



TEXAS PENSION REVIEW BOARD

ACTUARIAL COMMITTEE MEETING
JANUARY 28, 2022

TEXAS PENSION REVIEW BOARD

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**TEXAS PENSION REVIEW BOARD
ACTUARIAL COMMITTEE MEETING AGENDA**

Friday, January 28, 2022 – 10:00 AM

Reagan Building, Committee Room 120

1400 Congress Avenue, Austin, TX, 78701

Committee members may attend this meeting by videoconference pursuant to Texas Government Code §551.127. The officer presiding over the meeting will be physically present at the physical location of the meeting listed above and will preside over the meeting at that location. The meeting will be accessible to the public at the physical location listed above. Access to a livestream of this meeting, agenda materials of the meeting, and a recording of the meeting will be made available at www.prb.texas.gov.

The Committee may discuss or take action regarding any of the items on this agenda. A quorum of the Administrative Committee will be present during the Actuarial Committee meeting, but no Administrative Committee matters will be discussed.

1. Meeting called to order
2. Roll call of committee members
3. Committee administrative matters
 - a. **TAB 1** September 29, 2020, meeting minutes
4. **TAB 2** Rulemaking relating to the updated Funding Soundness Restoration Plan (FSRP) requirements under Texas Government Code Sections 802.2015 and 802.2016
5. Update on the Actuarial Matters PRB Core course
6. Update on the Actuarial Valuation Report, including PRB intensive reviews and Texas Public Pension Data Center
7. Date and location of next Actuarial Committee meeting
8. Invitation for public comment
9. 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 Lindsay Seymour 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.

TAB 1



Actuarial Committee Meeting Minutes

September 29, 2020

1. Meeting called to order (0:01)

The fourth meeting of 2020 of the Actuarial Committee began on Wednesday, September 29, 2020, at 1:00 p.m. via videoconference and teleconference.

2. Roll call of committee members (0:37)

Committee 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 (1:14)

Pre-registered members of the public:

On behalf of Midland Firemen's Relief & Retirement Fund: David Stacy

Representatives from the cities and fire pension systems of Abilene, Orange, Odessa, San Angelo, Wichita Falls, Austin, and Irving:

On behalf of Abilene: Baker Bryant; Mindy Patterson; Rodney Goodman; Mike Rains; Drew Ballard; and Brad Heinrichs

On behalf of Odessa: Jill Jones; Ben Marts; and Steph Boles

On behalf of Orange: Cheryl Zeto and John Bilbo

On behalf of San Angelo: Ron Partusch

On behalf of Wichita Falls: Chris Duncan; Doyle Wood; and Jessica Williams

On behalf of Austin: Bill Stefka; Premal Amin; Jeremy Burke; and Chuck Campbell

On behalf of Irving: Micah Johnson

4. August 6, 2020, meeting minutes (5:10)

Chair Brainard entertained a motion to suspend the reading of minutes of the August 6, 2020, meeting and approve them as circulated.

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

The motion passed unanimously.

5. Update on review of funding policy requirements under Section 802.2011 and Funding Soundness Restoration Plan (FSRP) requirements under Section 802.2015 and 805.2016 of the Government Code, including the following (5:45):

- a. Comments received on *Funding Policy and Funding Restoration Plan Requirements – Policy Objectives and Considerations* (6:25)**

Michelle Downie Kranes provided an overview of public comments received on objectives and potential statutory changes to funding policy and funding soundness restoration plan (FSRP) requirements. The proposed provisions intended to tie a plan's funding policy with its FSRP to provide a continuum of funding support. Chair Brainard requested staff to suggest introductory language for the full Board to consider at its November meeting.

Ms. Kranes discussed comments regarding increased involvement of plan sponsors during the FSRP process. Commentors preferred that if an FSRP were triggered, the plan and sponsor would be required to do two things: adopt an FSRP and revise the funding policy together to ensure both parties were involved in long-term improvement.

Ms. Kranes stated that funding policies could be required to utilize actuarial methods that were based on a closed amortization period, thus moving plans toward achieving 100 percent funding. She noted a comment questioning the enforceability of such a requirement.

Ms. Dush noted recent recommendations concerning reasonable methods of calculating an actuarially determined contribution (ADC). She stated her belief that plans should aim for 100 percent funding due to increased benefit security; fewer volatile contributions required of members, which could affect bond ratings and municipal planning; and intergenerational equity for both taxpayers and plan members.

The committee discussed proposed changes to current statute to prohibit rolling amortization periods over 25 years and amortization policies that do not work toward achieving 100 percent funding using current industry standards. Chair Brainard requested staff to develop language that would prohibit amortization policies not recognized as acceptable by the Conference of Consulting Actuaries (CCA) for consideration of the full Board at its upcoming meeting.

Bill Stefka commented on the reasons Austin Firefighters Relief and Retirement Fund uses a 30-year rolling amortization period and the funding policy provisions to adjust for negative experiences when necessary, such as a contribution rate trigger that would move the system to a 20-year amortization period. He pointed out that a one-size-fits-all solution may not be best.

Chair Brainard explained that industry standards caution against rolling amortization periods greater than 25 years and he requested staff to draft language consistent with those standards.

Brad Heinrichs from Foster & Foster commented that the research being cited by the PRB pertained to annual funding requirements and stated his belief that it was not applicable when developing a funding policy.

Ms. Kranes reviewed recommendations for lowering the current 40-year amortization period and utilizing a tiered trigger system for FSRPs. She noted commenters generally supported lowering the 40-year amortization period but asked that the FSRP statute be amended to mirror *PRB Pension Funding Guidelines* that give plans until 2025 to reach a 30-year amortization period.

Mark Fenlaw from Rudd & Wisdom stated he supported keeping the multiple actuarial valuation (AV) trigger to allow plans time to take corrective action before being subject to an FSRP. The committee discussed staff recommendations to reduce the period before an FSRP is triggered, including a tiered trigger approach and incorporating multiple factors

to immediately trigger an FSRP. Ms. Dush spoke about payroll growth assumptions and the effect on amortization periods.

The committee discussed the role of future actions in FSRPs and the proposed changes to current statute. Ms. Kranes stated staff would like clarification on what documentation must be provided to show that an FSRP met the amortization period requirement. She discussed comments regarding concern over the cost of documentation.

Micah Johnson from Irving Firemen's Relief & Retirement Fund stated that there was currently a lack of statutory mechanisms to require a plan sponsor to contribute the recommended ADC. The committee discussed the importance of enacting statutory funding requirements for plan sponsors.

The committee discussed incentives that could help prevent a plan from having to submit multiple FSRPs over time. Anumeha Kumar reminded the committee of a comment received regarding the 10-year implementation, noting that removing the 10-year period to get to the target amortization period could mitigate the need for multiple FSRPs. The committee requested staff to draft proposed language to deter multiple FSRPs while accommodating plans currently in the FSRP process for the full Board to consider at its November meeting.

The committee discussed changing progress update requirements from plans subject to an FSRP since the 10-year implementation would be recommended to be removed and decided that receiving AVs would act as an ongoing analysis incorporating all changes, therefore sufficiently informing the PRB of a plan's progress toward achieving full funding.

Ms. Kranes discussed proposed changes to the amount of time allowed to develop an FSRP, including extending the time to one year rather than six months. David Stacy stated his concern that one year was not an adequate amount of time for a plan to complete an FSRP. Ms. Dush stated her belief that holding the plan's sponsor accountable in statute would remove a significant barrier in delays in FSRP formulation, resulting in the proposed one-year deadline being attainable for a plan. The committee recommended allowing one year to formulate an FSRP, with an update at six months.

Ron Partusch from San Angelo Firemen's Relief & Retirement Fund commented on the costs to plans of preparing multiple reports.

b. Possible recommended changes to statutory requirements (1:38:00)

Chair Brainard entertained a motion to direct staff to draft potential legislative recommendations, incorporating input agreed upon by the committee, for consideration of the full Board at its November meeting.

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

The motion passed unanimously.

6. Systems with funding policies that use ADC benchmarking, including the following (1:38:50):

Chair Brainard invited the plans under the following items to provide prepared testimony.

- a. Abilene Firemen's Relief & Retirement Fund (Abilene Fire)**
- b. Odessa Firemen's Relief & Retirement Fund (Odessa Fire)**

- c. Orange Firemen's Relief & Retirement Fund (Orange Fire)**
- d. San Angelo Firemen's Relief & Retirement Fund (San Angelo Fire)**
- e. Wichita Falls Firemen's Relief & Retirement Fund (Wichita Falls Fire)**
- f. Austin Fire Fighters Relief & Retirement Fund (Austin Fire)**

Anumeha Kumar stated the committee had invited the group of systems to provide clarification regarding their funding policies that utilized rolling ADC benchmarking. Mr. Heinrichs was present as the systems' consulting actuary.

Mr. Heinrichs stated that the systems will achieve 100 percent funding in the recommended 30-year amortization period provided the systems maintain neutral plan experience and he believed that the systems were compliant with current statute. Mr. Heinrichs noted the systems' current funding policies were designed to protect them from rising contribution costs and benefit reductions due to market volatility. Ms. Dush stated her belief that rolling 30-year rolling benchmarks are not adequately responsive to changing conditions since it often takes a few years to trigger a change in a fixed contribution rate. She explained her concerns that this lag time paired with a lengthy amortization period would allow funding problems to become more serious before sponsors are alerted to a system's negative experiences.

Mr. Heinrichs noted that he found 25 years or less preferable when setting contribution rates. Chair Brainard discussed his belief that governance issues left most plans devoid of mechanisms to administer adjustments to contribution rates or benefits. Mr. Heinrichs agreed that governance issues often prevented plans from enforcing corrective actions. Ms. Dush and Mr. Heinrichs discussed specific concerns of each system invited to the committee meeting.

Jessica Williams and Ray Wood from the City of Wichita Falls discussed changes to assumptions, member benefits, and governance issues. Mr. Heinrichs noted that Foster & Foster had applied more conservative assumptions since becoming Wichita Falls Fire's consulting actuary.

Representatives from San Angelo Fire, Wichita Falls Fire, and Abilene Fire stated that funding health was important to their respective boards. Baker Bryant from Abilene Fire asked the committee to be aware of time constraints a plan can experience with reporting requirements.

Ms. Kumar stated the systems had provided funding policies as required by statute, so no systems would be reported as non-compliant to the legislature.

7. Systems subject to the FSRP Requirement, including the following (2:26:00):

a. Irving Firemen's Relief & Retirement Fund (2:26:15)

Mr. Johnson discussed recent changes the system had made to ensure funding health and the increased contribution from the City of Irving. He noted issues Irving Fire had with its sponsor to negotiate for higher city contributions and how the experience highlighted the governance discrepancies between sponsors that are required by statute to contribute the ADC (such as those in TMRS) compared to sponsors that are able to negotiate contributions with their systems, often involving plan changes that require votes from plan membership. He requested the board urge the legislature to address these differences. Ms. Dush commended Irving Fire on the work it had done to improve funding health.

b. Longview Firemen's Relief & Retirement Fund (2:38:00)

Ms. Kumar stated representatives from Longview Firemen's Relief & Retirement Fund

were unable to attend the committee meeting, but it was her understanding they would attend the November meeting of the full Board.

8. Date and location of next Actuarial Committee meeting-TBD (2:38:28)

Chair Brainard stated that no future committee meetings were scheduled but noted the upcoming November meeting of the full Board.

9. Invitation for public comment (2:38:45)

David Stacy from Midland Firemen's Relief and Retirement Fund noted the system's ongoing commitment to the plan's funding health.

10. Adjournment (2:44:00)

Chair Brainard adjourned the meeting at 12:44 p.m.

In Attendance:

PRB Staff Present

Anumeha Kumar
Michelle Downie Kranes
Kenneth J. Herbold
Bryan Burnham
James King
Robert Munter
Ashley Rendon
Mariah Miller
Wes Allen
Lindsay Seymour
Joshua White

Chair Keith Brainard

TAB 2

Funding Soundness Restoration Plans: Statutory changes and overview of upcoming rulemaking

Texas Pension Review Board
Actuarial Committee
January 28, 2022
Agenda Item 4

Presentation Summary

- System Status Report
 - Currently Subject, At Risk, Not Yet At Risk, Previously Submitted, Previously Completed
- FSRP Rulemaking Process
 - Rulemaking Timeline & Stakeholder Engagement
 - Overview of the New Law
- Rule Concepts: Staff Recommendations
- Recap
- Questions
- Appendix



System Status Report



Introduction

- Systems that are currently subject to the requirement must prepare FSRPs under the new rules—**Due Sept. 1, 2025.**
- AVs dated after Sept. 1, 2021, with funding periods >30 years will count as strikes towards triggering an FSRP.
 - Some systems were above 30 years before that date, but they will not be considered at risk unless an AV dated Sept. 1, 2021, or later includes a funding period >30 years.
- Systems that were At Risk before Sept. 1, 2021, keep their previous strikes from AVs with funding periods above 40 years.

Currently Subject—Due Sept. 1, 2025

These plans 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. This was the triggering mechanism prior to Sept. 1, 2021. However, the FSRPs were not submitted before Sept. 1, 2021, so the FSRP must now be developed under the new law, **targeting 30 years by Sept. 1, 2025**. The shaded cells indicate the actuarial valuation that triggered the requirement.

Systems Immediately Subject to an FSRP Formulation Requirement							
Retirement System	Am Period	Date of AV	Am Period	Date of AV	Am Period	Date of most recent AV	FSRP Due Date
Midland Firemen's Relief & Retirement Fund ¹	44.7	12/31/2015	Infinite	12/31/2017	Infinite	12/31/2019	9/1/2025
Longview Firemen's Relief & Retirement Fund	Infinite	12/31/2018	Infinite	12/31/2019	Infinite	12/31/2020	9/1/2025
Beaumont Firemen's Relief & Retirement Fund ¹	104.0	12/31/2016	Infinite	12/31/2018	Infinite	12/31/2020	9/1/2025
Dallas Employees' Retirement Fund ¹	46	12/31/2018	65	12/31/2019	51	12/31/2020	9/1/2025
Laredo Firefighters Retirement System	28.0	9/30/2016	43.0	9/30/2018	56.8	9/30/2020	9/1/2025
Sweetwater Firemen's Relief & Retirement Fund ²	27.5	12/31/2016	63.3	12/31/2018	68.9	12/31/2020	9/1/2025
Atlanta Firemen's Relief & Retirement Fund	28.4	12/31/2016	Infinite	12/31/2018	Infinite	12/31/2020	9/1/2025

¹ Plan previously submitted an FSRP or Revised FSRP under previous law.

² Plan previously completed an FSRP or Revised FSRP under previous law.

Grey highlight indicates the triggering valuation. Some did not submit an FSRP, and subsequently received additional valuations over the 40-year threshold.

Currently At Risk

These at-risk systems' most recent actuarial valuation shows an amortization period that exceeds 40 years but does not yet trigger the FSRP requirement. After receipt of valuations dated Sept. 1, 2021, and later, this report will also show systems with amortization periods exceeding 30 years.

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
Brownwood Firemen's Relief & Retirement Fund	36.1	12/31/2015	38.6	12/31/2017	94.7	12/31/2019	N/A
Conroe Fire Fighter's Retirement Fund	39.0	12/31/2017	Infinite	12/31/2018	Infinite	12/31/2019	N/A
Dallas Police & Fire Pension System (Combined Plan)	38.0	1/1/2019	55.0	1/1/2020	63.0	1/1/2021	N/A
Galveston Firefighter's Relief & Retirement Fund ¹	Infinite	12/31/2016	26.8	12/31/2017	57.6	12/31/2019	N/A
Texas City Firemen's Relief & Retirement Fund	31.6	12/31/2014	28.0	12/31/2016	41.1	12/31/2018	N/A
Texarkana Firemen's Relief and Retirement Fund	16.3	12/31/2015	15.0	12/31/2017	58.3	12/31/2019	N/A

¹ Plan previously completed an FSRP or Revised FSRP under previous law.

Not Yet At Risk – Amortization Periods Between 30 and 40 years

These systems have not yet triggered the requirement to notify their sponsors that the plan's amortization period is above the FSRP threshold of 30 years. This list is intended to keep the committee apprised of plans that may receive a subsequent AV showing an amortization period above 30 years, thus becoming at-risk of triggering the FSRP requirement.

Systems not yet at Risk of an FSRP - <u>Not 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
Abilene Firemen's Relief & Retirement Fund	31.5	12/31/2015	31.9	10/1/2017	31.4	10/1/2019	N/A
Amarillo Firemen's Relief & Retirement Fund	34.5	12/31/2015	43.5	12/31/2017	38.1	12/31/2019	N/A
Austin Employees Retirement System	32	12/31/2018	40	12/31/2019	32	12/31/2020	N/A
Big Spring Firemen's Relief & Retirement Fund	36.19	12/31/2017	38.33	1/1/2019	33.69	1/1/2021	N/A
Cleburne Firemen's Relief & Retirement Fund	28.8	12/31/2016	48.6	12/31/2018	37.3	12/31/2020	N/A
Greenville Firemen's Relief & Retirement Fund ¹	55.0	12/31/2016	40.7	12/31/2018	36.6	12/31/2020	N/A
Harlingen Firemen's Relief & Retirement Fund ¹	Infinite	12/31/2015	59.1	9/30/2017	38	9/30/2019	N/A
Lubbock Fire Pension Fund	33.5	12/31/2016	52.9	12/31/2018	33.7	12/31/2020	N/A
Lufkin Firemen's Relief & Retirement Fund ¹	33.1	12/31/2016	30.7	12/31/2018	31.9	12/31/2020	N/A
San Angelo Firemen's Relief & Retirement Fund	38.5	12/31/2015	31.3	12/31/2017	37.6	12/31/2019	N/A

¹ These plans previously completed an FSRP or Revised FSRP under previous law. These plans would not be considered grandfathered with L-FSRPs.

Previously Submitted—Legacy FSRPs

The following systems have formulated and submitted an FSRP before Sept. 1, 2021. The table below outlines their progress towards the FSRP requirement.

Systems Still Working Towards Meeting the Target Amortization Period Requirement						
Retirement System	FSRP Trigger		Current Progress ¹		Goal Year ²	Update Required
	Am Period	Date	Am Period	Date		
Plainview Firemen's Relief & Retirement Fund	79.7	12/31/2019	35.0 ³	12/31/2019	2031	2/2022
Fort Worth Employees' Retirement Fund	72.5	12/31/2015	42.0	12/31/2020	2029	5/2022
Wichita Falls Firemen's Relief & Retirement Fund – Revised FSRP	Infinite	1/1/2015	43.3	1/1/2020	2026	6/2022
Irving Firemen's Relief & Retirement Fund - Revised FSRP	63.4	1/1/2014	43.6	12/31/2019	2026	3/2023
Marshall Firemen's Relief & Retirement Fund – Revised FSRP	59.0	12/31/2018	41	12/31/2020	2028	3/2022

¹ Based on the most recent actuarial valuation or FSRP.

² The year in which a system must reach an amortization period target.

³ FSRP submitted in Feb. 2021 shows additional city contributions through 2023, lowering the amortization period to 35 years.

Previously Completed

The following systems have submitted an FSRP or subsequent actuarial valuation that has lowered their amortization period below 30 years. These systems would not be considered to have an active L-FSRP, and may not be considered to have a grandfathered FSRP.

Systems that Have Submitted Post-FSRP Actuarial Valuations Showing Amortization Period at or Below 30 Years					
Retirement System	FSRP Trigger		Completed Progress ¹		Goal Year ²
	Am Period	Date	Am Period	Date	
Galveston Employees' Retirement Plan for Police	55.1	1/1/2014	30	1/1/2019	2026
Odessa Firefighters' Relief & Retirement Fund – Revised FSRP	Infinite	1/1/2013	27.7	1/1/2021	2026
Orange Firemen's Relief & Retirement Fund – Second Revised FSRP	Infinite	1/1/2019	20.7	1/1/2021	2026
University Park Firemen's Relief & Retirement Fund – Revised FSRP	81.3	12/31/2012	28.8	12/31/2018	2026

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

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

FSRP Rulemaking Process

Rulemaking Timeline & Stakeholder Feedback

- January (Today)—Initial rule concepts to Actuarial Committee
 - Staff will post the initial concepts for stakeholder feedback
- February 2022—PRB meeting; committee concepts to the full board
 - **Feb. – March:** Check-ins with stakeholders, draft initial rule language
- **May 2022—Initial rule language** to Actuarial Committee
- July 2022—PRB meeting; Rule language presented to board to approve before posting
 - Official public comment period
- October 2022—Board reviews comments on posted rules; final approval
 - Rules take effect 20 days after posting

Stakeholder Engagement, con.

- Staff will distribute the rule concepts for comment after this meeting.
- Staff is also accepting comments and feedback throughout the process
 - prb@prb.texas.gov
 - (512) 463-1736 ask for Madilyn

Overview of New Law

New Provisions

- **Maximum funding period:** 40 years → 30 years; the strike system to count triggers is still the same
- **Deadlines:** 6 months after adopting AV to develop, 10 years to achieve target → 2 years after AV date to develop and achieve target
- **Future benefit & contribution changes:** must adopt changes before FSRP is complete
- **Sponsor Involvement:** Both system and sponsor must develop and adopt the FSRP at open meetings of their respective governing bodies
- **Updates:** progress update after 1 year and every 6 months afterwards

New Provisions, con.

- **Funding policy:** Must be updated based on FSRP
- Two immediate triggers take effect Sept. 2025
 - Funding period >40 years
 - Funding period >30 years + funded ratio <65 percent
 - The prior trigger (>30 years over 2 or 3 AVs) remains in effect
- **First new FSRPs due Sept. 1, 2025.**

Revised FSRP (R-FSRP)

- **Revised FSRP:** triggered if another FSRP triggered within 10 years
 - Meet the exemption criteria → do an FSRP instead of revised FSRP
- Maximum funding period of 25 years
- **required changes:** automatic risk-sharing mechanisms, ADC structure, AND other adjustable benefit or contribution structures
- **R-FSRP Exemption** under certain conditions
 - Prepare an FSRP instead, even if within 10 years
 - **Must be met:** Funding period within 30 to 40 years
 - **And** one of two options:
 - Adhering to an FSRP formulated before Sept. 1, 2025
 - Using or ultimately will use an actuarially determined contribution structure and expected to reach full funding.

Grandfathering Provision

- FSRPs formulated before Sept. 1, 2021, would fall under the grandfathering provision in the bill
 - We have been calling these **legacy FSRPs** or **L-FSRPs**
- As we understand it, systems with grandfathered FSRPs can remain under old law if they remain compliant with the L-FSRP
 - As we understand it, would not apply to systems that completed FSRPs by submitting an AV with a funding period <40 years.
- Note: this grandfathering has an exclusion.
 - See Recommendation 1C

Rules Concepts: Staff Recommendations

Recommendation 1A

Clarify how the PRB will determine whether a system with an L-FSRP is adhering to its plan to restore funding.

- This would make it clear when systems must prepare a new FSRP.
- This could be based on the standards that were already being used, but they may need to be adjusted based on recommendation 1B.

Recommendation 1B

Set the threshold for completing an L-FSRP to either the L-FSRP's target date or the date the system completes an AV reflecting a funding period below 30 years.

- Allows systems to remain under the grandfathering provision until they reached their target date or would not immediately be at risk of triggering a new FSRP.
- The graduation threshold would match the new law at 30 years rather than 40 years.

Recommendation 1C

Resolve the ambiguity about the effective date of a statutory provision exempting certain systems from the new revised FSRP requirement, which, if left unaddressed, could prevent some systems from continuing to follow their legacy FSRPs as intended.

- If the exemption is effective now, a system qualifying for the **R-FSRP exemption** would be excluded from the grandfathering.
 - They could still become subject to a new FSRP.
- The R-FSRP requirements themselves do not apply until after Sept. 1, 2025, when the first new FSRPs are due, so the exemption provision would only logically be active after that date as well.

Recommendation 2A

Adopt a method that the PRB will use to determine if a system has fulfilled the requirements of an FSRP or R-FSRP and outlining what the PRB will do based on the outcome of that determination.

- Establish methods to determine new FSRP compliance
 - What will happen if it is not compliant?
-
- Would clarify any minute details for the new FSRP requirements, as necessary.
 - Submission guidelines, actuarial standards, etc.

Recommendation 2B and 2C

2B. Clarify how progress updates should be submitted, such as in writing or by a report at a committee or PRB meeting.

- Progress updates are required within one year of the triggering AV and every six months afterwards.

2C. Adopt a method to determine a system is adhering to its FSRP for the purposes of qualifying for the revision exemption.

- Since the R-FSRP exemption conditions include systems adhering to an FSRP formulated before Sept. 1, 2025, we need a way to determine adherence.

Recap

- System Status Report
 - Currently Subject, At Risk, Not Yet At Risk, Previously Submitted, Previously Completed
- FSRP Rulemaking Process
 - Rulemaking Timeline & Stakeholder Engagement
 - Overview of the New Law
- Rule Concepts: Staff Recommendations
- **Recap**
- Questions
- Appendix



Questions?



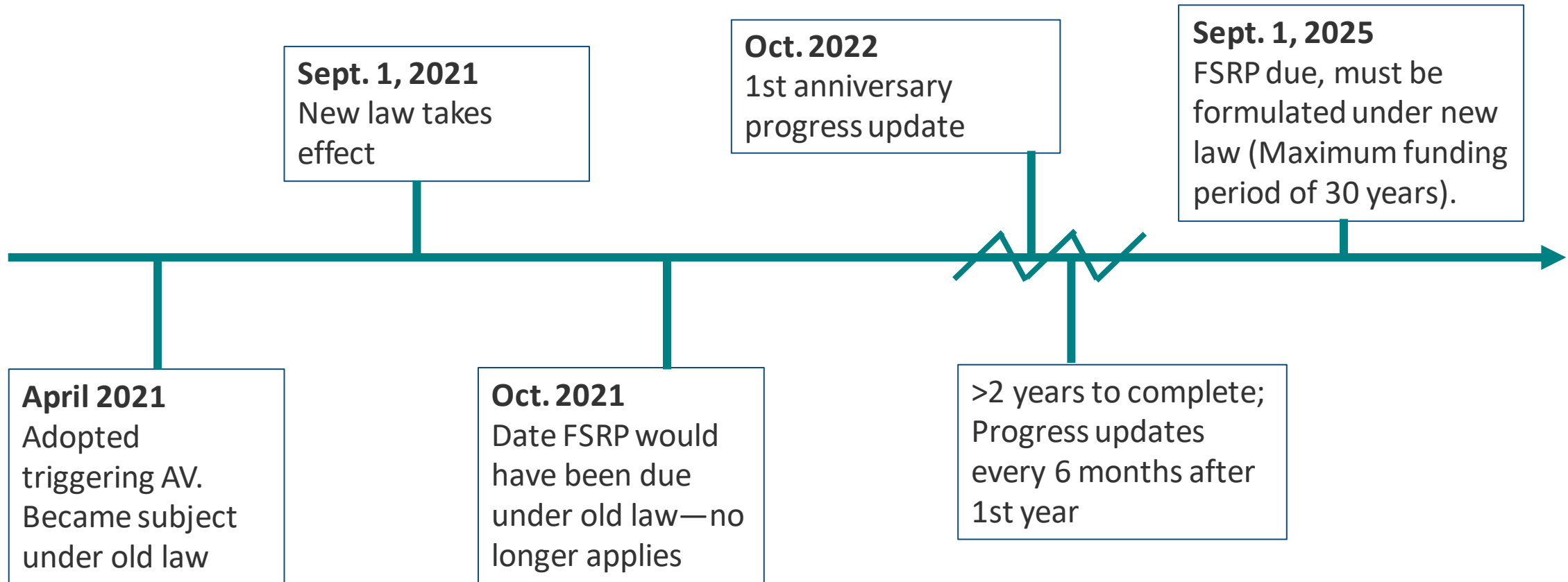


Appendix

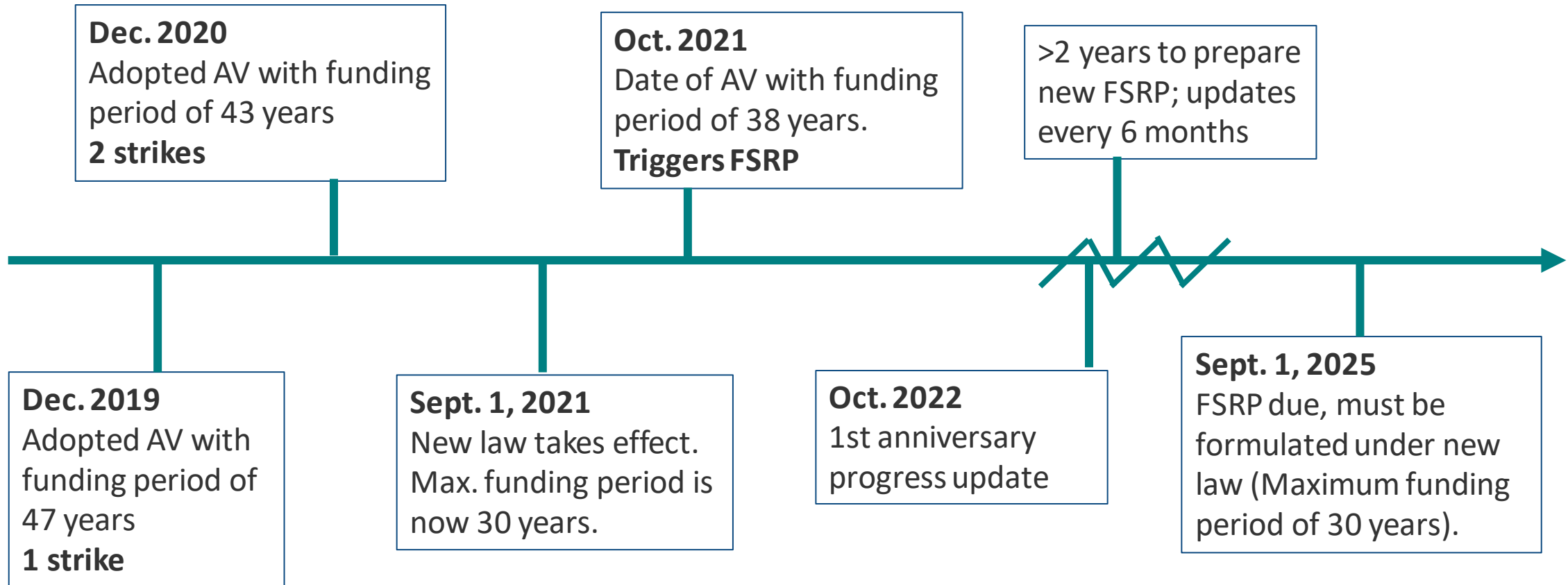


Example Timelines and Scenarios

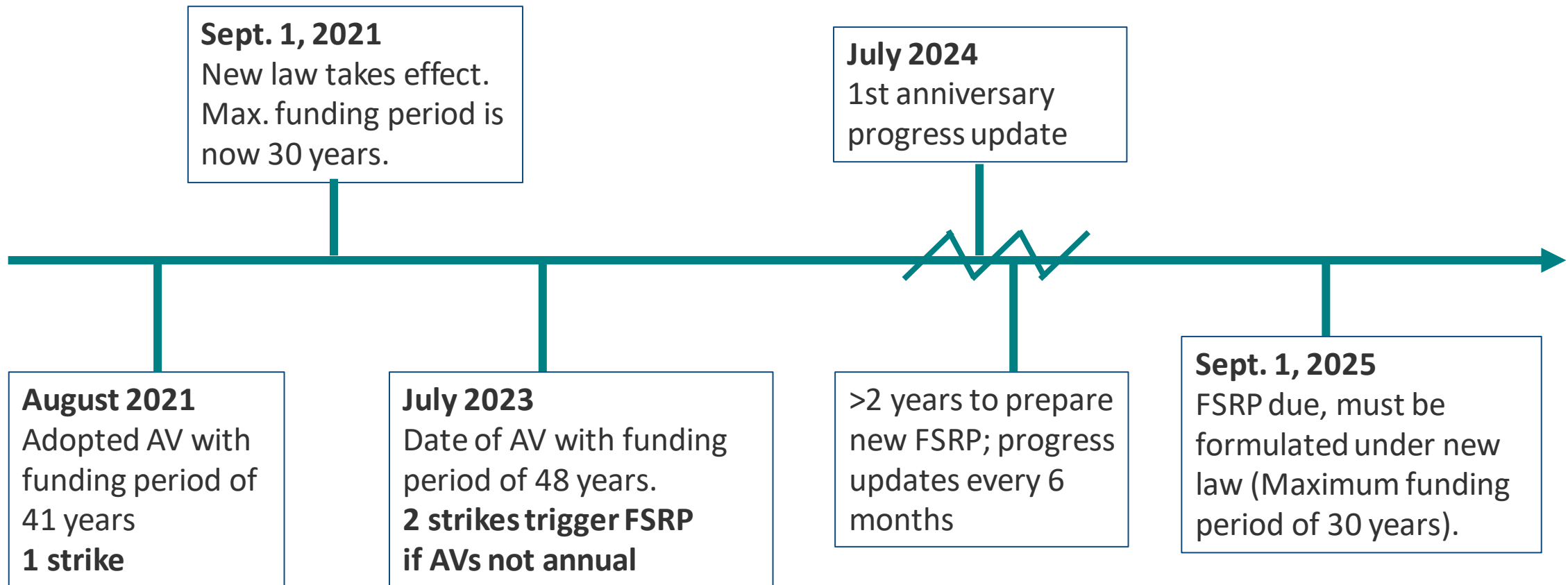
Example Timelines—Became subject under old law



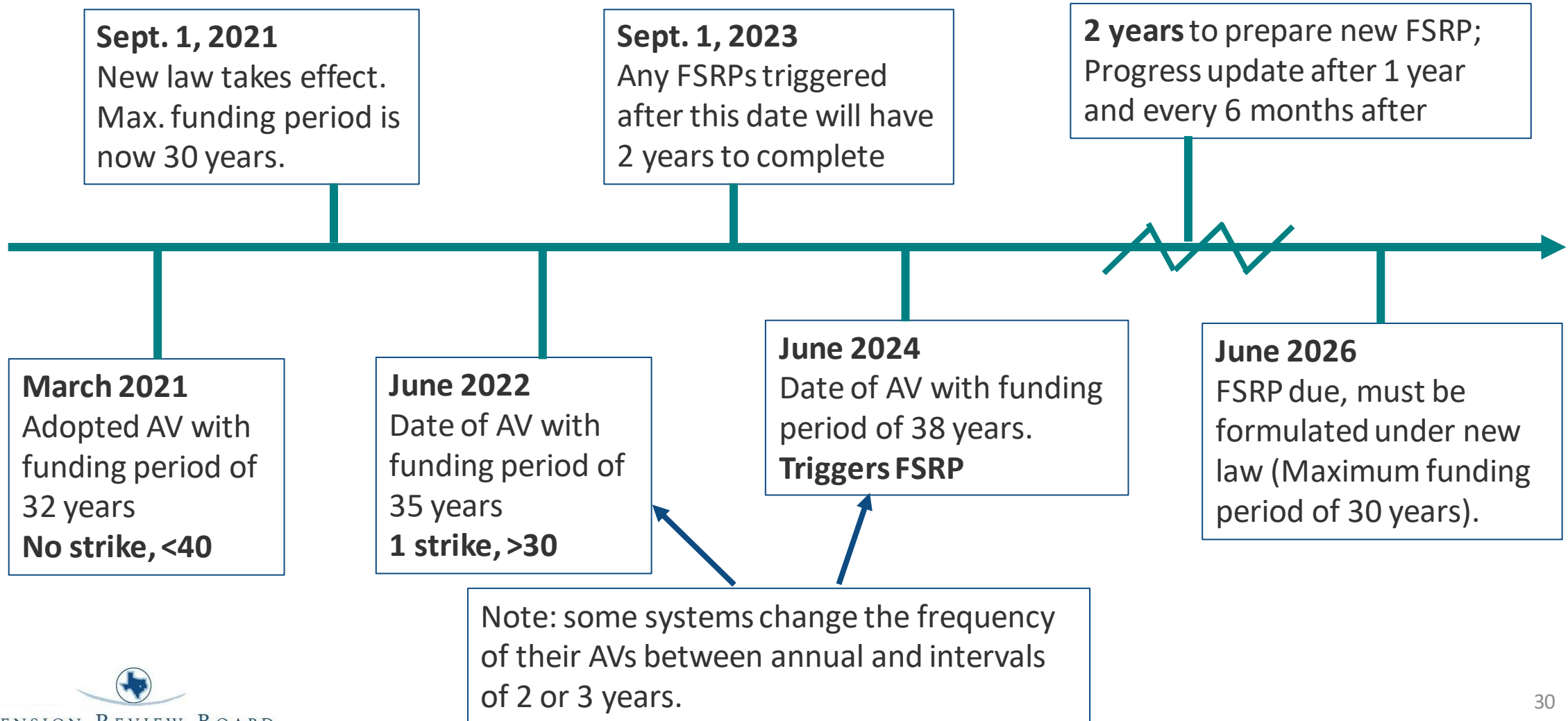
Example Timelines—At Risk before new law



Example Timelines—At Risk before new law 2



Example Timelines—Becomes subject under new law



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Funding Soundness Restoration Plans: Staff Recommendations for Rulemaking

Overview

House Bill 3898 (87R) adjusted several aspects of the Funding Soundness Restoration Plan (FSRP) requirement to better ensure the long-term financial health of Texas public retirement systems. Some of these changes took effect on September 1, 2021. However, other changes will not take effect until September 1, 2025.

The Pension Review Board (PRB) is authorized to adopt rules to implement the provisions of these statutory changes. At its November 2, 2021, meeting, the board directed staff to work with the Actuarial Committee to develop recommendations.

This conceptual document provides a starting point to consider rulemaking to facilitate implementation with the following goals in mind:

- Provide guidance and streamline reporting for FSRPs after the changes made in HB 3898 (87R).
- Preserve the work of systems that have previously submitted effective FSRPs and are committed to following their plans and achieving full funding.
- Support systems in unusual situations due to when they became subject to the new FSRP requirement.

Recommendations

The following material describes staff recommendations for potential PRB rulemaking to provide clarification for systems subject to the requirements now and in the future. Staff will draft the rule language upon Actuarial Committee feedback and direction. Staff will incorporate stakeholder feedback on the draft language where possible.

Staff expects some terms may need formal definitions in rules to clarify meanings, but these have not been included as separate recommendations since defining terms is a standard component of the rulemaking process.

Legacy FSRPs: Transition Plan

These rules relate to the FSRP requirements prior to September 1, 2021, and the systems subject to an FSRP under those requirements. House Bill 3898 (87R) includes a narrow grandfathering provision to preserve the work of retirement systems that had already submitted FSRPs before the law changed; to distinguish from new FSRPs, staff have been referring to FSRPs covered by the grandfathering provision as legacy FSRPs or L-FSRPs. Staff is recommending rulemaking on these topics to clarify the transition to the new standards.

Recommendation 1A: Clarify how PRB will determine whether a system with an L-FSRP is adhering to its plan to restore funding.

L-FSRPs can continue operating under the previous law. However, if a system with an L-FSRP would have been subject to a revised FSRP under the previous law, they will prepare an FSRP under the current law instead. A system would have had to prepare an old revised FSRP if it had a funding period greater than 40 years and it had not adhered to the existing FSRP, so these will also likely be the main conditions used to determine when an L-FSRP system would need to prepare an FSRP under the current law.

Recommendation 1B: Set the threshold for completing, or graduating, an L-FSRP to the earliest of either the L-FSRP's target date or the date the system completes an AV reflecting a funding period below 30 years.

Previously, systems would be considered to have **completed or graduated from** an FSRP before the goal year by submitting an AV that reflected a funding period below 40 years.

Based on our current understanding, once a system completed its L-FSRP, it would no longer be able to continue under the previous version of the law, even if it continued to follow the terms of its L-FSRP. If the threshold for completing an L-FSRP remained at 40 years, a system could potentially trigger an FSRP before reducing its funding period to 30 years in line with the new requirement, even if the terms of the L-FSRP are still being followed.

Recommendation 1C: Resolve ambiguity about the effective date of a statutory provision exempting certain systems from the new revised FSRP requirement, which, if left unaddressed, could prevent some systems from continuing to follow their legacy FSRPs as intended.

As stated before, HB 3898 includes a grandfathering provision meant to preserve the work of systems with effective FSRPs created under the previous law. The bill also exempts plans meeting certain criteria from the new, more stringent 25-year revised FSRP requirement. See the textbox at right for more detail regarding these provisions.

The effective date of this exemption from the revised FSRP is ambiguous under the new law. If the effective date were prior to September 1, 2025, plans qualifying for this exemption from the revised FSRP could be excluded from the grandfathering provision, possibly preventing some plans from continuing to follow their legacy FSRPs. The actual revised FSRP requirement does not apply until after September 1, 2025, when the

**HB 3898 Grandfathering and
Revised FSRP Exemption Provisions**

Grandfathering of legacy FSRPs

House Bill 3898 (87R) includes a narrow provision to preserve the work of retirement systems following an effective FSRP created before the law changed on September 1, 2021. As long as the system is adhering to their legacy FSRP, they should be covered by this grandfathering provision.

Exemption from the revised FSRP requirement

The bill also includes an exemption from the new revised FSRPs (R-FSRPs) requirements—with a more stringent maximum funding period of 25 years and required plan changes. This exemption applies to a system that has a funding period of between 30 and 40 years and is either adhering to an FSRP formulated before September 2025 OR uses or will use an actuarially determined contribution rate structure.

first new 30-year FSRPs are due; as such, the effective date of the exemption should logically not be before September 1, 2025.

If PRB does not address the effective date of the exemption in rule, the impact of the new law could run counter to the PRB's recommendation to preserve the effort of systems that made difficult changes to improve plan funding and ensure benefit security for their members.

New FSRP Process: Establish methods to determine compliance

The changes to the FSRP requirements also necessitate clarification in how PRB will determine systems' compliance with the new law. Clarifying criteria for determining adherence under the new law is particularly important since one route to qualify for the R-FSRP exemption is to adhere to an FSRP formulated before September 1, 2025; this would include any active L-FSRPs as well as the initial 30-year FSRPs prepared under the new law submitted before that date.

Staff recommends rulemaking to clarify three aspects of determining compliance, as described below.

Recommendation 2A: Adopt a method that PRB will use to determine if a system has fulfilled the requirements of an FSRP or R-FSRP and specify what PRB will do based on the outcome of that determination.

An FSRP prepared under the current law requires some of the same components as FSRPs prepared under the previous law, but some new components have been added:

- The maximum allowable funding period is 30 years rather than 40 years.
- It is due either within two years of the date of the triggering AV or by September 1, 2025, whichever is later.
- The actions in the FSRP must be approved by the relevant governing bodies of both the system and sponsor before the FSRP is adopted.
- It must be adopted at open meetings of both the system and sponsor.
- It must be submitted to the PRB within 31 days once the governing bodies of the system and sponsor have adopted it.
- It may not contain any actions that are subject to future approval by the governmental entity.
- The system's funding policy must be updated based on the FSRP.

Most of the requirements for R-FSRPs are the same as new FSRPs under current law, but there are some additional requirements:

- The maximum allowable funding period is 25 years rather than 30 years.
- It must include automatic risk-sharing mechanisms, an ADC structure, and other adjustable benefit or contribution mechanisms.

Statute also requires an AV or supplemental analysis be submitted to the PRB. An AV is required within 90 days of the date the FSRP or R-FSRP is adopted by the governing bodies of the system and sponsor, and the supplemental analysis would be due within 90 days if requested by the PRB. The AV or analysis must include certain components:

- It must have an actuarial projection of the system's assets and liabilities between the date the FSRP is due and the date the plan is expected to achieve full funding.
- It must include a description of all assumption and methods used to perform the analysis, and those must comply with actuarial standards of practice.

Many of the new requirements are very specific, but some aspects may need more detailed clarification. For example, it could be useful to provide a method for systems and sponsors to document their adoption of FSRPs at open meetings to demonstrate they have satisfied that aspect of the requirement.

Recommendation 2B: Clarify how progress updates should be submitted, such as in writing or by a report at a PRB meeting.

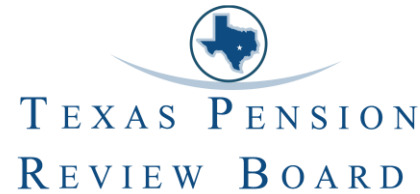
There are also additional requirements for periodic progress updates to the PRB. The first update report to the PRB would be due within a year of the triggering AV, and additional updates would be required every six months after the first until an FSRP is adopted and submitted. These updates must include a draft of the plan and a description of any changes under consideration.

Recommendation 2C: Adopt a method to determine if a system is adhering to its FSRP for the purposes of qualifying for the revision exemptions.

The revision exemption includes an allowance for systems **adhering** to FSRPs prepared between September 1, 2021, and September 1, 2025, which would be prepared under the current law rather than the previous law. Since the new law includes different requirements, staff cannot use the same compliance standards as L-FSRPs.

For example, the staff actuary might make a determination based on comparing future AVs to the materials submitted with the previous FSRP to determine if the system qualifies for the exemption.

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Systems Immediately Subject to 30-Year FSRP Formulation Requirement

These plans 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. This was the triggering mechanism prior to Sept. 1, 2021. However, the FSRPs were not submitted before Sept. 1, 2021, so the FSRP must now be developed under the new law, **targeting 30 years by Sept. 1, 2025**. The shaded cells indicate the actuarial valuation that triggered the requirement.

Systems Immediately Subject to an FSRP Formulation Requirement							
Retirement System	Am Period	Date of AV	Am Period	Date of AV	Am Period	Date of most recent AV	FSRP Due Date
Midland Firemen's Relief & Retirement Fund ¹	44.7	12/31/2015	Infinite	12/31/2017	Infinite	12/31/2019	9/1/2025
Longview Firemen's Relief & Retirement Fund	Infinite	12/31/2018	Infinite	12/31/2019	Infinite	12/31/2020	9/1/2025
Beaumont Firemen's Relief & Retirement Fund ¹	104.0	12/31/2016	Infinite	12/31/2018	Infinite	12/31/2020	9/1/2025
Dallas Employees' Retirement Fund ¹	46	12/31/2018	65	12/31/2019	51	12/31/2020	9/1/2025
Laredo Firefighters Retirement System	28.0	9/30/2016	43.0	9/30/2018	56.8	9/30/2020	9/1/2025
Sweetwater Firemen's Relief & Retirement Fund ²	27.5	12/31/2016	63.3	12/31/2018	68.9	12/31/2020	9/1/2025
Atlanta Firemen's Relief & Retirement Fund	28.4	12/31/2016	Infinite	12/31/2018	Infinite	12/31/2020	9/1/2025

¹ Plan previously submitted an FSRP or Revised FSRP under previous law.

² Plan previously completed an FSRP or Revised FSRP under previous law.

Grey highlight indicates the triggering valuation. Some did not submit an FSRP, and subsequently received additional valuations over the 40-year threshold.

Systems at Risk of 30-Year 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. After receipt of valuations dated Sept. 1, 2021, and later, this report will also show systems with amortization periods exceeding 30 years.

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
Brownwood Firemen's Relief & Retirement Fund	36.1	12/31/2015	38.6	12/31/2017	94.7	12/31/2019	N/A
Conroe Fire Fighter's Retirement Fund	39.0	12/31/2017	Infinite	12/31/2018	Infinite	12/31/2019	N/A
Dallas Police & Fire Pension System (Combined Plan)	38.0	1/1/2019	55.0	1/1/2020	63.0	1/1/2021	N/A
Galveston Firefighter's Relief & Retirement Fund ¹	Infinite	12/31/2016	26.8	12/31/2017	57.6	12/31/2019	N/A
Texas City Firemen's Relief & Retirement Fund	31.6	12/31/2014	28.0	12/31/2016	41.1	12/31/2018	N/A
Texarkana Firemen's Relief and Retirement Fund	16.3	12/31/2015	15.0	12/31/2017	58.3	12/31/2019	N/A

¹ Plan previously completed an FSRP or Revised FSRP under previous law.

Systems with Amortization Periods between 30-40 Years (not yet at risk)

These systems have not yet triggered the requirement to notify their sponsors that the plan's amortization period is above the FSRP threshold of 30 years. This list is intended to keep the committee apprised of plans that may receive a subsequent AV showing an amortization period above 30 years, thus becoming at-risk of triggering the FSRP requirement.

Systems not yet at Risk of an FSRP - <u>Not 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
Abilene Firemen's Relief & Retirement Fund	31.5	12/31/2015	31.9	10/1/2017	31.4	10/1/2019	N/A
Amarillo Firemen's Relief & Retirement Fund	34.5	12/31/2015	43.5	12/31/2017	38.1	12/31/2019	N/A
Austin Employees Retirement System	32	12/31/2018	40	12/31/2019	32	12/31/2020	N/A
Big Spring Firemen's Relief & Retirement Fund	36.19	12/31/2017	38.33	1/1/2019	33.69	1/1/2021	N/A
Cleburne Firemen's Relief & Retirement Fund	28.8	12/31/2016	48.6	12/31/2018	37.3	12/31/2020	N/A
Greenville Firemen's Relief & Retirement Fund ¹	55.0	12/31/2016	40.7	12/31/2018	36.6	12/31/2020	N/A
Harlingen Firemen's Relief & Retirement Fund ¹	Infinite	12/31/2015	59.1	9/30/2017	38	9/30/2019	N/A
Lubbock Fire Pension Fund	33.5	12/31/2016	52.9	12/31/2018	33.7	12/31/2020	N/A
Lufkin Firemen's Relief & Retirement Fund ¹	33.1	12/31/2016	30.7	12/31/2018	31.9	12/31/2020	N/A
San Angelo Firemen's Relief & Retirement Fund	38.5	12/31/2015	31.3	12/31/2017	37.6	12/31/2019	N/A

¹ These plans previously completed an FSRP or Revised FSRP under previous law. These plans would not be considered grandfathered with L-FSRPs.

Progress Report on Previously Submitted FSRPs – Legacy FSRPs

The following systems have formulated and submitted an FSRP before Sept. 1, 2021. The table below outlines their progress towards the FSRP requirement.

Systems Still Working Towards Meeting the Target Amortization Period Requirement						
Retirement System	FSRP Trigger		Current Progress ¹		Goal Year ²	Update Required
	Am Period	Date	Am Period	Date		
Plainview Firemen's Relief & Retirement Fund	79.7	12/31/2019	35.0 ³	12/31/2019	2031	2/2022
Fort Worth Employees' Retirement Fund	72.5	12/31/2015	42.0	12/31/2020	2029	5/2022
Wichita Falls Firemen's Relief & Retirement Fund – Revised FSRP	Infinite	1/1/2015	43.3	1/1/2020	2026	6/2022
Irving Firemen's Relief & Retirement Fund - Revised FSRP	63.4	1/1/2014	43.6	12/31/2019	2026	3/2023
Marshall Firemen's Relief & Retirement Fund – Revised FSRP	59.0	12/31/2018	41	12/31/2020	2028	3/2022

¹ Based on the most recent actuarial valuation or FSRP.

² The year in which a system must reach an amortization period target.

³ FSRP submitted in Feb. 2021 shows additional city contributions through 2023, lowering the amortization period to 35 years.

Previously Completed FSRP Requirement Systems

The following systems have submitted an FSRP or subsequent actuarial valuation that has lowered their amortization period below 30 years. These systems would not be considered to have an active L-FSRP, and may not be considered to have a grandfathered FSRP.

Systems that Have Submitted Post-FSRP Actuarial Valuations Showing Amortization Period at or Below 30 Years					
Retirement System	FSRP Trigger		Completed Progress ¹		Goal Year ²
	Am Period	Date	Am Period	Date	
Galveston Employees' Retirement Plan for Police	55.1	1/1/2014	30	1/1/2019	2026
Odessa Firefighters' Relief & Retirement Fund – Revised FSRP	Infinite	1/1/2013	27.7	1/1/2021	2026
Orange Firemen's Relief & Retirement Fund – Second Revised FSRP	Infinite	1/1/2019	20.7	1/1/2021	2026
University Park Firemen's Relief & Retirement Fund – Revised FSRP	81.3	12/31/2012	28.8	12/31/2018	2026

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

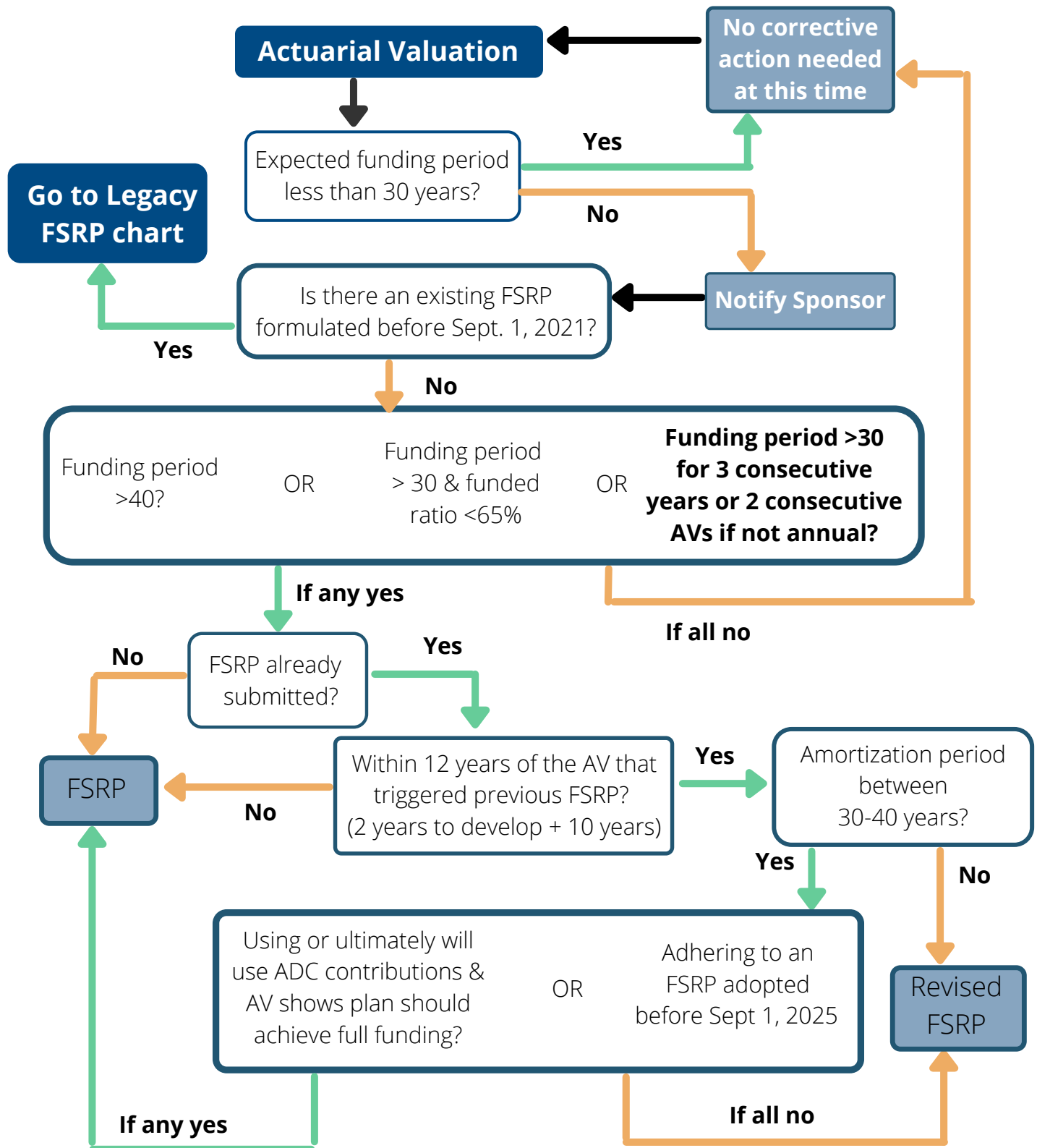
² The year in which a system was originally expected to reach an amortization period of 40 years or less.

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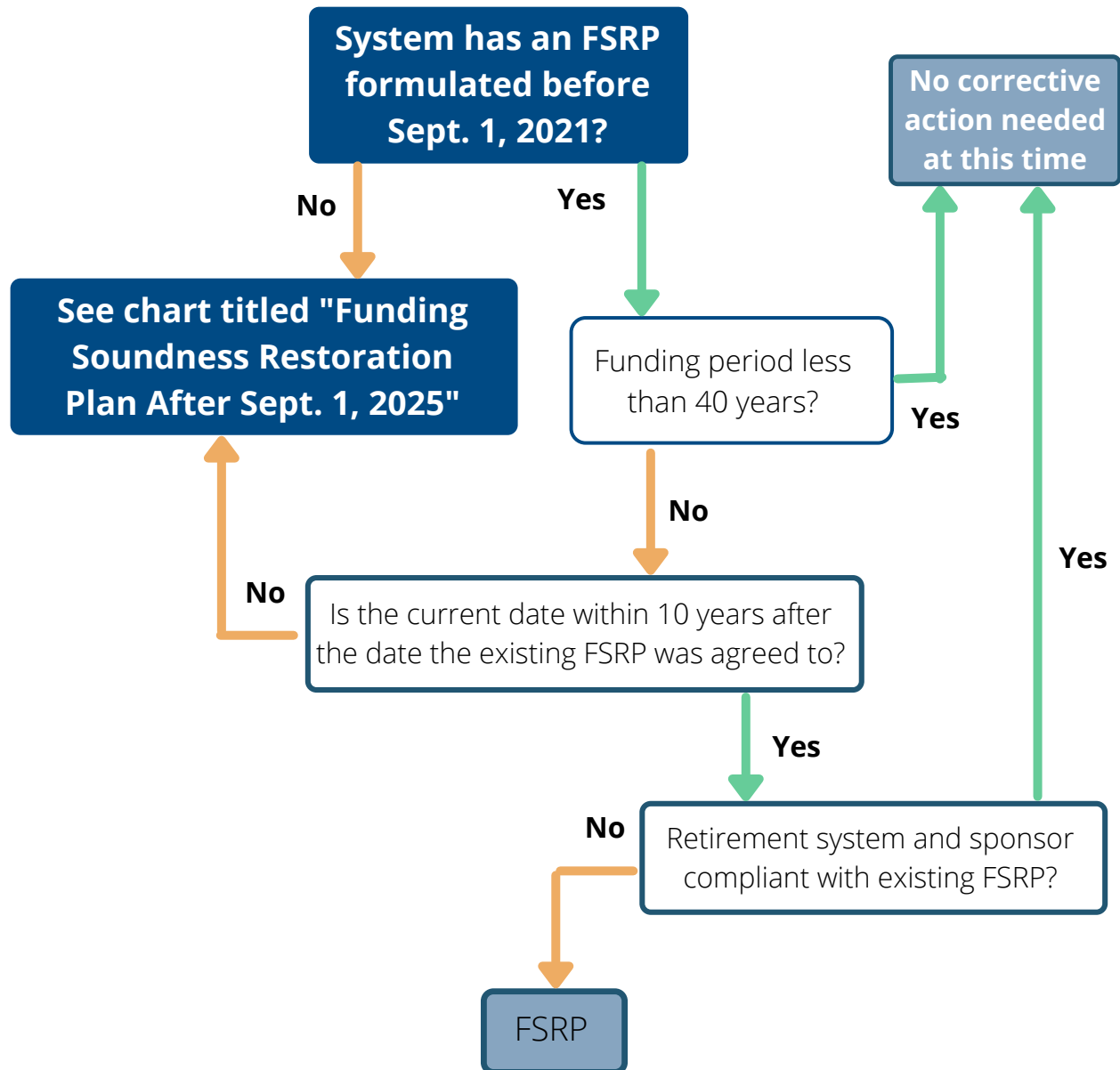
Comparison of FSRP Provisions

	Legacy FSRP (old law)	FSRP after HB 3898 (87R) takes effect Sept. 1, 2021
Target Funding Period	≤40 years	≤ 30 years no later than 2 years after the triggering actuarial valuation or Sept. 1, 2025, whichever is later
Time to develop	6 months after triggering AV	2 years after triggering actuarial valuation
Time allowed to reach target	10 years	2 years after triggering actuarial valuation
Updates to the PRB	Every 2 years	Progress report by within 1 year of triggering AV, Updates every 6 months afterwards
Documentation	Unspecified in statute	AV or analysis that includes an actuarial projection of expected future assets and liabilities, the date the plan is expected to achieve full funding, and a description of the methods used and how they comply with actuarial standards of practice
May include future changes?	Unspecified in statute	No, changes may only be included if they have already been approved when the FSRP is adopted
Effects on funding policy	None	Adoption triggers funding policy revision so provisions are consistent
Effects of not adhering to FSRP	Revise FSRP to achieve 30 year funding period by original target date	R-FSRP that includes an expected funding period of ≤25 years and includes risk sharing mechanisms, ADC-based contributions, and other automatic adjustments to benefit or contribution structures
Exceptions	None	<ul style="list-style-type: none"> • If adhering to previous L-FSRP • Exempt from Revised FSRP if am. period between 30-40 years AND EITHER: <ul style="list-style-type: none"> ◦ using or ultimately will use ADC-based contributions & AV shows plan should achieve full funding; OR ◦ adhering to FSRP formulated before Sept. 1, 2025

Updated Based on Current Understanding (11-9-2021).
Funding Soundness Restoration Plan After Sept. 1, 2025



Funding Soundness Restoration Plan for Legacy FSRP Systems



If a retirement system with an Legacy FSRP is not compliant with the L-FSRP, the retirement system and sponsor shall prepare an FSRP under requirements as they stand after Sept. 1, 2021 instead of a revised FSRP under previous statute.

FSRP Reporting to PRB

Retirement system & sponsor work together after FSRP is triggered



Within 1 year of triggering AV:

Send progress report to PRB that includes a draft of any plan or changes being considered + updates every 6 months afterwards



Within 2 years of triggering AV:

Both retirement system & sponsor **adopt FSRP/R-FSRP** at open meetings



Update funding policy based on the FSRP/R-FSRP



Within 31 days of adoption:

submit FSRP/R-FSRP to PRB



Within 90 days of adoption:

submit AV showing combined impact of all changes adopted in FSRP/R-FSRP

OR

Within 90 days of request from PRB:

submit separate analysis of combined impact of all changes adopted in FSRP/R-FSRP



Follow the FSRP/R-FSRP & return to regular actuarial valuation schedule

FSRP Changes through HB 3898 (87R)

Legacy Funding Soundness Restoration Plan

L-FSRPs must comply with Section 802.2015, Texas Government Code
(before 2021 changes made by HB 3898, 87R)

- **Formulated before Sept. 1, 2021.**
- Must be designed to achieve a contribution rate sufficient to amortize the UAAL within *40 years* by the 10th anniversary of FSRP adoption (which should be within 6 months after adoption of triggering AV).
- System and sponsor shall report progress to PRB every two years.
- A copy of any changes must be submitted to PRB within 31 days.
- **If a system does not adhere to existing L-FSRP** (is no longer able to achieve a 40-year amortization period by the target date), a new FSRP must be prepared that achieves **30 years** no later than 2 years after the triggering AV or Sept. 1, 2025, whichever is later.

Funding Soundness Restoration Plan

Effective Sept. 1, 2021 (HB 3898, 87R)

- Must be designed to achieve a contribution rate sufficient to amortize the UAAL within **30 years** no later than **2 years** after the triggering AV **or Sept. 1, 2025**, whichever is later.
- Adopted at open meetings of the governing bodies of both system and sponsor.
- Is not required if amortization period is between 30-40 years **AND**
 - system is using or ultimately will use ADC-based contributions & AV shows plan should achieve full funding; **OR**
 - the system and sponsor are adhering to an FSRP adopted before Sept. 1, 2025.

Revised Funding Soundness Restoration Plan

R-FSRP required if another FSRP is triggered within 10 years

Effective Sept. 1, 2021 (HB 3898, 87R)

- Must be designed to achieve a contribution rate sufficient to amortize the UAAL within **25 years** no later than 2 years after the AV triggering the R-FSRP.
- Must include **automatic risk-sharing mechanisms, ADC-based contributions, and other adjustable benefit or contribution mechanisms.**
- Adopted at open meetings of the governing bodies of both system and sponsor.