortized over 15-yr closed pd - All other changes in UAAL amortized over 20-yr closed pd	None	None	Investment Surpluses: - May be set aside to help offset future negative economic cycles and are not considered part of the plan's assets
Galveston Wharves Pension Plan	- 21-yr layered closed effective 1/1/2020 until ultimate 10-yr pd - Am pd base of lesser of avg expected remaining lifetime and 10 yrs for benefit inc for existing retirees	None	COLAs only considered when: - Plan is at least 80% funded	- Closed plan to new hires effective 1/1/2010
Texas Municipal Retirement System	- 25-yr layered closed beginning in 2015 - Amortization base for actuarial gains and losses ranging from 1 to 25 yrs - All new losses occurring after 1/1/2020 and benefit increases effective on/after 1/1/2021 amortized over max 20-yr pd	Contributions based on plan options selected within statutory guidelines	Benefits based on plan options selected within statutory guidelines	None
San Antonio Metropolitan Transit Retirement Plan	- 30-yr closed period beginning 10/1/2012 - As of 10/1/2019, there are 23 yrs remaining - New amortization bases established and separately maintained for each AV on/after 10/1/2027 and amortized over	None	None	- Plan closed to new members as of 7/1/2013
CPS Energy Pension Plan	- 30-yr layered closed effective 2017 - Will be fully funded by 2046	Contributions: - Any change requires approval of Employee Benefits Oversight Committee	Enhancements: - Factored into ADC calculation - Must be approved by Employee Benefits Oversight Committee	None
Fort Worth Employees' Retirement Fund Staff Plan	- 30-yr layered closed effective 12/31/2018 - Additional 30-yr closed period layers with level-dollar amortization payments for actuarial gains/losses for future years	If FR < 80 and am pd > 28 for 2 calendar years, Board may consider: - Increase in contribution rate (requires participant election with majority agreement) If FR is > 120% and am pd < 5 yr for 2 calendar years, Board may consider (provided that the FR does not fall below 100% and am pd does not exceed 25 yrs after changes): - reduction in contrib rate, after annual COLA incorporated in funding assumptions - adoption of temporary contribution holiday	If FR < 80 and am pd > 28 for 2 calendar years, Board may consider: - Adoption of benefit reductions, after annual COLA is incorporated in funding assumptions If FR is > 120% and am pd < 5 yr for 2 calendar years, Board may consider (provided that the FR does not fall below 100% and am pd does not exceed 25 yrs after changes): - adoption of benefit enhancements, after annual COLA incorporated in funding assumptions - adoption of 13th check	If FR < 80 and am pd > 28 for 2 calendar years, Board may consider: - Non-recurring lump sum cash infusion to attain 80% or higher funded status If FR is ≥ 120% and am pd ≤ 5 yr for 2 calendar years, Board may consider (provided that the FR does not fall below 100% and am pd does not exceed 25 yrs after changes): - Examination & possible action of de-risking plan
Port of Houston Authority Retirement Plan	- 30-yr layered closed - Amortization bases ranging from 5 to 30 yrs	None	None	- Plan closed to new hires effective 8/1/2012

Summary of Funding Policies Received by Pension Review Board
ADC Plans

System Name	Components			
	Amortization Policy	Contribution Change Parameters	Benefit Change Parameters	Additional Provisions
DART Employee's Defined Benefit Retirement Plan	<ul style="list-style-type: none"> - 30-yr layered closed pd, level dollar - Actuarial gains/losses amortized over 15-yr base - Assumption/method changes amortized over 30 yrs - Benefit changes amortized over 30 yrs 	None	None	<ul style="list-style-type: none"> - Plan closed to new entrants - Funding Policy is reviewed at least once every 5 years (in connection with actuarial experience study)
Rolling Amortization Periods				
Capital MTA Retirement Plan for Administrative Employees	- 20-yr rolling	Contribution changes may be recommended when: <ul style="list-style-type: none"> - 2 AVS showing actual contribution > 2% over/under ADC 	None	None
University Health System Pension Plan	- 24-yr closed (1/1/2020) to ultimate 20-yr open (1/1/2024)	None	None	None

6a. Abilene Firemen's Relief & Retirement Fund

6b. Odessa Firemen's Relief & Retirement Fund

6c. Orange Firemen's Relief & Retirement Fund

6d. San Angelo Firemen's Relief & Retirement Fund

6e. Wichita Falls Firemen's Relief & Retirement Fund

6f. Austin Fire Fighters Relief & Retirement Fund



September 22, 2020

Delivery via email at anumeha.kumar@prb.texas.gov

Texas Pension Review Board

Attn: Anumeha Kumar, Executive Director

P.O. Box 13498

Austin, Texas 78711-3498

Re: Funding Policy and Actuarial Committee Meeting

Dear Ms. Kumar,

The Board of Trustees (the “Board”) of the Austin Fire Fighters Relief and Retirement Fund (the “Fund”) is in receipt of the Texas Pension Review Board’s (the “PRB”) e-mail dated September 10, 2020 from James King inviting the Fund and its representatives to attend the Actuarial Committee meeting of the PRB (the “Actuarial Committee”) on September 29, 2020 to discuss the Fund’s Funding Policy (the “Funding Policy”). Specifically, you have requested that the Fund “...provide clarification as to how the plan’s funding policy would help achieve 100% funding while utilizing a benchmark that resets annually and is therefore not designed to move towards 100% funding.”

This concern has already been expressed by the PRB in its letter dated June 30, 2020. During its regular monthly meeting held on July 20, 2020, the Board reviewed and discussed your letter and the Fund’s use of an open or rolling amortization period for purposes of its actuarially determined contribution (ADC) benchmark with both its actuary and legal counsel. Following this discussion, the Board believed that its use of the open or rolling benchmark was still appropriate and instructed the Fund’s actuary to provide a response to the PRB in consultation with legal counsel. This response was provided to the PRB in the letter from Brad Heinrichs of Foster & Foster Consulting Actuaries, the Fund’s actuary, dated July 28, 2020.

We are aware that this letter was discussed at the last Actuarial Committee meeting, and we are also aware, as pointed out in Mr. King’s e-mail, that our Fund’s actuary has had numerous correspondence and conversation with the PRB’s actuary on this issue since the last Actuarial Committee meeting.

As has been explained to the PRB, the Funding Policy creates an ADC “benchmark” contribution rate that will be used to compare whether the fixed contributions that the Fund receives are sufficient to achieve a 100% funded ratio over a thirty-year period. If all actuarial assumptions (which are established and monitored by the Board) are met and the fixed contribution rate is at or

above the ADC benchmark during this period, the Fund will achieve 100% funding in 30 years. Thus, this benchmark is designed to help achieve 100% funding.

That said, we believe the PRB's focus on this benchmark misses the larger picture on how the Funding Policy is designed to achieve 100% funding. The benchmark is simply the comparative tool that is used to determine when the fixed contribution rates are insufficient to achieve 100% funding. Under the Funding Policy, if the fixed contributions are insufficient over an appropriate period as compared to the benchmark (i.e. "fixed contribution rates have been smaller than the ADC benchmark by more than 2% of payroll in each of the three (3) most recent actuarial valuations"), then all interested parties must develop a 20-year plan that will established fixed contribution rates that will result in a 100% funding ratio over a thirty-year closed period.

As you know, the Fund receives fixed contributions under Texas state statute that are not based on an ADC. A benchmark based on a closed amortization period, when the Fund's contributions are fixed under statute, could lead to anomalous results during certain periods that may trigger "kneejerk" changes to contribution rates and/or benefits that put unwarranted financial pressures on both members and plan sponsors. The Fund believes that its ADC benchmark and overall Funding Policy is an appropriate and reasonable plan based on its fixed contribution rate structure and is ultimately designed to achieve 100% funding.

Please note that Texas Government Code §802.2011, the Texas state law that requires the Fund to establish a funding policy that details a "plan for achieving a funded ratio of the system that is equal to or greater than 100 percent", provides no requirements as for what is to be included in a funding policy and certainly not a specific requirement that an ADC benchmark must be used or how such benchmark should be developed.

The use of an ADC benchmark was suggested by the PRB's *Guidance for Developing a Funding Policy* for fixed contribution rate plans (the "PRB Guidance"). The Fund attempted to follow the suggestions under the PRB Guidance, and its Funding Policy closely aligns with the recommended use of an ADC benchmark. *See* Section III of the PRB Guidance under the subheading "Contribution Rates".

The Fund acknowledges that the PRB Guidance in its discussion of "*Amortization Policy*" under Section II only references the closed/non-layered or closed/layered approaches relating to amortization methods. However, the PRB Guidance does not specifically discourage the open amortization approach, which as stated above, the Fund believes is most appropriate for a fixed contribution rate plan. Nevertheless, the Fund still recognized the value in the closed amortization approach in certain circumstances and will use such method in developing a 20-year funding plan if the ADC benchmark is triggered as provided under its Funding Policy.

As you know, the Fund is one of the more well-funded public pension plans in the state of Texas with a funded ratio of 86.8% and an amortization period of 21.9 years as of December 31, 2019.¹ Further, the 30-Year ADC Benchmark calculated under the Funding Policy as of December 31,

¹ As reported in the most recent actuarial valuation report performed as of December 31, 2019 (which reflected the Fund's adoption of new actuarial assumptions), a copy of which has been provided to the PRB by the Fund.

2019 was 20.42% which was less than the City of Austin's fixed contribution rate of 22.05%, creating an excess of 1.63%.²

The Board is aware that the PRB will provide a report to the Texas Legislature in November 2020, regarding the compliance of Texas public pension funds with Texas Government Code §802.2011. The Board believes that its Funding Policy is fully compliant with state law. If the PRB intends to state or even suggest in its report to the Legislature that the Fund or its Funding Policy are non-compliant, insufficient or inadequate, the Fund would respectfully request a written response from the PRB explaining its position before such report is filed with the Legislature.

In addition, while the Fund appreciates the PRB's efforts in ensuring the sustainability of public pension plans in Texas and certainly would like to cooperate with the PRB in these efforts, the Fund believes its position on this matter involving the ADC benchmark has been fully explained. From the Fund's perspective, this issue has been discussed at the Fund's July Board meeting, a written response was provided to the PRB following such meeting, and the Fund's actuary has been in communication with the PRB's actuary on the issue, who has full understanding of the Fund's position. The Fund has already devoted significant time and resources addressing the matter and would request that the PRB reconsider its request for the Fund to appear at the upcoming Actuarial Committee meeting to avoid expending additional time and resources.

If it still remains desirable for Fund representatives to attend the Actuarial Committee meeting on September 29th, the Fund will do so, but would respectfully request clarity on what additional information the PRB is requesting that has not been provided so it can be adequately prepared.

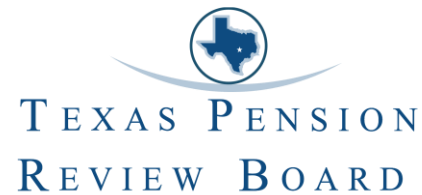
We appreciate your consideration of our response and requests and look forward to your response.

Sincerely,

Bill Stefka
Fund Administrator
Austin Fire Fighters Relief and Retirement Fund

² See FN 1.

7. Systems subject to the FSRP Requirement, including the following:



Summary of Funding Soundness Restoration Plans (FSRPs) Submitted Since the Prior PRB Meeting

Texas Government Code Section 802.2015(e) requires FSRPs to be developed by the public retirement system and the associated governmental entity in accordance with the system's governing statute; and be designed to achieve a contribution rate that will be sufficient to amortize the unfunded actuarial accrued liability within 40 years not later than the 10th anniversary of the date on which the final version of an FSRP is agreed to. The following table summarizes the FSRPs received by the PRB since the last board meeting.

Retirement System	FSRP Trigger Amortization Period	Plan Changes		
		Employee Contributions	Employer Contributions	Other
University Park Firemen's Relief & Retirement Fund	Infinite	N/A	Before: 21.52% After: Closed 30-year ADC beginning October 1, 2017	<ul style="list-style-type: none"> • Employer contributing a biennially recalculated ADC rate. • Plan is closed and new hires are required to participate in TMRS.

Systems Immediately Subject to FSRP Formulation Requirement

The FSRP requirement is triggered for retirement systems that have had amortization periods over 40 years for three consecutive annual actuarial valuations, or two consecutive actuarial valuations if the systems conduct the valuations every two or three years.

Systems Immediately Subject to an FSRP Formulation Requirement							
Retirement System	Am Period	Date of AV	Am Period	Date of AV	Am Period	Date of AV	FSRP Due Date
Irving Firemen's Relief & Retirement Fund – Revised FSRP ¹	63.4	1/1/2014	46.5	12/31/2015	Infinite	12/31/2017	4/17/2019
Midland Firemen's Relief & Retirement Fund – Revised FSRP ¹	59.1	1/1/2014	44.7	12/31/2015	Infinite	12/31/2017	8/21/2019
Longview Firemen's Relief & Retirement Fund	50.7	12/31/2016	40.2	12/31/2017	Infinite	12/31/2018	2/12/2020
Orange Firemen's Relief & Retirement Fund – Second Revised FSRP ¹	58.2	1/1/2015	69.3	1/1/2017	Infinite	1/1/2019	4/18/2020
Marshall Firemen's Relief & Retirement Fund – Revised FSRP ¹	43.2	12/31/2014	56.4	12/31/2016	59.0	12/31/2018	5/5/2020
Beaumont Firemen's Relief & Retirement Fund	39.1	12/31/2014	104.0	12/31/2016	Infinite	12/31/2018	7/17/2020

¹Texas Government Code Section 802.2015(d) requires systems to formulate a revised FSRP if the system conducts an actuarial valuation showing that the system's amortization period exceeds 40 years, and the previously formulated FSRP has not been adhered to.

Systems at Risk of FSRP Formulation Requirement

These at-risk systems' most recent actuarial valuation shows an amortization period that exceeds 40 years but does not yet trigger the FSRP requirement.

Systems at Risk of an FSRP - <u>Not Yet Subject to FSRP Requirement</u>							
Retirement System	Am Period	Date of AV	Am Period	Date of AV	Am Period	Date of AV	FSRP Due Date
Amarillo Firemen's Relief & Retirement Fund	28.8	1/1/2014	34.5	12/31/2015	43.5	12/31/2017	N/A
Atlanta Firemen's Relief & Retirement Fund	36.2	12/31/2014	28.4	12/31/2016	Infinite	12/31/2018	N/A
Austin Police Retirement System	27.3	12/31/2016	35.0	12/31/2017	Infinite	12/31/2018	N/A
Cleburne Firemen's Relief & Retirement Fund	27.3	12/31/2014	28.8	12/31/2016	48.6	12/31/2018	N/A
Conroe Fire Fighter's Retirement Fund	31.4	12/31/2015	39.0	12/31/2017	Infinite	12/31/2018	N/A
Laredo Firefighters Retirement System	29.8	9/30/2014	28.0	9/30/2016	43.0	9/30/2018	N/A
Lubbock Fire Pension Fund	27.6	1/1/2015	33.5	12/31/2016	52.8	12/31/2018	N/A
McAllen Firemen's Relief & Retirement Fund	29.0	10/1/2014	33.4 ¹	10/1/2016	Infinite	10/1/2018	N/A
Plainview Firemen's Relief & Retirement Fund	31.4	12/31/2013	31.6	12/31/2015	44.8	12/31/2017	N/A
Texas City Firemen's Relief & Retirement Fund	31.6	12/31/2014	28.0	12/31/2018	41.1	12/31/2018	N/A

¹ Reflects an increase in employee contribution from 11% to 12% effective April 9, 2018.

Progress Report on Previously Submitted FSRPs

The following systems have previously formulated an FSRP. The table below outlines their progress towards the FSRP requirement.

Systems Still Working Towards Meeting the 40-Year Amortization Period Requirement						
Retirement System	FSRP Trigger		Current Progress ¹		Goal Year ²	Update Required
	Am Period	Date	Am Period	Date		
Fort Worth Employees' Retirement Fund	Infinite	12/31/2016	43.0	12/31/2019	2026	5/2021
Dallas Employees' Retirement Fund	Infinite	12/31/2015	46.0	12/31/2018	2026	7/2021
Wichita Falls Firemen's Relief & Retirement Fund – Revised FSRP	Infinite	1/1/2018	< 47	1/1/2018	2026	8/2021
Greenville Firemen's Relief & Retirement Fund – Revised FSRP	55.0	12/31/2016	40.7	12/31/2018	2026	9/2021
Odessa Firefighters' Relief & Retirement Fund – Revised FSRP	77.5	1/1/2019	< 48	1/1/2019	2026	12/2022
Systems that Have Submitted Post-FSRP Actuarial Valuations Showing Amortization Period Below 40 Years						
University Park Firemen's Relief & Retirement Fund – Revised FSRP	Infinite	12/31/2016	28.8	12/31/2018	2026	N/A
Harlingen Firemen's Relief & Retirement Fund – Revised FSRP	59.1	9/30/2017	38.0	9/30/2019	2026	N/A

¹ Based on the most recent actuarial valuation or FSRP.

² The year in which a system must reach an amortization period of 40 years or less.

Previously Completed FSRP Requirement Systems

The following table is a list of all systems that have submitted an FSRP that has lowered their amortization period below 40 years in a subsequent actuarial valuation.

Systems that Have Submitted Post-FSRP Actuarial Valuations Showing Amortization Period Below 40 Years					
Retirement System	FSRP Trigger		Completed Progress ¹		Goal Year ²
	Am Period	Date	Am Period	Date	
Dallas Police & Fire Pension System (Combined Plan)	44.0	1/1/2017	38.0 ³	1/1/2019	2027
Galveston Employees' Retirement Plan for Police	55.1	1/1/2014	35.3	1/1/2018	2026
Galveston Firefighter's Relief & Retirement Fund – REVISED FSRP	Infinite	12/31/2016	26.8	12/31/2017	2026
Lufkin Firemen's Relief & Retirement Fund	40.6	12/31/2014	33.1	12/31/2016	2026
Sweetwater Firemen's Relief & Retirement Fund	58.8	12/31/2014	27.5	12/31/2016	2026

¹ Based on the valuation in which the system completed its FSRP requirement.

² The year in which a system was expected to reach an amortization period of 40 years or less.

³ The amortization period reflects a payroll projection based upon the City of Dallas' Hiring Plan which has yet to materialize, a concern that was noted by the system's actuary in its 1/1/2019 actuarial valuation.

7a. Irving Firemen's Relief & Retirement Fund

**IRVING FIREMEN'S
RELIEF AND RETIREMENT FUND**

ACTUARIAL EXPERIENCE STUDY



FOSTER & FOSTER
ACTUARIES AND CONSULTANTS

June 17, 2019

Board of Trustees
c/o Ms. Edith Auston, Pension Administrator
Irving Firemen's Relief and Retirement Fund
845 W. Irving Blvd.
Irving, TX 75060

Re: Actuarial Experience Study

Dear Board:

As requested, we have performed an experience study determined as of December 31, 2017. In the course of the analysis, we compiled plan experience from January 1, 2012 through December 31, 2017. While we cannot verify the accuracy of all of the information provided, the supplied information was reviewed for consistency and reasonableness. As a result of this review, we have no reason to doubt the substantial accuracy of the information and believe it has produced appropriate results.

The purpose of this study is to review the current actuarial assumptions and methods to determine which changes, if any, are necessary in order to achieve the objective of developing costs that are stable, predictable, and represent our best estimate of anticipated experience.

It is important to remember that the ultimate cost of your retirement plan is independent of any actuarial assumptions or methods utilized throughout the valuation process. This cost will be the sum of the benefits paid from the fund and the expenses incurred, less any net investment gains received.

The specific assumptions and methods investigated throughout the remainder of this study are as follows:

- Actuarial Asset Method
- Investment Return
- Salary Increases
- Payroll Growth
- Mortality Rates
- Retirement Rates
- Withdrawal Rates
- Disability Rates

The balance of this Report presents details of the experience analysis. In addition, the report also contains the corresponding impact on the funding period required to amortize the Unfunded Actuarial Accrued Liability (UAAL) for any proposed changes. Please note the current valuation results shown reflect our firm's replication of the prior actuary's December 31, 2017 actuarial valuation.


As you read through this report, you will notice that each of the specific sections being discussed includes an indicator of "Recommended Change" or "Change to Consider" as part of the section description. As you could imagine, those labeled "Recommended Change" include changes we believe should be made in conjunction with the next actuarial valuation report. The sections with an indicator of "Change to Consider" are those that we believed warrant a discussion with the Board but do not necessarily require a change at this time.


To the best of our knowledge, this report is complete and accurate in all aspects.

The undersigned are familiar with the immediate and long-term aspects of pension valuations, and meet the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinions contained herein. All of the sections of this report are considered an integral part of the actuarial opinions.

Respectfully submitted,

FOSTER & FOSTER INC.

By: 
Bradley R. Heinrichs, FSA, EA, MAAA

By: 
Drew D. Ballard, EA, MAAA

ACTUARIAL STANDARDS OF PRACTICE

Background

The Actuarial Standards Board has provided coordinated guidance through of a series of Actuarial Standards of Practice (ASOP) for measuring pension obligations and determining pension plan costs or contributions. The ASOPs that apply specifically to valuing pensions are as follows:

- ASOP No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*, which ties together the standards shown below, provides guidance on actuarial cost methods, and addresses overall considerations for measuring pension obligations and determining plan costs or contributions
- ASOP No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*
- ASOP No. 35, *Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations*
- ASOP No. 44, *Selection and Use of Asset Valuation Methods for Pension Valuations*
- ASOP No. 51, *Assessment and Disclosure of Risk associated with Measuring Pension Obligations and Determining Pension Plan Contributions*

Please note that the contents displayed throughout the remainder of this report are in compliance and consistent with the above-mentioned Actuarial Standards of Practice. When applicable, further details of the ASOP associated with the reviewed actuarial assumption will be provided in the experience analysis, which is the basis for the remainder of the report.

Additional Required Communications

Please keep in mind that future actuarial measurements may differ significantly from current measurements due to such factors as the following:

- Plan experience differing from that anticipated by the economic or demographic assumptions
- Changes in demographic assumptions
- Increases or decreases expected as part of the natural operation of the methodology used
- Changes in plan provisions or applicable law

The data used for purposes of this report was compiled from previous actuarial valuations and from data provided by the plan administrator, unless otherwise indicated.

EXPERIENCE REVIEW SUMMARY

Actuarial Asset Method - *Change to Consider*

ASOP No. 44, *Selection and Use of Asset Valuation Methods for Pension Valuations*, provides guidance to actuaries in selection of an asset valuation method for purposes of a defined benefit pension plan actuarial valuation, and appropriate disclosures regarding the asset valuation method used.

Currently, the valuation uses a 5-year smoothing methodology that is compliant with the standards set forth in ASOP No. 44. However, it is important to understand that the basis surrounding implementation of asset smoothing in a pension plan actuarial valuation was such that it would decrease the volatility of the sponsor's contribution requirements as the result of investment performance, either above or below the assumed rate of return.

As you know, currently the City contributes a fixed rate of 16.75% of payroll annually, meaning that the City does not adjust their contribution rate each year based on the actuarially determined contribution specific to your plan in the actuarial valuation. The resulting amortization period is calculated by assuming that the City contributes 16.75% of payroll indefinitely.

Therefore, the purpose of asset smoothing is not reflective in the systematic funding of your plan and it could be argued that the true amortization period of the plan would be the result if the amortization period were calculated taking into account the market value of assets (instead of the smoothed or actuarial value of assets) as of the valuation date.

Given the nature of the way that the system is being funded, we believe that the amortization period should be reflected based on the market value of the fund as of the valuation date. It is important to point out that the GASB 67/68 disclosures require the City to record the plan's Net Pension Liability on a market value basis.

As of the December 31, 2017 actuarial valuation, the actuarial value of assets was lower than the market value of assets by approximately \$6.5 million, meaning that there are \$6.5 million of deferred investment gains that will be recognized by the system over the next few years following the valuation date. Since a full year has elapsed since the most recent actuarial valuation was performed, it is important to point out that due to the poor market return for calendar 2018, it is likely that the actuarial smoothing method would currently reflect deferred investment losses as of December 31, 2018.

For informational purposes, if no asset smoothing was utilized (meaning that the \$6.5 million of deferred investment gains were recognized immediately and a pure market value of assets was used) the City's 30-year funding cost would decrease by approximately 1.1% of payroll.

While maintaining an asset smoothing technique is perfectly acceptable (as well as a popular method utilized by other Texas public retirement systems), the Board should discuss whether smoothing fluctuations in the amortization period is something that they wish to continue. At a minimum, we believe that the Board should consider reporting in the actuarial valuation the calculation of the amortization period on a market value basis.

Economic Assumptions

ASOP No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*, provides guidance to actuaries in selecting (including giving advice on selecting) economic assumptions – primarily investment return, discount rate, and salary scale – for measuring obligations under defined benefit pension plans.

Throughout the remainder of this section, we have used the standards set forth in ASOP No. 27 as a guideline for reviewing and if applicable, selecting proposed changes to the following economic actuarial assumptions:

- Investment Return
- Salary Increases
- Payroll Growth Rate

Please keep in mind that ASOP No. 27 states that “the best an actuary can do is to use professional judgment to estimate possible future economic outcomes based on past experience and future expectations, and to select assumptions based upon that application of professional judgment.”

Investment Return - *Change to Consider*

The assumed rate of investment return is currently 7.50% per year compounded annually, net of all expenses. We believe that the decision to modify the investment return assumption shall be made based upon input from your investment professionals, reflecting any significant changes to the asset allocation, and their judgment of capital market returns. Keep in mind, however, that this assumption should reflect the best estimate of investment returns expected to be realized until the last participant in the plan dies, which could be 50+ years from now.

Below, we have included a summary of the investment return assumptions utilized by your peers, as published in the Texas Pension Review Board’s 2019 “Guide to Public Retirement Systems in Texas” (PRB Guide), which focuses on the 99 actuarially-funded defined benefit systems around the state.

<u>Return Assumption</u>	<u>Percent of Plans</u>	<u>Running Total</u>
5.00%	1%	1%
6.17%	1%	2%
6.25%	1%	3%
6.50%	1%	4%
6.75%	8%	12%
7.00%	14%	26%
7.25%	18%	44%
7.40%	1%	45%
7.50%	20%	65%
7.70%	2%	67%
7.75%	22%	89%
7.90%	2%	91%
8.00%	9%	100%

As you can see, 45% of plans use an investment return assumption that is below 7.50% per year and 20% of plans (including your plan) use a 7.50% assumed investment return.

Actual plan returns over the past 28 years have averaged 6.3% per year, as illustrated on the following page.

Investment Return History (Net-of-Fees)
January 1, 1991 through December 31, 2018

<u>Year Ending</u>	<u>Market Investment Return</u>
12/31/2018	-4.16%
12/31/2017	17.35%
12/31/2016	7.68%
12/31/2015	-2.43%
12/31/2014	4.18%
12/31/2013	21.06%
12/31/2012	13.65%
12/31/2011	-2.22%
12/31/2010	15.26%
12/31/2009	21.54%
12/31/2008	-26.81%
12/31/2007	10.79%
12/31/2006	10.82%
12/31/2005	6.34%
12/31/2004	11.54%
12/31/2003	25.19%
12/31/2002	-13.35%
12/31/2001	-4.67%
12/31/2000	-5.09%
12/31/1999	10.09%
12/31/1998	9.01%
12/31/1997	15.35%
12/31/1996	5.43%
12/31/1995	17.87%
12/31/1994	-2.94%
12/31/1993	10.61%
12/31/1992	8.80%
12/31/1991	13.58%

Averages

5 Years	4.2%
10 Years	8.8%
15 Years	6.2%
28 Years	6.3%

For informational purposes, we have determined the actuarial impact if the investment return assumption was decreased from the current 7.50% assumption to 7.25% per year or to 7.00% per year, net of all expenses.

The impact of decreasing only the investment return assumption by 25 basis points is shown below.

<u>Assumed Return</u>	<u>Amortization Period</u>	<u>UAAL</u>	<u>30-Year Funding Deficit (% of pay)</u>	<u>40-Year Funding Deficit (% of pay)</u>
7.50% (Current)	Infinite	76,736,724	5.15%	3.48%
7.25%	Infinite	81,457,376	6.67%	4.88%
7.00%	Infinite	86,385,831	8.26%	6.32%
6.75%			9.91%	

As you can see, the UAAL and funding metrics increase due to lowering the expected level of future investment earnings, absent of an increase in the scheduled annual contribution rates.

Salary Increases - *Recommended Change*

The salary increase assumption is used to project a participant's salary from the valuation date until the assumed retirement age and plays an important role in measuring individual pension costs and obligations. Salary increase assumptions are typically represented as a flat salary scale assumption or a service-based assumption. A flat salary scale assumption assumes that a participant will get the same rate of salary increase for all years of service, whereas a service-based table may assume different rates based on the participant's longevity with the plan.

Salary growth is comprised of three basic components:

- Merit increases
- Longevity increases
- Inflation increases

Currently, the valuation utilizes a service-based salary scale assumption for purposes of projecting individual salaries.

On the following page, we have included a table which illustrates the actual salary increase experience since 2012. As you can see, the experience shows that members received large increases in pensionable earnings in the first few years of employment. At most other service points, the actual increases were equal to or below the currently assumed rates.

Based on the actual experience realized in the plan over the past 6 years, we propose changing the salary increase assumption slightly, as illustrated below.

The funding impact of only the proposed changes to the salary increase assumption is as follows:

<u>Salary Increases</u>	<u>Amortization Period</u>	<u>UAAL</u>	<u>30-Year Funding Deficit (% of pay)</u>	<u>40-Year Funding Deficit (% of pay)</u>
Current	Infinite	76,736,724	5.15%	3.48%
Proposed	141.6 years	76,525,543	4.06%	2.40%

Reviewing the below table, you can see that the assumed rates of salary increase were decreased (while sometimes only slightly) at all service points except the first two years of employment. This change has the result of projecting smaller expected benefits at retirement for all active members who have completed at least two years of service and therefore decreases plan liabilities and ultimately the funding metrics.

Individual Salary Increase Experience
January 1, 2012 through December 31, 2017

Service	Exposed	Prior Year Salaries	Actual Salaries	Expected Salaries	Actual Increase	Expected Increase	Proposed Increase
0	159	7,964,459	9,575,617	8,864,443	20.2%	11.3%	15.0%
1	54	3,216,539	3,651,864	3,580,008	13.5%	11.3%	13.0%
2	58	3,757,283	4,169,401	4,181,856	11.0%	11.3%	11.0%
3	70	4,817,724	5,300,240	5,362,126	10.0%	11.3%	10.5%
4	57	4,093,021	4,514,685	4,555,533	10.3%	11.3%	10.0%
5-9	255	20,758,113	21,822,270	22,045,116	5.1%	6.2%	5.5%
10-14	197	16,410,396	16,974,893	17,181,684	3.4%	4.7%	4.5%
15-19	255	21,454,551	22,232,469	22,462,915	3.6%	4.7%	4.0%
20-24	246	21,639,018	22,398,378	22,504,579	3.5%	4.0%	3.5%
25+	498	45,849,483	47,137,988	47,224,968	2.8%	3.0%	3.0%
Total	1,849	149,960,587	157,777,805	157,963,228	5.2%	5.3%	5.2%

Payroll Growth - *Change to Consider*

The payroll growth assumption represents the expectation of how the plan's covered payroll will increase each year beyond the valuation date and plays a vital role when calculating the funding period required to amortize any existing Unfunded Actuarial Accrued Liability (UAAL). Currently, a 3.50% payroll growth assumption is utilized for purposes of amortizing the UAAL.

Below, we have included historical information on the plan's covered payroll and active workforce since the completion of the January 1, 2004 valuation. As you can see, the actual average annual increase in covered payroll over the past 14 years has been approximately 4.2% per year, while the active workforce has grown at a smaller rate during that time period (increasing 1.6% per year). You can also see that the average increase over two separate 10-year periods were 3.3% per year and 5.3% per year.

Given the fact that the longer-term payroll growth of the plan is in line with the currently assumed rate, we are not recommending any changes to the current payroll growth assumption. Please note that maintaining a reasonable payroll growth assumption plays an important role in determining the financial status of the plan at the time of each actuarial valuation, as its main purpose is to calculate the amortization period as well as the recommended contribution rate needed for the system to achieve and maintain an amortization period that does not exceed 30 years, as required per Section 802.101(a) of the Texas Government Code.

Similar to the investment return section, we have included a summary of the payroll growth assumptions utilized around the state, as published in the PRB Guide. As you can see, 35% of plans across the state utilize a lower payroll growth assumption than the 3.50% assumption that is utilized in your plan.

Payroll Growth

<u>Valuation Date</u>	<u>Annualized Covered Payroll</u>	<u>Number of Actives</u>
1/1/2018	32,626,245	365
1/1/2016	27,073,684	318
1/1/2014	25,482,413	314
1/1/2012	20,637,744	311
1/1/2010	22,903,911	314
1/1/2008	19,514,322	301
1/1/2006	18,375,492	303
1/1/2004	18,428,394	291

Average annual increase:

<u>December 31</u>	<u>Years</u>	<u>Annualized Covered Payroll</u>	<u>Number of Actives</u>
2004 to 2018	14	4.2%	1.6%
2004 to 2014	10	3.3%	0.8%
2008 to 2018	10	5.3%	1.9%

Current Assumption: 3.50% per year

Payroll Growth

<u>Assumption</u>	<u>Percent of Plans</u>	<u>Running Total</u>
0.00%	2%	2%
2.50%	5%	7%
2.75%	4%	11%
3.00%	19%	30%
3.25%	4%	34%
3.40%	1%	35%
3.50%	28%	63%
3.75%	4%	67%
4.00%	23%	90%
4.25%	3%	93%
4.50%	6%	99%
5.00%	1%	100%

For informational purposes, we have determined the actuarial impact on the plan if the payroll growth assumption were lowered from 3.50% per year to either 3.00% or 2.50% per year.

Decreasing the payroll growth assumption has the effect of lowering the amount of UAAL that will be paid off in future years and can have the effect of significantly increasing the calculated funding metrics, as illustrated below.

<u>Payroll Growth</u>	<u>Amortization Period</u>	<u>UAAL</u>	<u>30-Year Funding Deficit (% of pay)</u>	<u>40-Year Funding Deficit (% of pay)</u>
3.50% (Current)	Infinite	76,736,724	5.15%	3.48%
3.00%	Infinite	76,736,724	5.89%	4.29%
2.50%	Infinite	76,736,724	6.65%	5.12%

Demographic Assumptions

ASOP No. 35, *Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations*, provides guidance to actuaries in selecting (including giving advice on selecting) demographic and other noneconomic assumptions for measuring obligations under defined benefit pension plans.

Over the following pages, the following applicable assumptions will be reviewed:

- Mortality Rates
- Retirement Rates
- Withdrawal Rates
- Disability Rates

Generally, demographic assumptions are based on actual plan experience with additional considerations for current trends. ASOP No. 35 states “the actuary should use professional judgment to estimate possible future outcomes based on past experience and future expectations, and select assumptions based upon application of that professional judgment.” ASOP No. 35 also states that “a reasonable assumption is one that is expected to approximately model the contingency being measured and is not anticipated to produce significant cumulative actuarial gains or losses...the actuary should not give undue weight to past experience when selecting demographic assumptions.”

Demographic trends generally remain consistent over time, absent significant changes in plan provisions. Therefore, the best true indicator of future experience is past experience. For each assumption, this analysis compares actual experience for the studied time period to the current assumptions used for purpose of the annual valuation.

Note that actuarial assumptions reflect average experience over long periods of time. A change in actuarial assumptions generally results when experience over a period of years indicates a consistent pattern. Proposed changes to the demographic assumptions better reflect actual plan experience over the studied time period. The proposed changes also meet the objective of developing costs that are stable, predictable, and represent our best estimate of anticipated future experience.

Mortality Rates - * Recommended Change *

The rate of mortality is the probability of death at a given age. As mortality rates have continued to decline over time, concern has increased about the impact of potential future mortality improvement on the magnitude of pension obligations. ASOP No. 35 discusses the importance of actuaries considering mortality improvements when measuring pension obligations. Specifically, an actuary should adjust mortality rates to reflect mortality improvement prior to the measurement date and include an assumption regarding the expected mortality improvement after the measurement date, if reasonable.

The plan currently assumes rates of mortality based on the RP-2000 Mortality Table (sex distinct) with mortality improvements projected to 2024 using Scale AA. As you can see, this table is in compliance with ASOP No. 35.

It is important to point out, however, that the Society of Actuaries underwent a comprehensive study with the primary objective to develop mortality tables comprised solely of public-sector lives. Additionally, contributors to the study were asked to identify plan members as teachers, public safety personnel, or general employees. This helped provide new insights into the composition of gender-specific pension mortality by factors such as job category, specifically in the public sector.

As your actuary, we feel it is necessary to adopt the most recent mortality tables applicable to public sector plans. Therefore, we recommend that the assumed rates of mortality are updated to reflect the public safety mortality tables (above-median, amount-weighted) as released by the Society of Actuaries with mortality improvements projected five (5) years beyond the valuation date using Scale MP-2018.

The funding impact of only the proposed changes to the mortality assumptions is as follows:

<u>Mortality Rates</u>	<u>Amortization Period</u>	<u>UAAL</u>	<u>30-Year Funding Deficit (% of pay)</u>	<u>40-Year Funding Deficit (% of pay)</u>
Current	Infinite	76,736,724	5.15%	3.48%
Proposed	Infinite	82,440,485	6.39%	4.60%

The impact of applying the public safety mortality tables is an increase in life expectancy for plan participants. As you can imagine, this means that benefits are expected to be paid longer, resulting in an increase in the actuarial liabilities.

Retirement Rates - *Recommended Change*

A retirement rate is the associated probability at a specific point in time that a participant will retire, given that they have attained the eligibility requirements for retirement. The associated cost due to retirement experience is determined by the age at which participants actually retire.

As you are probably aware, the current provisions for Normal Retirement are the attainment of age 50 and the completion of 20 years of service. Additionally, Retro-DROP eligibility is attainment of age 52 and the completion of 21 years of (with an effective DROP date at 51/20).

The valuation currently applies varying retirement probabilities at each age and service combination.

When reviewing the results of the retirement experience, please keep in mind that the actual retirement is based on the date that a member separates employment with the City. Therefore, this would be the date that the member actually retires from the plan or elects Retro-DROP.

As shown on the following page, we analyzed the retirement experience based on the number of years following retirement eligibility a member had attained prior to the year they retired or elected Retro-DROP. Based on this experience, it is clear that a change to the retirement assumptions is warranted at this time.

We propose utilizing a retirement rate table which applies probabilities based on the number of years a member has attained beyond first retirement eligibility, as shown on the following page.

The funding impact of only making the proposed retirement rate changes is as follows.

<u>Retirement Rates</u>	<u>Amortization Period</u>	<u>UAAL</u>	<u>30-Year Funding Deficit (% of pay)</u>	<u>40-Year Funding Deficit (% of pay)</u>
Current	Infinite	76,736,724	5.15%	3.48%
Proposed	49.2 years	69,423,167	2.28%	0.77%

As you can see in the table on the following page, the actual retirement experience is very small prior to a member continuing employment at least nine (9) years beyond the date they first attained retirement eligibility. Based on the provisions in the plan, this means that members are typically working long enough to maximize their DROP accounts.

In the aggregate, the proposed retirement rates assume that members will retire at later ages than the currently assumed rates (the weighted average retirement age increases from approximately age 57 to age 60). This has the effect of lengthening the funding span to pay for expected benefits which decreases the plan's Normal Cost and Actuarial Accrued Liability. As you can see, the proposed retirement rates would result in a significant decrease to the plan's amortization period and funding metrics.

Termination Experience
January 1, 2012 through December 31, 2017

Service	Exposed	Actual Terminations	Expected Terminations	Actual Termination Rate	Expected Termination Rate	Proposed Termination Rate
0	62	1	2.5	1.6%	4.0%	2.0%
1	98	0	3.9	0.0%	4.0%	2.0%
2	54	0	2.0	0.0%	3.7%	2.0%
3	58	0	2.1	0.0%	3.6%	2.0%
4	70	0	2.4	0.0%	3.4%	2.0%
5	58	1	1.9	1.7%	3.3%	2.0%
6	68	2	2.0	2.9%	2.9%	2.0%
7	60	1	1.7	1.7%	2.8%	2.0%
8	55	0	1.4	0.0%	2.5%	0.5%
9	43	0	1.0	0.0%	2.3%	0.5%
10-19	424	0	4.7	0.0%	1.1%	0.5%
20+	134	2	0.8	1.5%	0.6%	1.0%
Total	1,184	7	26.4	0.6%	2.2%	1.2%

The funding impact of only changing the termination rates to the proposed rates as shown above is as follows.

<u>Termination Rates</u>	<u>Amortization Period</u>	<u>UAAL</u>	<u>30-Year Funding Deficit (% of pay)</u>	<u>40-Year Funding Deficit (% of pay)</u>
Current	Infinite	76,736,724	5.15%	3.48%
Proposed	Infinite	75,990,354	5.87%	4.22%

As you can see, the proposed termination rates result in decreases to the assumed rates at all service points prior to completion of 20 years of service. Lowering the assumed rates of termination has the impact of increasing the probability of continuing employment until retirement age and ultimately receiving a pension benefit from the plan, thereby increasing the total costs.

Disability Rates - *Recommended Change*

The disability rate assumption is the probability that a member will become disabled while an active member in the plan. Currently, the valuation utilizes an age-based assumption for predicting the occurrence of future disabilities.

Over the studied time period (2012-2017), there were no disability retirements in the plan, while there were approximately nine (9) expected. Based on the valuation data, it appears that the only disability retirement (currently receiving benefits) occurred in 2000.

Based on this information, we propose amending the assumed rates of disability to multiply the probabilities at each age by a factor of one-third (1/3). Doing so will lower the expectation of future disability retirements in the plan which reduces the liability associated with the disability decrement. We have determined that this change would decrease the 30-year funding deficit by 0.21% of payroll.

Conclusion

As stated throughout the content of this report, we have recommended a number of changes to the actuarial assumptions and methods utilized for purposes of completing the annual valuations. It is our belief that these changes reflect sound actuarial principles, are our best estimate of anticipated future experience, and will assist in achieving the objective of describing the true funded nature of the plan.

Below we have provided a summary of the plan's funding impact for each of the discussed changes, if made independently of one another. Additionally, we have determined the impact for a number of combinations of changes (with various investment return and payroll growth assumptions) to assist in the discussion at the upcoming Board meeting.

<u>Assum/Method Change</u>	<u>Amortization Period</u>	<u>30-Year Funding Deficit</u>
Current	Infinite years	5.15%
7.25% Interest Rate	Infinite years	6.67%
7.00% Interest Rate	Infinite years	8.26%
Salary Increases	141.6 years	4.06%
3.00% Payroll Growth	Infinite years	5.89%
2.50% Payroll Growth	Infinite years	6.65%
Public Safety Mortality	Infinite years	6.39%
Retirement Rates	49.2 years	2.28%
Termination Rates	Infinite years	5.87%
Disability Rates	Infinite years	4.94%
Combination (7.50%, 3.50%)	66.1 years	3.31%
Combination (7.25%, 3.50%)	Infinite years	4.76%
Combination (7.50%, 3.00%)	Infinite years	4.05%
Combination (7.25%, 3.00%)	Infinite years	5.53%
Combination (7.50%, 2.50%)	Infinite years	4.80%
Combination (7.25%, 2.50%)	Infinite years	6.32%
Combination (7.00%, 3.00%)	Infinite years	7.06%

Please note that the results shown above do not include the asset smoothing change previously discussed at the beginning of this report due to the expected impact of the 2018 investment loss. Instead, we felt it would be valuable to estimate the resulting funding metrics as of December 31, 2018 based on the plan's investment return (net of fees) of -4.16% for calendar 2018, as reported in the December 31, 2018 quarterly report published by Graystone Consulting.

Based on this information, we have estimated that the 30-year funding deficit will increase by 3-4% of payroll due to the 2018 investment loss, when compared to the amounts shown in the above table. This result was determined based on our estimate of the market value of assets as of December 31, 2018. It is important to understand that there are many other variables that will contribute to the overall plan experience for 2018 which could increase or decrease the estimated 30-year funding deficit as of December 31, 2018. We wanted the Board to understand that the results summary shown above did not include the impact of the 2018 investment loss for discussion purposes surrounding possible changes to the plan.

7b. Longview Firemen's Relief & Retirement Fund

8. Date and location of next Actuarial Committee meeting –
TBD

9. Invitation for public comment

10. Adjournment