

Funding Soundness Restoration Plans: Overview, Implementation and Case Studies

September 2024



PENSION REVIEW BOARD

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Executive Summary

The Funding Soundness Restoration Plan (FSRP) requirement was established by the Texas Legislature in 2015 and revamped in 2021 to establish the state's minimum pension funding standard and encourage Texas public retirement systems and their sponsors to work together to develop effective plans to improve systems' funding status. The legislature also charged the Pension Review Board (PRB) with administering and overseeing compliance with this requirement.

When the legislature passed House Bill 3310, the original FSRP legislation, in 2015, 14 systems triggered the requirement and were required to work with their sponsor to adopt an FSRP. After monitoring the effectiveness of the adopted plans over several years, in 2020 the PRB concluded that revisions to the statute were necessary to make the requirement more effective to better achieve systems' funding health goals and achieve the state's overall goal of ensuring actuarial soundness of public retirement systems. In response to the PRB's recommendations, the legislature overhauled the FSRP requirement during the 87th legislative session in 2021. Major changes included lowering the target funding period from 40 to 30 years with an initial deadline of September 1, 2025, shortening the time allowed to reach the target funding period after triggering the requirement and providing stricter provisions for systems whose initial plan fails to meet the target to incentivize more effective FSRPs.

The intent of this study is to explain the FSRP requirement and its evolution, evaluate the impact of the FSRP requirement overall, and to assist systems and their sponsors who have triggered, or may be at risk of triggering, the requirement. The study achieves this by explaining how the requirement has evolved since initially passed in 2015, providing an overview of the various FSRP requirements and the PRB's implementation, and by showcasing successful funding improvements by more than a dozen systems. Some of these systems triggered the FSRP requirement, while others made adjustments to improve funding and preempt becoming subject to the requirement.

Local firefighter systems that are organized under the Texas Local Fire Fighters Retirement Act (TLFFRA)—which make up a disproportionate number of systems subject to an FSRP over the years—have generally experienced two main problems: cities are often reluctant to increase contributions when they do not have a role in deciding future benefit enhancements aside from their two ex officio positions on the seven-member TLFFRA boards, and contributions will fall short of projections when firefighter positions go unfilled. Many systems and their sponsors have worked together in recent years to reduce their funding period to a level at or below the new 30-year threshold. This report includes 14 case studies, all TLFFRA systems, to show a wide variety of recent successful approaches to improve funding that may serve as a guide to systems looking to improve funding in the future. These solutions have included various combinations of increased city contributions, innovative agreements regarding future benefit changes for retirement system members, increased member contribution rates, and in one case, benefit reductions. Solutions for each system will and should vary depending on their unique situation.

While many retirement systems and their sponsors have made often difficult decisions to improve their funding condition, continued actuarial health of a retirement system requires constant vigilance. A completed FSRP is a positive step, but close monitoring is necessary to determine if any additional changes are required to maintain actuarial soundness over time. In addition, in the coming years, several more systems and sponsors will need to work together to solve pension funding issues. When developing these agreed-upon solutions, systems and their sponsors should monitor several key statistics in addition to the funding period, including but not limited to non-investment cash flow, the funded ratio, and employer normal cost. These statistics may impact the types of solutions appropriate for each system.

Associated sponsoring governmental entities, or system sponsors, are the employers of the active members of a public retirement system. For most local systems in Texas, their sponsor is a city.

The FSRP requirement—the state’s minimum funding standard for retirement systems—has clearly made a significant impact on the funding health of Texas public retirement systems in need of changes to improve actuarial soundness. While several systems have made needed changes, several other systems and their sponsors are still required to complete their FSRPs—due on September 1, 2025—and some face significant challenges in developing solutions. However, by supporting collaboration between sponsors and systems to jointly create a solution to funding issues, the FSRP requirement helps ensure that reforms will have a positive and sustained impact on Texas public retirement systems.

Introduction

One of the Pension Review Board's (PRB's) primary statutory duties is to conduct intensive studies of potential or existing problems that threaten the actuarial soundness of Texas public retirement systems. The Funding Soundness Restoration Plan (FSRP) requirement is intended to help systems and their associated sponsoring governmental entities, or sponsors, develop an effective plan to improve funding of financially distressed systems, specifically bringing the funding period within statutory guidelines shortly after becoming subject to the requirement.¹ By reviewing and analyzing the impact of the FSRP requirement, the PRB can assess its overall effectiveness in addressing problems that threaten the actuarial soundness of Texas systems, in line with the PRB's statutory charge.

This study examines the impact FSRPs are having on Texas public retirement systems, including the effectiveness of the requirements that were updated in 2021. It does this by providing an overview of the implementation of the statute and by reviewing case studies of systems that have successfully completed or made changes sufficient to avoid the FSRP requirement. It also aims to identify trends and provide helpful information to other systems that are or will be impacted by the requirement in the future.

FSRP Overview

As required by the legislature, the PRB published a study in December 2014 on the financial health of public retirement systems. The study examined the systems' ability to meet their long-term obligations, highlighted key findings, and provided the PRB's recommendations on how a retirement system could mitigate the risk of not meeting those obligations.² Based on some of the recommendations of the financial health study, the Texas Legislature established the FSRP requirement in 2015 to set a minimum funding standard and require action when systems do not meet that standard.³

The FSRP development process brings systems and their sponsors together to formulate a long-term funding solution that requires commitment from both parties. Since 2015, some systems that triggered the requirement have been successful in creating a plan to reduce their funding period below the then-40-year funding target; others have had to revise their initial plan as the originally adopted FSRP was ineffective at improving their funding condition. Several issues with the process became apparent over time, and as a result, the PRB determined the FSRP requirements should be revamped to be more effective in solving system funding issues.

The PRB reviewed the FSRP statute and process in 2020, incorporating feedback from stakeholders which included systems, their sponsors, and their actuaries. Some of the primary reasons for reviewing the statute to identify improvements were:

- Numerous systems triggered the requirement multiple times without enacting successful, lasting reform.
- The PRB updated its *Pension Funding Guidelines* in 2017, which lowered the recommended maximum amortization period from 40 to 30 years, necessitating a change to the FSRP statute.

¹ [Sections 802.2015](#) and [802.2016](#), Texas Government Code

² [H.B. 13](#), 83rd Texas Legislature, Regular Session, 2013.

³ [H.B. 3310](#), 84th Texas Legislature, Regular Session, 2015

- In 2019, the Legislature passed a new law requiring Texas retirement systems to adopt a written funding policy targeting 100 percent funding. However, the funding policy requirement was not statutorily tied to the FSRP requirement even though these two requirements logically go together.

This review resulted in the PRB including recommendations for changes to the statute in the agency's 2020 *Biennial Report to the Legislature*.⁴ In response, the Legislature enacted House Bill 3898 in 2021, which incorporated the PRB's recommendations and made several key changes to both the FSRP and funding policy requirements.

2021 Overhaul of the FSRP Statute

Under the original 2015 FSRP statute, systems whose existing liabilities could not be paid off within 40 years were required to work with their sponsors to jointly create a remediation plan to achieve a contribution rate that was sufficient to amortize the unfunded actuarial accrued liability (UAAL) within 40 years. Systems subject to the FSRP had six months to complete a plan and 10 years to reach a funding period below 40 years.

House Bill 3898 (87R) reduced the target funding period to 30 years to better align with PRB *Pension Funding Guidelines* and best practices from multiple national sources. An overview of the changes, including a side-by-side comparison of the 2015 and 2021 laws, is included in the table *Provisions of Previous vs Updated Statute*. An additional chart showing the differences between the various types of FSRPs as well as one-pagers on each of the various FSRP types can be found in Appendix A of this report.

The PRB recognized the importance of preserving the work of systems following an effective FSRP under the previous law and made recommendations to the legislature to allow for those systems to continue following their FSRPs, known as legacy FSRPs (L-FSRP) so long as they continue making progress.

⁴ Pension Review Board, *2019-2020 Biennial Report*, accessed September 10, 2024, <https://www.prb.texas.gov/wp-content/uploads/2022/03/2019-2020-Biennial-Report.pdf>

| Provisions of Previous vs Updated Statute | | | |
|---|--|---|---|
| Feature | 2015 law | 2021 law | Reason for change |
| Funding target | 40 years or less | 30 years or less | Align with best practices. |
| Trigger mechanism | Two or more consecutive actuarial valuations (AVs) with funding periods > 40 years | Two or more consecutive AVs with funding periods > 30 years; after 9/1/2025, additional triggers: one AV with funding period > 40 years, or one AV with funding period > 30 years and funded ratio < 65 percent | Align trigger with best practices and PRB <i>Pension Funding Guidelines</i> . |
| Time to reach funding target | 10 years from the date the triggering AV was adopted by the governing body | 2 years from the effective date of the triggering AV | Time to reach a healthy funding status was too long and did not incentivize timely action. |
| Revised FSRP (R-FSRP) | Develop a revised FSRP with same target and requirements. | Target a funding period < 25 years, include risk-sharing mechanisms, and implement an actuarially determined contribution (ADC) structure. | Incentivize effective changes the first time and avoid perpetually triggering the requirement. |
| Revised FSRP exemptions | None | Systems adhering to an FSRP adopted before 9/1/2025 or systems who have implemented ADC structure designed for full funding | Systems qualified for the exemption would already have implemented aspects of the R-FSRP requirement. |
| Funding policy | Did not require sponsor involvement and was not required to be updated upon triggering FSRP requirement. | Must adopt/update a joint funding policy between system and sponsor. | Tie adopted funding policy to FSRP requirement and ensure systems and sponsors work together on funding policies. |
| FSRP adoption | Not required to be adopted in open meeting | The system and sponsor must adopt the plan in open meetings. | Ensure system and sponsor commit to changes by taking formal action. |
| FSRP provisions | FSRP may contain changes not yet approved by system or sponsor. | Changes must be approved by sponsor and system before FSRP adoption. | Remove possibility of FSRP failing due to expected provisions not being adopted or implemented. |
| Progress updates | Every two years after adoption of FSRP | Within one year of triggering AV and then every six months until submitted | Change concept of progress updates to focus on FSRP formulation instead of updates after completion, which can be shown in AVs. |
| Actuarial analysis | N/A | System must submit an AV or separate analysis detailing effect of combined changes within 90 days of FSRP adoption. | Provide timely analysis of changes instead of waiting up to three years for the next regularly scheduled AV. |

The following material provides additional detail about selected aspects of the changes:

- *Adjusted the target funding period from 40 years to 30 years.* This change not only aligned the funding period outlined in the PRB *Pension Funding Guidelines*, but also brought the funding

period more in line with other industry leaders' recommendations.⁵ Industry leaders such as the Conference of Consulting Actuaries (CCA), the Society of Actuaries (SOA) Blue Ribbon Panel, and the Government Finance Officers Association (GFOA) recommend shorter funding periods:

- CCA – layered, fixed-period amortization depending on the source of the UAAL, with a 25-year maximum funding period;
- SOA Blue Ribbon Panel – gains and losses should be amortized over a period of no more than 15-20 years; and
- GFOA – closed period never to exceed 25 years, but preferably between 15-20 years.⁶

Despite the FSRP funding target being set at 30 years, the PRB recommends that systems adopt a plan that goes further. Meeting the FSRP threshold of 30 years is meant to help systems get out of critical condition, while the *Pension Funding Guidelines* goal of 15 years by 2040 is intended to help systems become truly healthy. The PRB adopted updates to the *Pension Funding Guidelines* on July 25, 2024, stating the systems that have not decreased their funding period to 20 years or less by September 1, 2035, should update their funding policy to target a 15-year funding period by September 1, 2040.

- *Updated time to reach target and FSRP development period.* Previously, FSRPs were required to be developed within six months of triggering the requirement and systems had 10 years to reach the 40-year funding period. This structure meant systems could effectively take 50 years to achieve full funding. Under the new law, systems must develop and reach the funding target within two years of the triggering actuarial valuation (AV) or September 1, 2025, whichever is later. Since AVs tend to be published around seven months following the AV date, only about one year and five months remain to make changes sufficient to reach the 30-year target.
- *Updated revised FSRP.* If a system again triggers an FSRP within 10 years from adoption of the first plan, the system and sponsor become subject to an R-FSRP.⁷ Under the original statute, nine systems adopted an FSRP and then again triggered the requirement, one of which triggered a second revised FSRP. These systems had to revise their original FSRP with no additional requirements or consequences. This had the potential to lead to systems perpetually triggering a new FSRP and never actually achieving that plan. Under the new statute, the R-FSRP must include stricter requirements, such as a 25-year funding target, automatic risk-sharing mechanisms, and an ADC-based contribution structure or other adjustable benefit or contribution mechanisms. This

⁵ "PRB Pension Funding Guidelines," Adopted July 25, 2024, <https://www.prb.texas.gov/actuarial/prb-pension-funding-guidelines/>.

⁶ Conference of Consulting Actuaries, *Actuarial Funding Policies and Practices for Public Pension Plans*, accessed September 10, 2024, https://www.ccaactuaries.org/docs/default-source/papers/cca-ppc-actuarial-funding-policies-and-practices-for-public-pension-plans.pdf?sfvrsn=6397cc76_6; Society of Actuaries Blue Ribbon Panel, *Report Of The Blue Ribbon Panel On Public Pension Plan Funding*, accessed September 10, 2024, <https://www.soa.org/globalassets/assets/files/newsroom/brp-summary.pdf>; Government Finance Officers Association, *Sustainable Funding Practices for Defined Benefit Pensions and Other Postemployment Benefits*, accessed September 10, 2024, <https://www.gfoa.org/materials/sustainable-funding-practices-for-defined-benefit-pensions>.

⁷ [Section 802.2015\(d\), Texas Government Code](#).

update was made to ensure systems will not be caught in a cycle of perpetually adopting an FSRP that does not achieve the funding requirement.

In addition to the significant changes in statute, the PRB engaged in rulemaking to define the parameters around submission and completion of FSRPs. The board also adopted the *Policy for Promoting Compliance with Funding Soundness Restoration Plan Requirements*, which communicates the PRB's approach to assisting systems in complying with the requirements, such as by providing notifications to different parties at various points in the FSRP process, including instances of noncompliance. A summary of the rules and the compliance policy can be found in Appendix B of this report.

Case Studies

Overview

Since the FSRP statute was amended effective September 1, 2021, to establish a 30-year funding period threshold to be reached by September 1, 2025, six Texas public retirement systems have triggered an FSRP and are working to achieve a 30-year funding period. Five other systems have reached the threshold and are at risk of triggering the requirement should their next AV report show a funding period greater than 30 years. Over the last three years, 14 systems have reached a projected full funding date prior to September 1, 2025, either by triggering the FSRP and submitting a plan to the PRB or by proactively making changes to avoid triggering the requirement. This report highlights the work done by those 14 systems and their sponsors to serve as a potential roadmap for any systems that need to reduce their funding period now or in the future.

Each of the 14 systems that have reached the 30-year threshold since September 1, 2021, were established under the Texas Local Fire Fighters Retirement Act (TLFFRA).⁸ TLFFRA statute allows fire departments in participating cities to administer their own entirely locally funded retirement systems with authority to determine member contribution rates, benefit levels, and other plan provisions. TLFFRA system sponsors (cities or counties) must meet a statutory minimum contribution rate but may adopt by ordinance a higher contribution rate than set in statute. Benefit provisions and member contribution rates are set by the members through a voting process, with statute requiring the system board and actuary to first approve any changes before they may be voted on by members. There are currently 42 paid/part-paid TLFFRA systems in Texas. These systems vary in size, with assets ranging from \$4 million to \$262 million as of December 31, 2023. Over half of the TLFFRA systems have less than \$45 million in assets.

When the legislature established the 30-year threshold in 2021, TLFFRA systems comprised the bulk of systems above the threshold—29 out of 37 systems. Three years later, TLFFRA systems make up 14 out of 21 systems above the 30-year threshold. While TLFFRA systems continue to make up the majority of systems above the threshold, as a group they have made the most progress in those three years with a decrease in the median funding period from 33.7 years to 26.7 years and an increase in the average funded ratio from 61.4 percent to 65.4 percent. The number of TLFFRA systems above the threshold also

⁸ More information about TLFFRA can be found on the PRB website [here](#).

decreased by over half, from 29 to 14, while non-TLFFRA systems above the threshold reduced only slightly from eight to seven.

The 14 systems used various combinations of actions and/or favorable experience, as shown in the table *Changes Made Since 2021 to Reduce Funding Period*.

| Changes Made Since 2021 to Reduce Funding Period | | | | | | |
|--|---|-------------------------|----------------------------------|------------------------------------|--------------------------------|--------------------|
| System | Agreement Regarding Future Plan Changes | Pension Obligation Bond | Increased City Contribution Rate | Increased Member Contribution Rate | High Payroll Growth Experience | Benefit Reductions |
| Galveston Fire | X | | X | | | |
| Irving Fire | X | X | | | | |
| Longview Fire | X | X | | | | |
| Paris Fire | X | X | | | | |
| Atlanta Fire | | | X | | X | |
| Big Spring Fire | | | X | | | |
| Corsicana Fire | | | X | | X | |
| Lubbock Fire | | | X | | X | |
| Lufkin Fire | | | X | | | |
| Odessa Fire | | | X | | | |
| Brownwood Fire | | | | X | | |
| Cleburne Fire | | | X | X | | |
| Conroe Fire | | | X | X | | |
| Laredo Fire | | | X | X | | X |

Systems took a variety of approaches in addressing their funding challenges, but they fall into several general categories as to the types of changes made, as summarized below:

- Four systems made agreements with their sponsors to predetermine the future conditions under which benefit enhancements could occur in exchange for increased city contribution rates and/or funding from pension obligation bonds (POBs). Those systems received much-needed funding,

while the system sponsor was assured to some extent that the funding improvement was likely to last.

- Six systems' sole action was to work with their sponsor to receive increased city contributions. Three of those systems also benefitted greatly from actual payroll growth that was higher than expected. More pay brings more contributions, and those additional contributions help lower the funding period.
- Four systems instituted increased member contribution rates, including three that also increased city contribution rates, and one that further decreased pension benefits.

The 14 systems are categorized into three sections in this report based on the types of changes made, as described above. Case studies presented in this report serve not only to illustrate general trends and major themes, but also to identify unique approaches potentially worthy of consideration by other systems and their sponsors.

Each section includes the following metrics for each featured system:

- *Employer normal cost*. The difference between the normal cost, which approximates the total cost to provide the pension benefit earned for the year, and the member contribution rate. This difference represents the additional value of the pension benefit to the member provided by their employer.
- *Social Security participation*. Roughly half of Texas public pension systems and a third of TLFFRA systems participate in Social Security. Members of participating systems contribute 6.2 percent of pay to Social Security for an additional retirement annuity that includes cost-of-living adjustments (COLAs). The sponsors of participating systems must contribute 6.2 percent to Social Security, while the sponsors of non-participating systems may choose to instead route the 6.2 percent contributions to the pension. With potential additional employer pension contributions and a desire to receive a comparable overall benefit to participating systems, members of non-participating systems will often have higher employer normal costs than members from participating systems.
- *Full funding year, before and after changes*. State law requires all systems to target a funding period of 30 years or less by September 1, 2025. This requirement equates to a projected date of full funding for all Texas systems of on or before September 1, 2055.

Two useful numbers when comparing different benefit formulas, features, and employee contributions are the **total normal cost** and the **employer normal cost**.

The **total normal cost** approximates the overall benefit level, while the **employer normal cost** approximates the value of the pension to the member after factoring in their own contribution.

- **Funded ratio.** After September 1, 2025, systems whose funding period is greater than 30 years with a funded ratio below 65 percent will immediately trigger an FSRP. Systems currently below the 65 percent funded ratio threshold should consider taking steps to ensure they remain on track to fully fund benefits. Such steps may include employing more achievable expected returns and payroll growth rates or entering into agreements ahead of time with the system’s sponsor regarding how future unfavorable experience, such as not achieving expected payroll growth, will be handled by the sponsor, system, and plan members. The system and its sponsor should use a jointly developed and adopted funding policy to document these agreements, as required by statute.
- When considering benefit or contribution changes, it is important to consider how the resulting employer normal cost will compare to other systems. Systems with a below-median employer normal cost are potentially offering a less valuable net benefit than most systems, while systems with an above median employer normal cost are likely offering a more valuable net benefit than most systems.
- **Post-2021 FSRP Status.** Three possible statuses are shown:

 - **Completed FSRP.** After consecutive AVs showing funding periods greater than 30 years, these systems submitted FSRPs that were reviewed and approved by the PRB.
 - **Avoided Triggering FSRP.** These systems had at least one funding period above the threshold and were at risk of triggering an FSRP with their next AV. However, they were able to reduce the funding period to below 30 years before triggering the FSRP.
 - **Avoided At Risk Status.** These systems had at least one funding period above the new threshold of 30 years before it became effective on September 1, 2021, and would have become at risk of triggering an FSRP with a future funding period above 30 years after September 1, 2021. They successfully reduced the funding period after September 1, 2021, without ever exceeding the new threshold.

Case study groups

In the following section, systems are categorized into one of three groups based on the primary types of changes made to achieve their funding goals. Group I includes those systems that made agreements with their sponsors, Group II includes those that relied primarily on new sponsor contributions, and Group III are those that relied primarily on additional member contributions. Each section contains more detail on the specific contours of the changes made by each system and their sponsor.

Group I: Systems with new agreements in place between the systems and sponsors regarding conditions for future plan changes

This group includes some systems that had concerning funding challenges, with Galveston Fire not expected to be fully funded until 2073 and Longview Fire never expected to be fully funded. Since none of the four systems in this group participate in Social Security, the ultimate best-case scenario would be

for the employer normal cost to be above the TLFFRA median of 3.6 percent. Had member contribution rates increased by 1 percent of pay, three of the four systems would have ended up with below-median employer normal costs. In each case the city agreed to make the necessary contributions without requiring increases from members, with other corresponding agreements to put guardrails in place regarding future benefit enhancements.

| Group I Metrics | | | | | | |
|-----------------|-----------------------|----------------------------------|---------------------------------|--------------------------|----------------------------------|-------------------------------------|
| System | Social Security (Y/N) | Full Funding Year Before Changes | Full Funding Year After Changes | Most Recent Funded Ratio | Most Recent Employer Normal Cost | Post-2021 FSRP Status |
| Galveston Fire | N | 2073 | 2052 | 67.2% | 3.3% | Completed FSRP 2023 |
| Irving Fire | N | 2058 | 2045 | 90.8% | 8.6% | Avoided At Risk Status ⁹ |
| Longview Fire | N | Never | 2050 | 74.8% | 4.3% | Completed FSRP 2023 |
| Paris Fire | N | 2054 | 2022 | 108.4% | N/A | Avoided At Risk Status |

Each of the four systems currently has a funded ratio above 65 percent, which should help them avoid the immediate FSRP trigger starting September 1, 2025, should their funding periods go back up above 30 years with a single AV.

Galveston Fire received city contribution increases and worked with the city to jointly develop and adopt a revised funding policy.

In January of 2023, the Galveston city council voted to increase the city contribution rate from 17 percent of payroll to 20.2 percent. In the same month, a new funding policy was signed by the system's board chair and the Galveston city manager. The changes to the funding policy included instituting a benchmark ADC rate based on a closed amortization period ending in 2052 and incorporating several associated agreements, as described below.

An actuarially determined contribution (ADC) rate adjusts to under/over performance vs. expectations. The ADC would be likely to increase following years when investments underperform and would be likely to decrease following years when investments overperform. Contributing the ADC with a closed amortization period ensures the target full funding date is reached.

The new funding policy includes agreements regarding how to handle various future funding situations.

If the system is sufficiently ahead of schedule to be fully funded prior to 2052, the board of trustees may consider implementing an ad hoc COLA but may not consider other types of benefit enhancements. Alternatively, if the system is materially behind schedule to fully fund the UAAL after 2052, the resulting

⁹ Irving Fire would not have been at risk until 2026 due to their Legacy FSRP which was in effect prior to the May 2022 POB. Irving Fire avoided at-risk status under the 30-year threshold, but at the same time completed their legacy plan.

costs to get back on track would be divided evenly between the city and plan members. Members would vote to decide how to get back on track, between contribution increases and/or benefit decreases.

The new funding policy includes a strong method to reduce risk and help the system stay on track to fully fund benefits by 2052.

For systems that determine the funding period by assuming contributions will increase with the payroll growth assumption every year, actual payroll must increase as expected. Otherwise, the date to fully fund benefits could easily be extended by a decade or more. According to the 2023 Galveston Fire funding policy, in any year that the payroll does not increase by the assumed payroll growth rate (2.75 percent as of 2021), the city will make an additional contribution to make up the city and member contributions that would have been received by the system had the payroll increased as expected. By instituting this provision, the system is guaranteed to have contribution increases remain on track regardless of how payroll changes over time. The table *Sample Contributions With and Without New Funding Policy* shows an example of the difference such a policy can make, with almost \$1 million in additional five-year funding due to the policy when payroll lags expectations.

| Sample Contributions With and Without New Funding Policy (\$ Millions) | | | | | |
|--|------------------|------------------------|----------------|------------------------------|---------------------------|
| Year | Expected Payroll | Expected Contributions | Actual Payroll | Contributions Without Policy | Contributions With Policy |
| Year 1 | 11.0 | 4.2 | 11.0 | 4.2 | 4.2 |
| Year 2 | 11.3 | 4.3 | 10.7 | 4.1 | 4.3 |
| Year 3 | 11.6 | 4.4 | 11.0 | 4.2 | 4. |
| Year 4 | 11.9 | 4.5 | 11.1 | 4.2 | 4.5 |
| Year 5 | 12.3 | 4.6 | 11.5 | 4.4 | 4.6 |
| Total | 58.1 | 22.0 | 55.5 | 21.1 | 22.0 |

The other three systems received proceeds from POBs and made agreements with their sponsors on how to handle future benefit enhancements.

Longview Fire received proceeds from a \$45.6 million POB in July of 2022 and made several changes to its funding policy.

The upfront cash infusion allowed the city to reduce its contribution rate from 19 percent of pay to the TLFFRA minimum rate of 12 percent of pay.¹⁰ The city and Longview Fire board of trustees also agreed to a memorandum of understanding (MOU) reflected in the updated funding policy with several measures to ensure that funding remained on track toward a goal of 100 percent funding by 2050. Under the MOU/funding policy, no benefit enhancements are allowed until the funding period is less than five years. Such enhancements also cannot increase the funding period to more than 10 years. Should the system experience future negative divergence from expectations that would require contribution increases to meet the ADC, any necessary contribution increases would be split evenly between the city and members,

¹⁰ [Section 29\(b\), Article 6243e, Vernon's Texas Civil Statutes.](#)

with guardrails in place to ensure the total year-to-year contribution increases for the city and members are no more than 2 percent of pay.

Irving Fire received proceeds from an \$80 million POB in May of 2022, made an agreement with the city, and updated their funding policy.

In addition to the \$80 million POB, the city agreed to pay an ADC targeting full funding by 2045. The ADC uses layered amortization, with the amortization period for each layer chosen to avoid negative amortization. Using the system's current assumptions of 7.0 percent expected returns and 2.75 percent expected payroll growth, the actuary determined that the layers need to be amortized over 23 years to avoid negative amortization. The table, *Irving Fire Layered Amortization Bases as of December 31, 2022*, provides more information about the layers. Eventually there will be many more bases with "years remaining" spanning from one to 23 years.

| Irving Fire Layered Amortization Bases as of December 31, 2022 | | | | | |
|--|------------------|-----------------|----------------|-----------------|----------------------|
| Type of Base | Date Established | Years Remaining | Initial Amount | 12/31/22 Amount | Amortization Payment |
| Initial Base | 12/31/21 | 22 | 25,811,930 | 25,809,445 | 1,737,454 |
| Actuarial Loss | 12/31/22 | 23 | 1,178,804 | 1,178,804 | 77,224 |
| Benefit Change | 12/31/22 | 23 | 40,077 | 40,077 | 2,625 |

In addition, the agreement provides that members must contribute 13 percent of pay, or half of the ADC if less than 26 percent of pay in total, and cover the cost of any future benefit enhancements.

Paris Fire received proceeds from a \$12.4 million POB in October 2022 and moved all future accruals to the Texas Municipal Retirement System (TMRS).

At negative 4.4 percent, Paris Fire members had by far the lowest employer normal cost among systems prior to the 2022 POB issuance. The 28.8 percent funded ratio was also the lowest. Unlike many TLFFRA systems, Paris Fire had provided a smaller benefit than TMRS with a higher employee contribution rate. The move to TMRS then resulted in a much more substantial 5.7 percent employer normal cost. With the POB proceeds, the system is now over 100 percent funded.

In this unusual situation in which Paris Fire members had previously received much smaller pension benefits than those provided by most TLFFRA systems, the Paris Fire members are now receiving an enhanced benefit in TMRS, and the city will now fund the ADC going forward as all cities participating in TMRS are required to do.

Group II: Systems that improved funding without requiring increased member contributions

In general, these six systems had little room for members to increase contribution rates. Had member contribution rates increased by one percent of pay, four of the six systems would have ended up below the TLFFRA median employer normal cost and two would have resulted in members paying for more than

the cost of their own benefits. In each case the city agreed to make the necessary contributions without requiring increases from members. Some of the systems benefitted additionally from higher-than-expected payroll growth, which increased the dollar amount of contributions without changing the contribution rate as a percentage of pay.

| Group II Metrics | | | | | | |
|------------------|-----------------------|----------------------------------|---------------------------------|--------------------------|----------------------------------|-------------------------|
| System | Social Security (Y/N) | Full Funding Year Before Changes | Full Funding Year After Changes | Most Recent Funded Ratio | Most Recent Employer Normal Cost | Post-2021 FSRP Status |
| Atlanta Fire | N | Never | 2049 | 72.6% | 6.3% | Completed FSRP 2024 |
| Big Spring Fire | N | 2054 | 2042 | 62.8% | 4.5% | Avoided At Risk Status |
| Corsicana Fire | Y | 2073 | 2047 | 55.6% | 0.3% | Avoided Triggering FSRP |
| Lubbock Fire | N | 2054 | 2047 | 70.8% | 6.4% | Avoided At Risk Status |
| Lufkin Fire | N | 2052 | 2050 | 51.3% | 2.0% | Avoided At Risk Status |
| Odessa Fire | Y | 2056 | 2052 | 36.2% | 0.3% | Avoided Triggering FSRP |

Four of these six systems currently have a funded ratio below 65 percent. A funding period greater than 30 years on an AV report dated after September 1, 2025, will immediately trigger an FSRP should the funded ratio remain below 65 percent.

Three systems received contribution increases from the city and benefitted from higher than anticipated payroll growth.

The payroll growth for each of the three systems was driven primarily by individual salary increases with additional help from an increase in the number of firefighters.

Atlanta Fire received increases in city contributions from 13 percent of pay to 19 percent over three years starting in December 2021, and payroll increased by 18.2 percent per year from 2020 to 2022.

After triggering the FSRP with an infinite funding period, the city contribution increases of 6 percent of pay brought the funding period down to around 40 years. The additional contributions resulting from the payroll increase of 18.2 percent per year brought the funding period to below 27 years.

The Corsicana city council passed a resolution to fund an additional \$100,000 per year until it would no longer be needed to maintain a funding period below 30 years, though no funds were needed.

With a funding period above 52 years, Corsicana Fire would trigger an FSRP should its next AV show a funding period greater than 30 years. However, the city council's resolution ensured the system would avoid triggering the FSRP. The additional funding was unnecessary, however, to avoid triggering the FSRP requirement since the additional contributions resulting from the large payroll increases of 20.9 percent

per year were enough to bring the funding period down to 25 years. With one of the lowest employer normal costs at 0.3 percent, the system and the city may wish to consider making future changes to increase employer contributions and allow the members to decrease contributions and/or enhance the benefit level. Even if their pension was worth an additional 3 percent of compensation, the net benefit would be worth less than the median TLFFRA benefit, which has an employer normal cost of 3.6 percent.

Employer contributions to Lubbock Fire changed from being based on TMRS contributions to 150 percent of member contributions, and payroll increased by a higher-than-expected 9.3 percent per year from 2020 to 2022.

Matching contribution rates for firefighters to the contribution rates for municipal employees is common but typically not a prudent methodology given the many differences between firefighters and municipal employees. For example, firefighters experience lower turnover and earlier retirement ages due to the physical demands of the job. Though the TMRS match had not harmed the fund in the past, it was expected to by 2039 when the Lubbock TMRS pension plan was expected to be fully funded with lower contributions thereafter. The payroll increases were responsible for 5.8 years of the funding period decrease and brought the funding period below 30 years.

Three systems received contribution increases from the city without corresponding increases to member contribution rates.

Big Spring Fire received increases in city contributions from 15 percent of pay to 18 percent starting in 2023.

With a funded ratio below 65 percent, Big Spring Fire would have been in danger of triggering an immediate FSRP with the first AV report showing a funding period greater than 30 years after September 1, 2025. Now that the additional employer contributions have brought the funding period below 20 years, there is less risk to the system of that happening.

In October 2023, city contributions to Lufkin Fire increased from 23 percent of pay to 24.7 percent.

With a funded ratio well below 65 percent, Lufkin Fire should monitor the funding period closely and work with the city to continue ensuring that contribution levels keep the funding period below 30 years after September 1, 2025, to avoid the automatic FSRP trigger.

City contributions to Odessa Fire increased from 26 percent of pay to 28 percent of pay in October 2022.

The increased contributions reduced the funding period by about five years. At 36 percent funded, Odessa Fire has the lowest funded ratio of the group. Like Lufkin Fire, the system should check in with its actuary often to monitor funding levels and work with the city to avoid the automatic FSRP trigger that goes into effect September 1, 2025. As of the January 1, 2024, AV, the system had reduced the funding period to below 23 years.

Group III: Systems that included increased member contributions as part of the solution

Three of the systems in this group used a combination of modest member contribution increases and more substantial employer contribution increases to achieve their goals, with Brownwood Fire the clear outlier as a system that implemented substantial member contribution increases with no corresponding employer contribution increases.

When member contribution increases are proposed, it is important to study the resulting employer normal cost after the contributions are increased. The median Texas public retirement system has a 4.4 percent employer normal cost, and the median TLFFRA system has a 3.6 percent employer normal cost. Systems with employer normal costs below the 4.4 percent median are potentially offering a less valuable net benefit than most Texas public retirement systems, and systems with employer normal costs below the TLFFRA median of 3.6 percent are potentially offering a less valuable benefit than most TLFFRA systems.

Social Security participation affects employer normal cost levels of municipal pension systems differently than TLFFRA systems. Employer normal costs are substantially higher for Texas municipal pension system members who do not participate in Social Security than for those who do participate. Employer normal costs for TLFFRA members are more or less the same regardless of Social Security participation.

Three of the four systems were able to increase member contributions while still providing a net benefit that was larger than that of most TLFFRA systems. Cleburne Fire, Conroe Fire, and Laredo Fire were able to remain at or above the median TLFFRA employer normal cost level after reflecting the increased member contributions. Brownwood Fire's employer normal cost decreased from above TLFFRA median to below median.

| Group III Metrics | | | | | | |
|-------------------|-----------------------|----------------------------------|---------------------------------|--------------------------|----------------------------------|-------------------------|
| System | Social Security (Y/N) | Full Funding Year Before Changes | Full Funding Year After Changes | Most Recent Funded Ratio | Most Recent Employer Normal Cost | Post-2021 FSRP Status |
| Brownwood Fire | Y | 2074 | 2052 | 46.2% | 1.8% | Completed FSRP 2024 |
| Cleburne Fire | N | 2058 | 2048 | 60.7% | 4.8% | Avoided At Risk Status |
| Conroe Fire | Y | Never | 2048 ¹¹ | 58.7% | 7.4% | Avoided Triggering FSRP |
| Laredo Fire | N | 2077 | 2046 | 59.1% | 3.6% | Completed FSRP 2023 |

Based on their low funded ratios, each of these systems is at risk of triggering an FSRP after September 1, 2025, based on the new triggering mechanism that incorporates the funded ratio. After September 1,

¹¹ The full funding year was 2056 using actuarial value of assets, but 2048 using the market value of assets.

2025, systems whose funding period is greater than 30 years with a funded ratio below 65 percent will immediately trigger an FSRP.

Brownwood Fire increased member contributions by 4 percent of pay as part of a larger meet and confer agreement to complete a 2024 FSRP.

The agreement included provisions for hiring additional firefighters and for firefighter pay increases.

The pay increases totaling 17 percent through 2026 along with the additional payroll contributions that will accompany more members should help ensure that the funding period does not increase in the short term due to actual payroll increases being less than expected.

The agreement also contains a provision for studying a potential transition to TMRS.

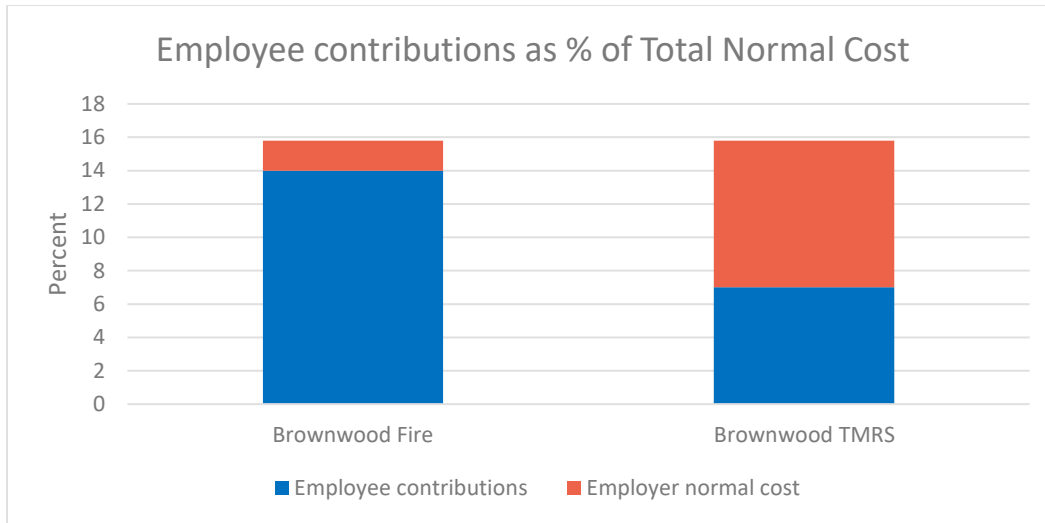
Comparing TMRS benefits to TLFFRA benefits is not straightforward and varies by system. Employee contribution rates to TMRS vary by city and by law must be either 5, 6, or 7 percent of pay. City matching ratios also vary by city and can be 1:1, 1.5:1, or 2:1.¹² Currently, city of Brownwood TMRS members contribute 7 percent of pay toward an account-based benefit that includes an automatic COLA after retirement. The city matches at a two to one ratio, resulting in 14 percent city contributions to the account.¹³ Brownwood Fire members receive a monthly pension benefit calculated as 50 percent of final average pay along with a deferred retirement option plan benefit.

Some members, like those in Paris Fire, have clearly benefitted from a move to TMRS with both a higher normal cost and higher employer normal cost after the move. Paris Fire froze benefits under the old formula, fully funded those benefits, and began accruals in the TMRS formula going forward. Similar to Paris Fire, any system moving to TMRS would have to fully fund their current benefits as well as future TMRS accruals. Systems other than Paris Fire may face lower normal costs and/or lower employer normal costs in TMRS. Brownwood Fire's total normal cost percentage is 15.8, while the employer normal cost is 1.8 percent. Brownwood city employees in TMRS have the same total normal cost of 15.8 percent with a much larger employer normal cost of 8.8 percent. Because the city of Brownwood provides some of the highest level of TMRS benefits available – the highest contribution rate, with the highest match level, plus the optional COLA -- it appears possible for Brownwood Fire members to receive the same level of benefits through TMRS while contributing significantly less of their paychecks and being guaranteed an employer-promised ADC. See the chart titled *Employee Contributions as % of Total Normal Cost*.

There are other factors to consider, as well. TMRS benefits are more portable, allowing firefighters to work a few years in one city with TMRS benefits, then a few years for another, and then a few years for another. TLFFRA benefits, on the other hand, tend to require lengthier employment to become vested in the benefits. Some cities may find it much easier to retain firefighters with TLFFRA benefits than with TMRS benefits.

¹² [Section 855.407, Texas Government Code.](#)

¹³ City of Brownwood, Texas, *Full Time Employee Benefits*, accessed September 10, 2024, <https://www.brownwoodtexas.gov/DocumentCenter/View/241/Benefits-Information-PDF>.



The other three systems increased both member and city contribution rates.

In November of 2022, Cleburne Fire received an increase in city contributions from 22 percent of pay to 23.79 percent, while member contributions increased from 14.5 percent of pay to 15 percent.

The city of Cleburne’s previous contribution policy was to contribute the greater of 22 percent and the TMRS contribution rate plus 6 percent, in lieu of Social Security payroll contributions. In exchange for member contribution increases from 14.5 percent to 15 percent, the city agreed to increase contributions to the greater of 23.79 percent and the TMRS contribution rate plus 6 percent.

When basing TLFFRA contributions on the city’s TMRS contribution rate, it is helpful to apply a minimum floor based on input from the actuary, as Cleburne has done. The floor helps avoid problems caused when the TMRS rate is not enough to reach a reasonable funding period for the firefighter system.

In October 2021, Conroe Fire received an increase in city contributions from 13.24 percent of pay to 15.5 percent, while member contributions increased from 15 percent of pay to 16.3 percent.

The PRB’s FSRP rules allow the funding period to be calculated using the greater of the actuarial value of assets, usually smoothing market fluctuations over a five-year period, or the market value of assets with no smoothing.¹⁴ Conroe Fire made use of this rule in the 2021 AV report by reporting the funding period based on the market value of assets as 27 years, whereas the funding period based on the actuarial value of assets was 34.3 years. Since the 2019 funding period was infinite, a consecutive funding period above 30 years would have triggered the FSRP. By reporting a funding period of 27 years, the system was able to avoid triggering an FSRP. It will now take two consecutive valuation reports in both 2023 and 2025 with funding periods above 30 years to trigger an FSRP.

Funding periods are calculated by projecting assets and liabilities forward using the system’s actuarial assumptions. A higher starting asset value will result in a lower funding period, as would higher annual contribution rates.

¹⁴ [40 T.A.C. Section 610.13](#)

Laredo Fire completed their FSRP in 2023 including a city contribution increase from 21.1 percent of pay to 22.6 percent, with member contributions increasing from 15 percent of pay to 16 percent.

Laredo Fire also made several benefit changes, including:

- Removed non-premium overtime pay from the definition of final average monthly salary
- Lowered the service multiplier from 3.03 percent to 3 percent
- Reduced the maximum benefit from 93.93 percent of final average pay to 90 percent
- Increased the minimum deferred retirement option plan ages by two years

The benefit changes reduced the UAAL from \$120 million to \$109 million, increased the funded ratio from 59.6 percent to 61.9 percent, and reduced the normal cost from 21.5 percent of pay to 20.3 percent.

Results

Any system and sponsor looking to improve pension funding can choose from among a plethora of options that have already been implemented by peer systems, or venture out with new, innovative approaches. These case studies show various examples of successful approaches to improve funding.

Increasing Contributions

Increasing city contributions was the most frequent method used to improve funding. When those contributions were substantially large, such as lump sum infusions from POB issuances, agreements regarding future benefit changes were often put in place. A few systems increased member contributions or decreased benefits. For a few systems, actual payroll growth improved the funding period.

Moving to TMRS

One system moved to TMRS, while another began considering a move to TMRS. It would likely be difficult for many TLFFRA systems to transition to TMRS, but in some cases TMRS may actually provide an arguably better benefit. The system that moved to TMRS had by far the lowest pension benefits among TLFFRA systems. The other system studying a move to TMRS would receive the highest value of TMRS pension benefits available, including a 2:1 match and automatic COLAs.

Innovative Agreements

Several systems implemented new approaches to partner with their sponsor. One sponsor agreed to contribute funds from a one-time POB plus contribute based on an ADC rate going forward, calculated specifically to avoid negative amortization. In exchange, the members agreed to fund all future benefit enhancements. One sponsor agreed to a POB in exchange for members limiting benefit enhancements to those that would allow the fund to maintain a low funding period. Another sponsor agreed to contribute according to a minimum schedule of increases even if the firefighter payroll does not increase as expected.

Conclusion

The FSRP requirement is a valuable process that Texas public retirement systems can use to work with their sponsors and take steps towards resolving or mitigating pension funding issues. Over time, implementation of the requirement has led to successful reforms. The FSRPs adopted under the original

statute helped spark positive changes for several, but not all systems subject to the requirement at that time. Necessary updates to the statute in 2021 helped to alleviate the issues found after initial implementation, and the case studies in this report show that the new law is already showing signs of improved effectiveness. Further, with additional provisions going into effect September 1, 2025, the immediate triggers are intended to allow systems and their sponsors to address funding issues before they worsen. The median funding period for TLFFRA systems is 27 years, and the median funding period for municipal systems is 24 years. With continued collaboration between systems and sponsors, all Texas public pension systems can achieve a funding period of 30 years or less by September 2025 and continue on that path to reach the funding guidelines threshold of 15 years by September 2040.

Appendix A: FSRP Types

| | Legacy FSRP (old law) | Voluntary FSRP | FSRP before 9-1-2025 | FSRP after 9-1-2025 | Revised FSRP |
|---------------------------------|---|---|---|-------------------------------|---|
| Target Funding Period | ≤40 years | ≤30 years | | | ≤25 years |
| Latest Date to Formulate | 8-31-2021 | N/A | 8-31-2025 | N/A | N/A |
| Time allowed to reach target | 10 years | Until adoption of V-FSRP | Until 9-1-2025 or 2 years | 2 years | |
| Progress Updates | After adoption, every 2 years | N/A | within 1 year of triggering valuation and every 6 months until adoption | | |
| Valuation that starts the clock | Determined under previous law | Selected by System/Sponsor | Triggering valuation | | Triggering valuation within 10 years of previous FSRP |
| Must include auto-risk sharing | N/A | | | | Yes |
| Effects of Compliance | Remains under previous law until L-FSRP target date or funding period is <30 years | Recognized for revision exemption if submitted by 8-31-2025; update funding policy | | FSRP/R-FSRP process completed | |
| Compliance Corridor | Applies until L-FSRP complete; Funding period when >40 years; Funded ratio optional | Both funding period and funded ratio corridors apply if submitted by 8-31-2025 and funding period between 30 and 40 years; Applies for 10 years | | N/A | |

FSRP Types: Legacy Funding Soundness Restoration Plans (L-FSRP)

- Legacy FSRPs were **formulated before Sept. 1, 2021**. It is not possible to create a new legacy FSRP.
- Legacy FSRPs must be designed to achieve a contribution rate sufficient to amortize the UAAL within *40 years* by the target date.
- **Progress updates** on the Legacy FSRP are due every two years while the system is following the plan. These updates are less formalized than the progress updates for new FSRPs.
 - If a legacy FSRP is changed or amended while in progress, a copy of any changes must be submitted to PRB within 31 days.
- **If a system does not adhere to existing L-FSRP** and is no longer able to achieve a 40-year funding period by the target date, the system or sponsor would then become subject to the new FSRP requirements. A new FSRP must be prepared that achieves a funding period of *30 years*.
 - A system would need to prepare a standard FSRP under the new law *before* becoming subject to a revised FSRP under the new law.
- The PRB has two methods to determine **legacy FSRP compliance**.
 - The old way: a system's funding period must go down until it falls below 40 years, and it must remain under 40 years afterwards.
 - new way: **Compliance Corridors**: a system may still be considered compliant even if its funding period increases as long as it remains within established compliance corridors. There are two types.
 - **Funding period** compliance corridors are built around the systems funding period baseline, either established by the PRB or submitted by the system.
 - **Funded ratio** compliance corridors are based on an optional projection submitted by the system. **This corridor will not be available if the system does not submit a projection.**

FSRP Types:

Funding Soundness Restoration Plans (FSRP)

- FSRPs under new law 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.
- These FSRPs must be adopted at open meetings of the governing bodies of both system and sponsor. Both the system and sponsor must participate in creation of an FSRP.
 - FSRP must be consistent with system's governing statute.
- **Progress updates** on the preparation of the FSRP are due to the PRB within **1 year of the triggering AV and every 6 months afterwards** until the plan is adopted.
- Certain **materials** are due on the applicable due date (Sept. 1, 2025 or 2 years after triggering AV). PRB rules clarify these materials.
 - A completed FSRP form as a cover-sheet
 - Any supplementary documents necessary to illustrate how the system's funding period will be within the maximum (i.e. revised funding policy, etc.)
 - Documentation of the adoption by the governing bodies of the system and sponsor.
- The **actuarial valuation or other analysis** showing the asset-liability projection and description of assumptions is due later.
 - The AV is due 90 days after FSRP adoption or the analysis is due 90 days after the PRB requests it. However, either may be submitted to fulfill the requirement at any point before the final deadline.
- The PRB will determine **compliance** with an FSRP based on if all the necessary materials are submitted and adequately meet the requirements in statute and rules.
 - For systems eligible for the pre-2025 branch of the revision exemption, adherence with the new FSRP will be based on **Compliance Corridors**. As long a system remains within one of the corridors, it will be considered adherent.
- **Funding Policy** must be updated to reflect any changes.

FSRP Types: Revised Funding Soundness Restoration Plans (R-FSRP)

- An R-FSRP is a special subtype of FSRP that a system or sponsor is required to prepare if they trigger the FSRP requirement within 10 years of a previous FSRP submission.
 - Since the first new FSRPs are not due until Sept. 1, 2025, then the first R-FSRPs will not be triggered until after that date.
- Must be designed to achieve a contribution rate sufficient to amortize the UAAL within **25 years** no later than **2 years** after the triggering valuation.
- **Must include** automatic risk-sharing mechanisms, ADC-based contributions, and other adjustable benefit or contribution mechanisms.
 - Otherwise, materials and analysis are the same as regular FSRPs.
- These FSRPs must be adopted at open meetings of the governing bodies of both system and sponsor. Both the system and sponsor must participate in creation of an FSRP.
 - FSRP must be consistent with the system's governing statute.
- Progress updates on the preparation of the FSRP are due to the PRB within 1 year of the triggering AV and every 6 months afterwards until the plan is adopted.
- **Funding Policy** must be updated to reflect any changes.

- **Revision exemption** available under certain conditions [§§802.2015(d-1) or 802.2016(d-1)]. A system meeting these conditions would prepare a regular FSRP rather than an R-FSRP if they triggered the requirement a second time within 10 years.
 - Systems funding period must be between 30 and 40 years to qualify.
 - **And**, one of two conditions must also be met:
 - The system is adhering to an FSRP formulated before Sept. 1, 2025. Compliance corridors are used to determine adherence with a new FSRP for this purpose.
 - The system is using or will ultimately use an actuarially determined contribution structure and is expected to reach full funding.

FSRP Types: Voluntary Funding Soundness Restoration Plans (V-FSRP)

- **Prepared without first becoming subject to the FSRP requirement.**
 - **Progress updates not required.**
- FSRPs under new law must be designed to achieve a contribution rate sufficient to amortize the UAAL within **30 years**.
- These FSRPs must be adopted at open meetings of the governing bodies of both system and sponsor. Both the system and sponsor must participate in creation of an FSRP.
 - FSRP must be consistent with system's governing statute.
- **Materials required for submission are the same as a regular FSRP.**
 - A completed FSRP form as a cover-sheet
 - Any supplementary documents necessary to illustrate how the system's funding period will be within the maximum (i.e. revised funding policy, etc.)
 - Documentation of the adoption by the governing bodies of the system and sponsor.
- The actuarial valuation or other analysis showing the asset-liability projection and description of assumptions is due after the initial V-FSRP is submitted to the PRB.
 - The AV is due 90 days after FSRP adoption or the analysis is due 90 days after the PRB requests it. However, either may be submitted to fulfill the requirement at any point before the final deadline.
 - The PRB will determine compliance with an FSRP based on if all the necessary materials are submitted and adequately meet the requirements in statute and rules.
- For systems eligible for the pre-2025 branch of the revision exemption, adherence with the new FSRP will be based on **Compliance Corridors**. As long as a system remains within one of the corridors, it will be considered adherent.
- Funding Policy must be updated to reflect any changes.

Appendix B: FSRP Rules and Compliance Policy

Overview of PRB Rules

In 2022, the PRB adopted rules to implement the FSRP requirement.¹ When a system triggers an FSRP, the rules require the system to notify its members that the system has become subject to the requirement, which is in line with the existing law that systems must notify members when an actuary determines the current funding arrangement is inadequate.² The rules also define the parameters around submission and completion of FSRPs, including L-FSRPs and R-FSRPs, since guidance around these topics was previously minimal. Flowcharts indicating the steps for triggering an FSRP can be found in Appendix C.

The rules cover the following:

- **Progress updates.** Systems are required to submit progress updates to the PRB after triggering the FSRP requirement. The first progress update must include a projected timeline for completion of the FSRP and identify the actions that would be needed to implement the plan. Each subsequent update should include a draft plan containing information that demonstrates movement toward the funding goal. The first update is due one year after the anniversary of the AV date that triggered the FSRP requirement, and each subsequent update is due every six months until the FSRP is submitted.
- **FSRP submission.** To submit an FSRP, systems must provide the PRB with a completed FSRP form, supplementary documents that are necessary to illustrate how the funding period will be below the required maximum period within the system's target date, and documentation of the date the plan was adopted by both the system and its sponsor. The PRB developed the FSRP submission form ([Funding Soundness Restoration Plan Coversheet](#)) to help systems ensure they provide all necessary documentation and help streamline the compliance process overall.
- **FSRP completion.** The FSRP requirement is considered complete once the PRB has received an AV or separate actuarial analysis that shows the system falls within the maximum funding period.³ The PRB staff actuary or board actuary must also make a determination that the AV or analysis complies with actuarial standards of practice.
- **Legacy FSRP.** Systems with an L-FSRP can continue following that FSRP until the earlier of either the L-FSRP target date, which is the end of the 10-year period the system was allotted to reach the prior 40-year funding period maximum after an FSRP was adopted, or the date of an AV indicating that the system has reached the new funding period maximum of 30 years. AVs for a system adhering to an L-FSRP will not be counted towards triggering an FSRP under the new requirements while the L-FSRP is still active. Systems under an L-FSRP must continue to provide the PRB with progress updates every two years, consistent with the previous FSRP law.
- **L-FSRP compliance corridor.** A system with an L-FSRP will be determined to remain in compliance with its L-FSRP if the funding period is declining or the system's funding period or funded ratio

¹ [40 T.A.C. Chapter 610](#)

² [Section 802.106\(d\), Texas Government Code](#)

³ "Sample FSRP Additional Analysis Demonstrating Full Funding in 30th Year Following Actuarial Valuation Date", Pension Review Board, accessed September 10, 2024, <https://www.prb.texas.gov/wp-content/uploads/2023/02/FSRP-Sample-Additional-Analysis.pdf>.

remains within a compliance corridor. If the system's funding period is infinite, compliance will be determined only by the funded ratio. The allowable degree of variation from the submitted projection, or baseline, will begin at 5 percent for a funded ratio corridor, or 10 years for a funding period corridor, and will decrease over a period between the current date and the target date as described in the *Legacy FSRP Compliance Corridors* table below. A system would be considered compliant if plan experience exceeds a corridor in a favorable way. The PRB uses each system's baseline to provide a compliance corridor unique to that system based on their funding period and funded ratio, using the corridor sizes specified in the rules. More information on compliance corridors can be found under Appendix D.

| Legacy FSRP Compliance Corridors | | |
|----------------------------------|-----------------------------|--------------------------------------|
| Year | Funded Ratio Corridor Size | Funding Period Corridor Size (years) |
| 1 | 5.00% | 10 |
| 2 | 4.75% | 9 |
| 3 | 4.50% | 8 |
| 4 | 4.25% | 7 |
| 5 | 4.00% | 6 |
| 6 | 3.75% | 5 |
| 7 | 3.50% | 4 |
| 8 | 3.25% | 3 |
| 9 | 3.00% | 2 |
| 10 | Target Date L-FSRP complete | |

- **Revised FSRP exemption.** In some cases, a system that has previously adopted an FSRP might again trigger the FSRP requirement. If the FSRP requirement is triggered within 10 years of the due date of the original, the system and sponsor would be required to complete an R-FSRP unless they meet certain criteria for an exemption. To qualify for the exemption, a system would need to have a funding period between 30 and 40 years and either have formulated their original FSRP on or prior to September 1, 2025, or are using, or ultimately plan to use, an ADC structure.⁴ The system must also be determined to be adhering to their compliance corridor, detailed above. This compliance corridor is used to determine adherence to both an L-FSRP as well as an R-FSRP.
- **Voluntary FSRP.** Systems that have not triggered an FSRP can choose to adopt a voluntary FSRP (V-FSRP) prior to September 1, 2025. By completing a V-FSRP, the system would qualify for an exemption from the stricter R-FSRP requirements. If a system's funding level is at risk of potentially triggering the FSRP requirement, implementing a funding plan sooner rather than waiting to trigger the requirement would give the system and their sponsor more time to develop

⁴ [Section 802.2015\(d-1\)\(2\), Texas Government Code.](#)

a plan than they would have if they triggered the requirement. This option also aims to incentivize earlier, proactive action by systems and their sponsors when funding challenges are easier to resolve.

- *Allow use of either market value or actuarial value of assets.* The trigger mechanism for an FSRP is based on the reported funding period, and beginning September 1, 2025, the funded ratio as well. Some systems use asset smoothing over a determined time to reduce year-to-year volatility, which leads to using an actuarial

value of assets. A market value of assets is based on the actual amount of assets at a given point in time. While the funding period reported in the AV will generally use one asset valuation method or the other, using the greater of the two for FSRP purposes allows systems additional flexibility to benefit from the increased market value in years with investment returns above expectations, while weathering the volatility from low yearly returns when a smoothed value would be greater. For example, two systems, Conroe Fire and Orange Fire, would have a funding period over 30 years but were able to remain under 30 years for FSRP purposes by employing this rule.

For FSRP purposes, funding period is defined as the length of time required to fully fund the UAAL under current actuarial assumptions based on the greater of the actuarial value of assets or the market value of assets.

(40 T.A.C. Section 610.13)

Compliance policy

To better align with the new requirements and current board practices, in October 2022, the PRB replaced its previous board policy related to FSRPs and renamed the new *Policy for Promoting Compliance with Funding Soundness Restoration Plan Requirements*. A copy of the policy can be found in Appendix E.

To assist systems with the FSRP requirement deadlines, the policy provides that the PRB will notify systems at the following points in the FSRP process:

- When the system is at-risk of triggering the requirement
- When the system has triggered an FSRP or R-FSRP
- To acknowledge receipt of materials
- If the provided materials to the PRB are inadequate
- When progress updates are due; and
- When the FSRP is due or late

The policy also outlines when staff will provide reports and updates on FSRPs in progress, and what happens when a system does not submit a required FSRP by its deadline. Staff will deliver reports regularly at the PRB's board meetings and an FSRP status update will be included as part of the PRB's *Biennial Report to the Legislature*.

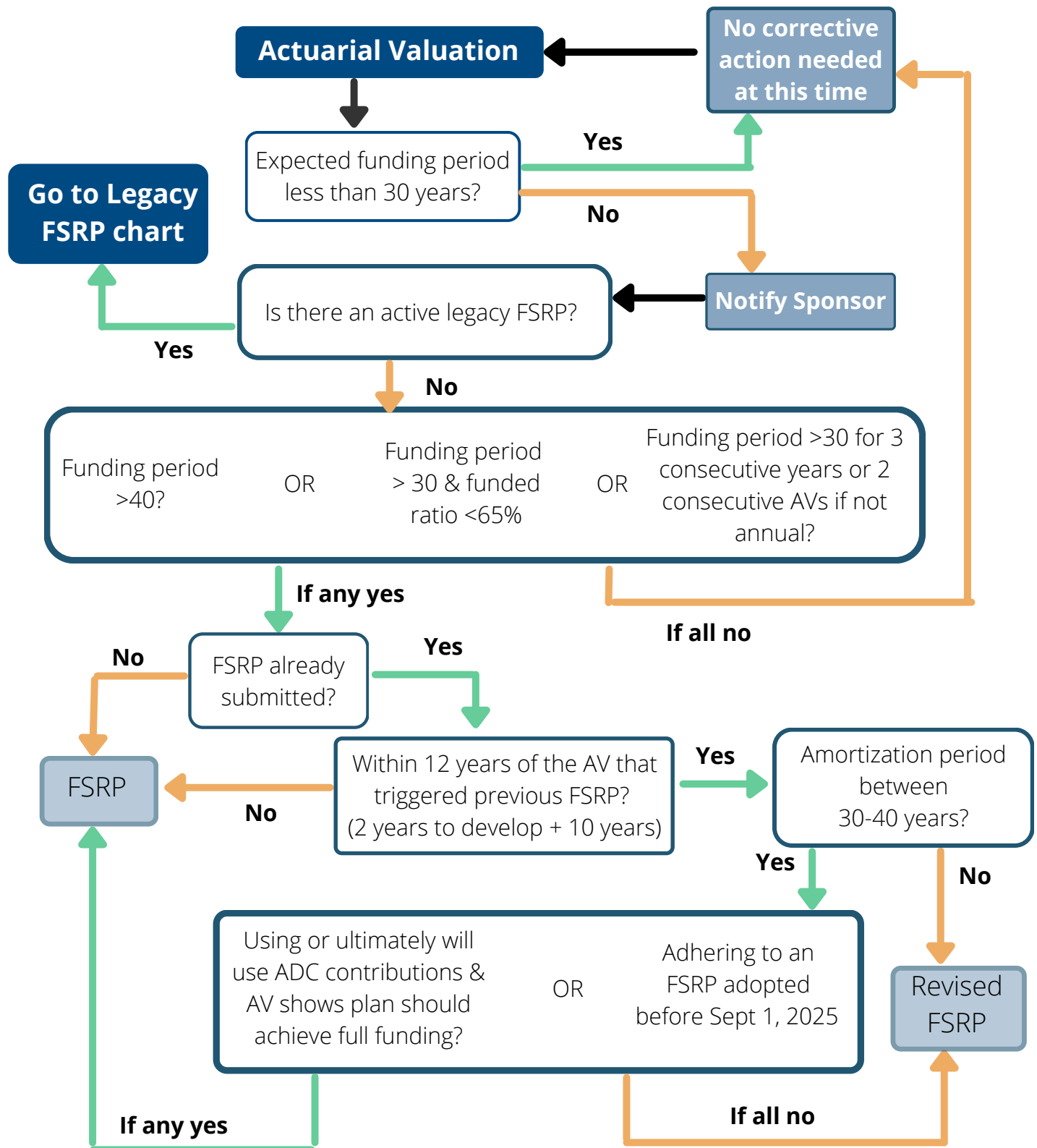
If a system has not filed an FSRP with the PRB by its deadline, the PRB will notify the system and sponsor after 15 and 30 days. If the system and sponsor are still noncompliant 60 days beyond the deadline, they will be added to the *List of Noncompliant Plans Over 60 Days* which is posted to the PRB's website. The system and sponsor will also be contacted by the PRB's executive director and notified that they may be placed on the agenda of a future PRB meeting to provide a public explanation of the status of the FSRP.

Further action may be taken if the system and sponsor remain noncompliant despite the previous efforts, including notifying legislative representatives.

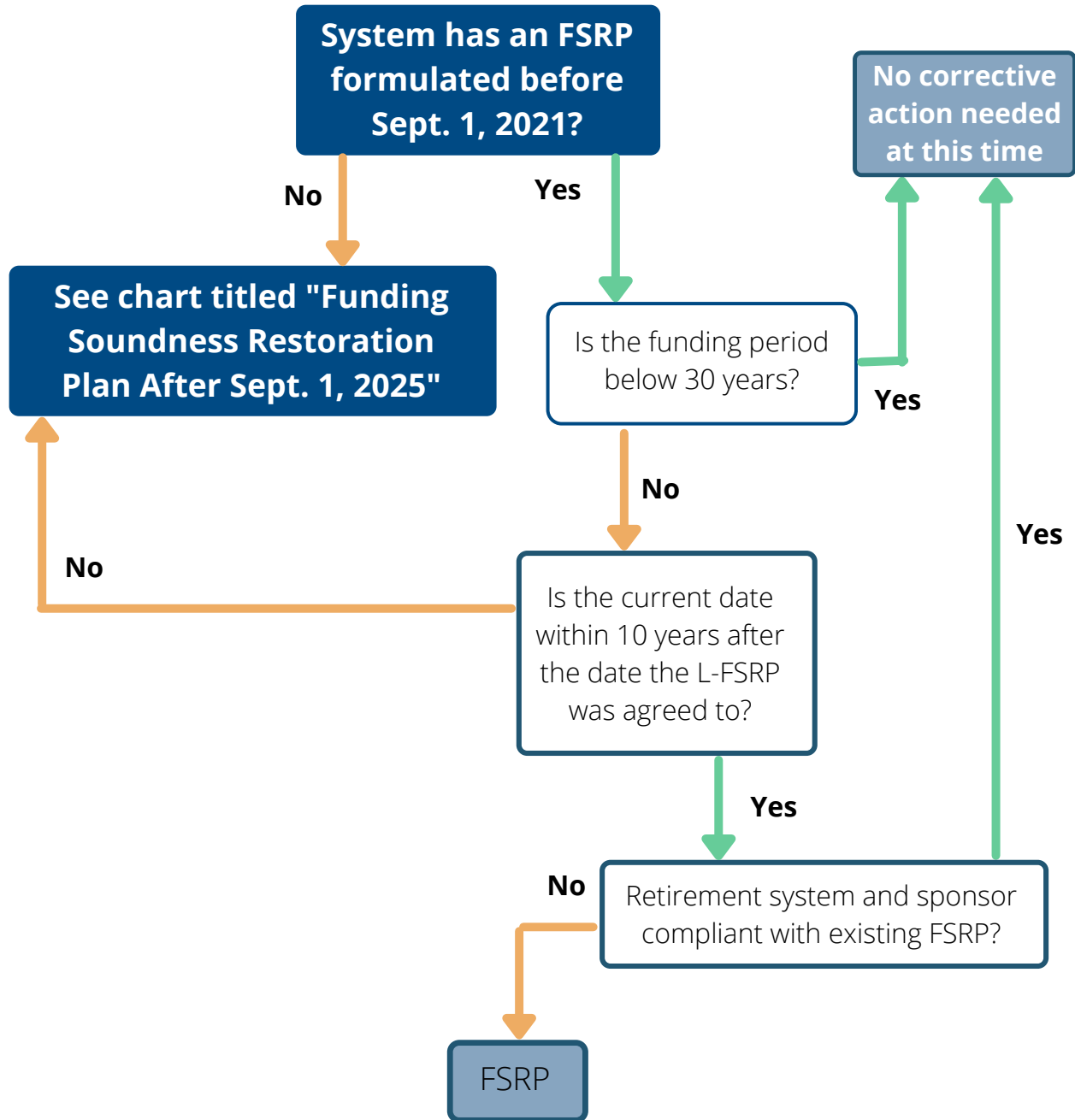
In addition to the policy, a timeline titled *FSRP Reporting to PRB* is also included in Appendix E. The timeline is intended to assist systems in keeping up with the various stages of reporting to the PRB. This includes when to send progress updates, when an FSRP should be adopted, when the FSRP should be submitted to the PRB, and when an analysis of the impact of the FSRP should be submitted.

Appendix C: FSRP Flowcharts

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.

Appendix D: Compliance Corridors

Compliance Corridors

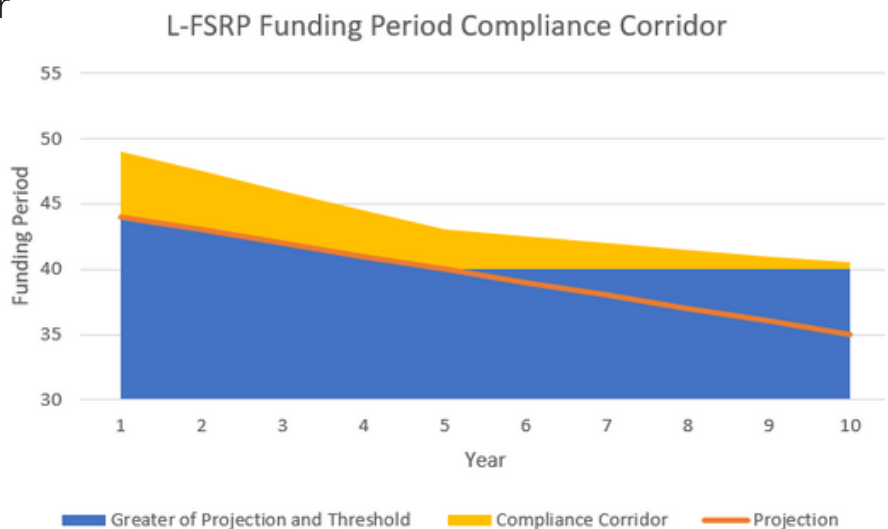
- Compliance corridors are the mechanism to demonstrate that a system with a new FSRP or V-FSRP is adherent **so they can qualify for the pre-Sept. 2025 branch of the revision exemption.**
 - Corridors would only apply for the 10 year period when a system could potentially trigger an R-FSRP.
- Compliance corridors have a baseline and a corridor of variation from that baseline that narrows towards the end of the exemption period. As long as a system remains within the corridor, it would still be considered adherent to the FSRP for the purposes of the exemption.
- There are two types of compliance corridors:
 - **Funding period corridors** have a baseline of 30 years.
 - A baseline for a **funded ratio corridor** is the asset-liability projection submitted as part of the actuarial valuation or other analysis submitted to complete the new FSRPs.

Compliance Corridors for L-FSRPs

- While compliance corridors were created for new FSRPs, a variation offers L-FSRP systems greater flexibility.
- L-FSRP systems have the option to submit their own asset-liability projection to use a funded ratio corridor and a custom funding period corridor.

If an L-FSRP system chooses not to submit a projection for a compliance corridor baseline, they would only have a funding period corridor, which would have a baseline of a 1-year-per-year reduction while the system's funding period is >40 years

- If a system's funding period is <40 years, then the baseline for the compliance corridor would remain at a 40-year minimum.



Appendix E: Compliance Policy and Timeline



Policy for Promoting Compliance with Funding Soundness Restoration Plan Requirements

(Adopted October 6, 2022)

1. Purpose. This policy communicates the Pension Review Board's (PRB) approach to promoting compliance with the requirements and standards in the Funding Soundness Restoration Plan (FSRP) statute and rules.¹ This policy describes how the PRB will assist systems in complying with the requirements and the tools PRB will use to ensure the systems, sponsors, the legislature, and the public are aware of instances of noncompliance with FSRP requirements.

2. Notifications. Most FSRP deadlines are outlined in statute. As a courtesy, the PRB will notify each system after becoming aware the system meets certain conditions, as follows:

- a. Notification of at-risk status when a system has one or more actuarial valuations with a funding period above the maximum.
- b. Notification of actuarial valuation triggering FSRP or revised FSRP (R-FSRP) when a system's most recent actuarial valuation has made them subject to the requirement.
- c. Acknowledgement of receipt of FSRP materials from a retirement system when the PRB receives a system's FSRP materials.
- d. Notice of inadequate materials when the PRB determines that a system's FSRP materials are missing or do not meet the standards necessary to be considered compliant with the requirements.
- e. Notice when a progress update is due or late as outlined in §§802.2015(f) or 802.2016(f), Texas Government Code.
- f. Notice when FSRP is due or late as outlined in §§802.2015(2) or 802.2016(2), Texas Government Code.

3. Regular reports. Staff will regularly report the FSRP status of systems subject to the FSRP requirements and systems at risk of becoming subject to the requirements based on a system's most recent actuarial valuation. Staff will provide these regular reports to the Actuarial Committee, the board, and as part of the agency's Biennial Report to the Legislature.

4. Late notification. If a system does not submit materials within 15 days after the deadline, the PRB will notify the system of its noncompliant status and will request submission of the required materials.

5. Staff action. If the PRB does not receive the requested materials within 30 days after the notification, staff will contact the system and attempt to resolve the compliance matter.

¹ Sections 802.2015 and 802.2016, Texas Government Code and Title 40 Chapter 610, Texas Administrative Code

6. Executive director action. If the plan is still noncompliant 60 days after the deadline and staff has been unable to reach a resolution with the system, the names of the system and sponsor will be included on the list of noncompliant public retirement systems posted on the PRB website. The executive director will contact the system and sponsor to notify them of the noncompliant status and that the issue may be addressed at an upcoming board meeting.

7. Role of the board. At each board meeting, staff may provide a list of noncompliant systems to the board. The list will indicate the severity of noncompliance for each plan, including the amount of time that each plan has been noncompliant, and efforts by staff to bring the plan into compliance. The board will determine whether to place the noncompliant system(s) on the agenda for the next board meeting. If the board so determines, the PRB staff will notify the system, advising them that they will be placed on the agenda for formal discussion as a noncompliant plan at the next board meeting. The board will designate a specific time frame that the plan must submit their materials. If the system does not submit the required materials timely, representatives of the system and sponsor will be requested to appear at a board meeting to formally address the noncompliant status.

8. Notifications to legislative and governor's offices. In addition to the PRB's regular reports to the legislature and governor's office, if a retirement system is noncompliant and has not responded to the board's efforts to resolve the issue, the PRB may notify the senator and house member representing the districts where the retirement system is located, the presiding officer of the committees responsible for retirement legislation, and any other offices if necessary.

9. Further action. To address the noncompliance of a plan, the board may conduct inspections, issue subpoenas, and seek other legal action, as set forth in §§801.204, 802.205, and 802.003(d) of the Texas Government Code.

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 (or by Sept. 1, 2025):

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 or 90 days of request from PRB:

submit AV or separate analysis showing combined impact of all changes adopted in FSRP/R-FSRP, an asset-liability projection between the valuation date and projected date of full funding, and a description of the methods and assumptions.



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