PRB Pension Funding Guidelines

Introduction:

The purpose of the Pension Review Board's Pension Funding Guidelines is to provide guidance to public retirement systems and their sponsoring governmental entities in meeting their long-term pension obligations. The Guidelines are intended to foster communication between systems ~~plans~~ and their sponsors as they determine a reasonable approach to responsible funding, whether the contribution rate is fixed or actuarially determined.

According to state law, each public retirement system and its sponsoring governmental entity shall jointly develop and adopt a written funding policy. The system and sponsor must revise this policy to reflect any significant changes, including changes required after implementing a funding soundness restoration plan (FSRP).[1]

~~Public retirement systems should develop a funding policy, the primary objective of which is to fund the obligations over a time frame that ensures benefit security while balancing the additional, and sometimes competing, goals of intergenerational equity and a stable contribution rate.~~

Guidelines:

1. The funding of a pension plan should reflect all plan obligations and assets.

2. The allocation of the normal cost portion of the contributions should be level or declining as a percentage of payroll over all generations of taxpayers and should be calculated under applicable actuarial standards.

3. Funding of the unfunded actuarial accrued liability should be level or declining as a percentage of payroll over the funding ~~amortization~~ period. State law requires a funding policy to include a plan for achieving a 100 percent or greater funded ratio.[2] Starting September 1, 2025, funded ratio will be a factor in the triggering mechanisms for the FSRP requirement.[3]

4. Actual contributions made to the plan should be sufficient to cover the normal cost and to amortize the unfunded actuarial accrued liability over as brief a period as possible, but not to exceed 30 years, in accordance with state law.[4] ~~with 10 – 25 years being the preferable target range.*~~ For plans that use multiple amortization layers, the weighted average of all

---

[1] Section 802.2011, Texas Government Code

[2] Section 802.2011, Texas Government Code

[3] Section 802.2015, Texas Government Code specifies that on or after September 1, 2025, systems with a funding period of between 30 and 40 years and a funded ratio of less than 65 percent will trigger the FSRP requirement after one actuarial valuation.

[4] Section 802.2015, Texas Government Code establishes a 30-year funding period as the state's minimum funding standard for public retirement systems as part of the Funding Soundness Restoration Plan (FSRP) requirement. Any systems that subsequently become subject to the Revised FSRP requirement must meet a stricter 25-year funding period and implement an actuarially determined contribution, among other requirements.

~~amortization~~ funding periods should not exceed 30 years. ~~* Benefit increases should not be adopted if all plan changes being considered cause a material increase in the amortization period and if the resulting amortization period exceeds 25 years.]~~ Once a system reaches 100 percent funded, contributions should continue to cover the normal cost.

5. The funding policy should include two reasonable target dates which do not change from year to year:

   a. The intended date when the system will begin to reduce the unfunded actuarial accrued liability should not be more than 10 years in the future when the target date is first established.

   b. The intended date when the system will eliminate the unfunded actuarial accrued liability should not be more than 30 years in the future when the target date is first established.

6. Benefit increases and contribution decreases should not be adopted if the proposed changes cause a material increase in the funding period and if the resulting funding period exceeds the average future working lifetime of the current active members.[5]

7. Benefit decreases and contribution increases should not be adopted without studying how the resulting normal costs compare to the contribution rates of each tier, and board discussion of whether members in each tier will receive a benefit that is worth more than their contributions.

~~5~~8. The choice of assumptions used by a system should be reasonable and should comply with applicable actuarial standards.

~~6~~9. Public retirement systems should monitor, review, and report the impact of actual plan experience on actuarial assumptions at least once every five years.

~~*Plans with amortization periods that exceed 30 years as of 06/30/2017 should seek to reduce their amortization period to 30 years or less as soon as practicable, but not later than 06/30/2025.~~

[5] For example, if members on average have accrued 12 years of service and are expected to retire after 25 years of service, any benefit increases should be paid for within the 13 expected remaining service years of the current active members.

Draft Without Mark Ups

PRB Pension Funding Guidelines

Introduction:

The purpose of the Pension Review Board's Pension Funding Guidelines is to provide guidance to public retirement systems and their sponsoring governmental entities in meeting their long-term pension obligations. The Guidelines are intended to foster communication between systems-and their sponsors as they determine a reasonable approach to responsible funding, whether the contribution rate is fixed or actuarially determined.

According to state law, each public retirement system and its sponsoring governmental entity shall jointly develop and adopt a written funding policy. The system and sponsor must revise this policy to reflect any significant changes, including changes required after implementing a funding soundness restoration plan (FSRP).[1]

Guidelines:

1. The funding of a pension plan should reflect all plan obligations and assets.

2. The allocation of the normal cost portion of the contributions should be level or declining as a percentage of payroll over all generations of taxpayers and should be calculated under applicable actuarial standards.

3. Funding of the unfunded actuarial accrued liability should be level or declining as a percentage of payroll over the funding-period. State law requires a funding policy to include a plan for achieving a 100 percent or greater funded ratio.[2] Starting September 1, 2025, funded ratio will be a factor in the triggering mechanisms for the FSRP requirement.[3]

4. Actual contributions made to the plan should be sufficient to cover the normal cost and to amortize the unfunded actuarial accrued liability over as brief a period as possible, but not to exceed 30 years, in accordance with state law.[4] For plans that use multiple amortization layers, the weighted average of all funding periods should not exceed 30 years. Once a system reaches 100 percent funded, contributions should continue to cover the normal cost.

5. The funding policy should include two reasonable target dates which do not change from year to year:

---

[1] Section 802.2011, Texas Government Code

[2] Section 802.2011, Texas Government Code

[3] Section 802.2015, Texas Government Code specifies that on or after September 1, 2025, systems with a funding period of between 30 and 40 years and a funded ratio of less than 65 percent will trigger the FSRP requirement after one actuarial valuation.

[4] Section 802.2015, Texas Government Code establishes a 30-year funding period as the state's minimum funding standard for public retirement systems as part of the Funding Soundness Restoration Plan (FSRP) requirement. Any systems that subsequently become subject to the Revised FSRP requirement must meet a stricter 25-year funding period and implement an actuarially determined contribution, among other requirements.

a. The intended date when the system will begin to reduce the unfunded actuarial accrued liability should not be more than 10 years in the future when the target date is first established.

b. The intended date when the system will eliminate the unfunded actuarial accrued liability should not be more than 30 years in the future when the target date is first established.

6. Benefit increases and contribution decreases should not be adopted if the proposed changes cause a material increase in the funding period and if the resulting funding period exceeds the average future working lifetime of the current active members.[5]

7. Benefit decreases and contribution increases should not be adopted without studying how the resulting normal costs compare to the contribution rates of each tier, and board discussion of whether members in each tier will receive a benefit that is worth more than their contributions.

8. The choice of assumptions used by a system should be reasonable and should comply with applicable actuarial standards.

9. Public retirement systems should monitor, review, and report the impact of actual plan experience on actuarial assumptions at least once every five years.

---

[5] For example, if members on average have accrued 12 years of service and are expected to retire after 25 years of service, any benefit increases should be paid for within the 13 expected remaining service years of the current active members.