

Pension Review Board
Title 40, Part 17 Texas Administrative Code
Chapter 610 – Funding Soundness Restoration Plans

Rule §610.11 – Authority and Purpose.

These rules implement and are authorized by Texas Government Code §§801.201, 802.2011, 802.2015, and 802.2016.

Rule §610.13 – Definitions.

When used in this chapter, the terms listed below shall have the following meanings:

- (1) "Board" means State Pension Review Board.
- (2) "Compliance corridor" means the acceptable range of variation from a system's baseline for the system's funding period or funded ratio, as further described in board rules that concern a system's adherence to a funding soundness restoration plan, and related figures.
- (3) "Formulated" means finalized and approved by the appropriate decision-making bodies.
- (4) "Funded ratio" has the meaning assigned by Texas Government Code §802.2011.
- (5) "Funding period" means the length of time it would take to fully fund the unfunded actuarial accrued liability under the current actuarial assumption based on the greater of the actuarial value of assets or the market value of assets.
- (6) "Governmental entity" has the meaning assigned by §802.1012, Texas Government Code.
- (7) "Legacy funding soundness restoration plan" or "L-FSRP" means a funding soundness restoration plan formulated prior to September 1, 2021, accepted by the board, and governed by the law as it existed immediately before that date.
- (8) "Public retirement system" has a meaning as defined by §801.001(2) and §802.001(3), Texas Government Code but shall not include defined contribution plans as defined by §802.001(1-a), Texas Government Code or retirement systems consisting exclusively of volunteers organized under the Texas Local Fire Fighters' Retirement Act as defined by §802.002(d), Texas Government Code.
- (9) "Revised funding soundness restoration plan" or "R-FSRP" means a funding soundness restoration plan prepared under §802.2015(e-1) or §802.2016(e-1), Texas Government Code, which includes additional components compared to a funding soundness restoration plan prepared under §802.2015(e) or §802.2016(e), Texas Government Code.
- (10) "Revised funding soundness restoration plan exemption" or "revision exemption" means the applicable section of either Texas Government Code §§802.2015(d-1) or 802.2016(d-1) under which

qualifying systems prepare a funding soundness restoration plan under Texas Government Code §§802.2015(e) or 802.2016(e) rather than a revised funding soundness restoration plan.

(11) "Target date" means the 10th anniversary of the date on which the final version of a legacy funding soundness restoration plan was agreed to as required by law as it existed immediately before September 1, 2021.

(12) "Valuation date" means the date as of which the actuarial accrued liability and the actuarial value of assets are determined, often the first or last day of the plan year as specified in the valuation.

(13) "Voluntary funding soundness restoration plan" or "V-FSRP" means a funding soundness restoration plan formulated submitted, and completed under either Texas Government Code §802.2015 or §802.2016 as it stands after September 1, 2021, without the system or associated governmental entity first becoming subject to the requirement.

Rule §610.14 – Applicability.

This chapter applies to every public retirement system and its associated governmental entity that is subject to Texas Government Code §802.2015 or §802.2016 and to a system or associated governmental entity that ~~chose choose~~ to submit a voluntary funding soundness restoration plan prior to September 1, 2025.

Rule §610.15 – Required Disclosure of Inadequate Financing Arrangement to Plan Members.

(a) A notification to the associated governmental entity under Texas Government Code §802.2015(c) or §802.2016(c) regarding an actuarial valuation that indicates the public retirement system's actual contributions are not sufficient to amortize the unfunded liability within 30 years, means that the financing of the system is inadequate for the purposes of §802.106(d), Texas Government Code.

(b) The disclosure to members of an actuarial determination of an inadequate financing arrangement required under Texas Government Code §802.106(d) shall be accompanied by a notice that the system is subject to the funding soundness restoration plan requirement under Texas Government Code §802.2015(c) or §802.2016(c) when a system becomes subject to the requirement.

(c) A system required to provide a disclosure to members of an actuarial determination of an inadequate financing arrangement shall provide the disclosure to its members with the next annual benefit statement and a copy of the disclosure to the board within 30 days of sending the disclosure to members.

Rule §610.20 – Criteria for Determining Adherence to a Legacy Funding Soundness Restoration Plan.

(a) A public retirement system is adhering to a legacy funding soundness restoration plan if the system's actuarial valuation shows:

(1) the funding period is expected to fall within 40 years by the target date, ~~and~~ so long as the system's funding period continues to shorten while the system's funding period is above 40 years and does not increase to a length of time greater than 40 years after falling below 40 years; or

(2) an increase in funding period compared to the previous valuation, and the system's actuarial valuation shows that, between the valuation date and the system's target date, the system's funding period or funded ratio remains within the compliance corridor adopted in board rule. If the system's funding period is infinite, only the funded ratio will be evaluated to determine compliance for the purposes of this paragraph.

(b) A public retirement system with a legacy funding soundness restoration plan may submit a projection to serve as the baseline for the purpose of this subsection prior to September 1, 2025. This projection must show the projected funded ratio and funding period for each year beginning with the current date until the target date. For any years the system's funding period is projected to be above 40 years, the corridor will be based on the baseline. For any years the system's funding period is projected to be below 40 years, the compliance corridor will be based on a minimum of 40 years. If the system does not submit such a projection to the board for this purpose, the board will determine adherence to the legacy funding soundness restoration plan using a baseline in which a system's funding period must decrease by one year every consecutive year as measured on the anniversary of the date on which the final version of the funding soundness restoration plan was agreed to as required by law.

(c) The allowable degree of variation from the baseline will begin at five percent for a funded ratio corridor or ten years for a funding period corridor and will decrease over the period between the current date and the target date as described by Figure: 40 TAC §610.20(c). A system would be considered compliant if the funded ratio exceeds the minimum threshold or funding period falls below the maximum threshold. ~~plan experience exceeds a corridor in a favorable way.~~ The board will use 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 these rules.

[Attached Graphic](#)

Rule §610.21 – Completion of a Legacy Funding Soundness Restoration Plan.

(a) A public retirement system adhering to a legacy funding soundness restoration plan may continue following that plan until the earlier of:

(1) the target date; or,

(2) the date of an actuarial valuation that indicates the system's funding period is at or below 30 years.

(b) ~~Actuarial~~ ~~actuarial~~ valuations with valuation dates during a time that a system is adhering to a legacy funding soundness restoration plan shall not be counted towards triggering a funding soundness restoration plan under Texas Government Code §802.2015(c) or §802.2016(c) as it stands after September 1, 2021, until after the applicable date described in subsection (a) of this section when the system completes the legacy funding soundness restoration plan.

Rule §610.22 – Application of Revised Funding Soundness Restoration Plan Exemption.

(a) A public retirement system's actuarial valuation must be dated after September 1, 2025, to qualify for the revision exemption under Texas Government Code §802.2015(d-1)(1) or §802.2016(d-1)(1).

(b) The revision exemption does not apply to a system adhering to a legacy funding soundness restoration plan before the date prescribed by §610.21 of this chapter (relating to Completion of a Legacy Funding Soundness Restoration Plan).

Rule §610.30 – Submission and Completion Criteria for the Funding Soundness Restoration Plan Requirement.

(a) The board will consider a retirement system to have submitted a funding soundness restoration plan when the board receives:

- (1) a completed form approved by the board for this purpose;
- (2) any supplementary or explanatory documents necessary to illustrate how the system's funding period will be within the maximum by the prescribed date, including a revised funding policy; and
- (3) documentation of the date the plan was adopted by both the governing body of the system and of the governmental entity. Documentation may include the minutes or other record of an open meeting when each adoption occurred.

(b) The board will consider a retirement system to have completed the funding soundness restoration plan requirement when the board receives an actuarial valuation or separate analysis under Texas Government Code §§802.2015(e-2) or 802.2016(e-2) and the staff actuary or board actuary determines the actuarial valuation or separate analysis complies with actuarial standards of practice. An actuarial valuation and separate analysis are equivalent for the purposes of Texas Government Code §§802.2015(e-2) or 802.2016(e-2) and either may be submitted in lieu of the other during the respective submission periods, provided it includes the components required by the applicable subsection.

(c) For a system submitting a revised funding soundness restoration plan with specific changes required by statute, "automatic risk-sharing mechanisms" means changes to plan provisions, including adjustments to benefit levels or contribution amounts, upon meeting or exceeding certain criteria established beforehand without needing additional approval at the time of the change. The plan shall specify how the changes to the contribution amounts are split between the employer and members. At

least one of the automatic risk-sharing mechanisms included in the plan must be an adjustable benefit or contribution mechanism.

(d) A system or associated governmental entity shall submit to the board the materials related to a funding soundness restoration plan that adequately fulfill the analysis and documentation requirements in statute and rules to be considered compliant. If the board determines the materials are inadequate, the board will notify the system of the determination with an explanation of the reason and may request additional information. The system shall submit additional materials consistent with the board's instructions. The board would consider a system noncompliant if the board does not receive the system's funding soundness restoration plan; if the system fails to comply with an approved funding soundness restoration plan, revised funding soundness restoration plan, or other type of funding soundness restoration plan; or if the system fails to submit to the board the funding soundness restoration plan materials that adequately satisfy the requirements in statute and board rules within the appropriate time periods for those materials.

(e) A system may submit a funding soundness restoration plan to the board prior to the second anniversary of the valuation date stated in the actuarial valuation that required formulation of the plan, so long as the board reviews the plan and determines it is sufficient to amortize the unfunded actuarial accrued liability within 30 years of the second anniversary of the triggering valuation.

Rule §610.31 – Compliance with Progress Updates.

(a) A system adhering to a legacy funding soundness restoration plan shall continue providing progress updates every two years rather than submitting progress updates in accordance with this section.

(b) The first draft of a plan submitted as a part of a progress update under Texas Government Code §§802.2015(f) or 802.2016(f) must, at minimum, include a projected timeline for enactment of the plan, and identify the action that various entities must take to approve or enact the plan, such as votes that may be necessary in accordance with the system's governing statute. Each subsequent progress update should include a draft plan that contains updated information and that demonstrates movement toward a complete and finalized plan.

(c) A description of changes submitted as part of a progress update to fulfill the requirements of Texas Government Code §§802.2015(f) or 802.2016(f) must include the projected actuarial impact of each change under consideration on the retirement system's funding period and funded ratio.

~~(d) A system must submit updates consistent with subsections (b) and (c) of this section to the board starting September 1, 2023, and every six months thereafter until the system submits a funding soundness restoration plan to the board and the board determines it is compliant if the system:~~

~~(1) received an actuarial valuation dated prior to September 1, 2021, that triggered a funding soundness restoration plan requirement; and~~

~~(2) does not have a board approved legacy funding soundness restoration plan.~~

~~(d) (e)~~ A system ~~and the~~ ~~or~~ associated governmental entity that receives an actuarial valuation ~~dated after September 1, 2021,~~ that triggers a funding soundness restoration plan, including a revised funding soundness restoration plan, must submit updates to the board beginning not later than the first anniversary of the valuation date of the actuarial valuation that required formulation of the plan and every subsequent six-month period until the plan is submitted as described in Texas Government Code §§802.2015(f) or 802.2016(f).

(e) The system and associated governmental entity shall submit progress updates in a form prescribed by the board.

~~(f) A system or associated governmental entity preparing a voluntary funding soundness restoration plan is not required to submit progress updates to the board.~~

Rule §610.32 – Revised Funding Soundness Restoration Plan Exemption.

(a) A public retirement system is adhering to a funding soundness restoration plan formulated between September 1, 2021, and September 1, 2025, if, during the period between the date the funding soundness restoration plan is adopted by the system and governmental entity and the 10th anniversary of the applicable date for the funding soundness restoration plan to be formulated and the system to be within the maximum funding period prescribed by Texas Government Code §§802.2015(e)(2) or 802.2016(e)(2), the system's actuarial valuation shows the system's funding period or funded ratio remain within the applicable compliance corridors established in this section. If the system's funding period is infinite, only the funded ratio will be evaluated to determine compliance for the purposes of this subsection.

(b) The baseline for a system's funding period compliance corridor will be 30 years, and the baseline for the funded ratio corridor will be the actuarial projection of the system's expected future actuarial value of assets and liabilities submitted as part of an actuarial valuation or separate analysis in accordance with either Texas Government Code §§802.2015(e-2)(1) or 802.2016(e-2)(1).

(c) The allowable degree of variation from the baseline will begin at five percent for a funded ratio corridor or ten years for a funding period corridor and will decrease over the 10-year period as described by Figure: 40 TAC §610.32(c). A system would be considered compliant if the funded ratio exceeds the minimum threshold or funding period falls below the maximum threshold. ~~plan experience exceeds the corridor in a favorable way.~~ The board will use each system's baseline to provide a compliance corridor unique to that system based on their amortization period and funded ratio, using the corridor sizes specified in these rules.

Attached Graphic

(d) A system may submit a voluntary funding soundness restoration plan prior to September 1, 2025 without first becoming subject to the requirement, for the purposes of qualifying for the revision

exemption, provided the V-FSRP is consistent with all applicable submission requirements in statute and rules.

DRAFT

Pension Review Board

Funding Soundness Restoration Plan Proposed Statutory Recommendations – DRAFT

Potential legislative recommendation 1 – Modify the Funding Soundness Restoration Plan (FSRP) submission requirements to instead specify that the Pension Review Board (PRB) determines submission requirements by rule.

This recommendation would provide flexibility for the board to specify the submission requirements based on the action contemplated by the system, sponsor, and any oversight entities, or the specific requirements for changes in a municipal system's statute. For example, if a system's statute requires voter approval for changes, the election results can suffice for documentation; or if legislation addresses the funding issues, the PRB could accept the bill and its actuarial impact statement rather than requiring specific action by the system or sponsor (see related recommendation 1a below).

Potential legislative recommendation 1a – Specify that legislation that brings a system into compliance with all FSRP or revised FSRP requirements other than those related to adoption at open meetings negates the requirement that the system and sponsor take formal action to adopt an FSRP.

This recommendation would eliminate an additional, redundant step for systems and sponsors to take formal action in an open meeting to adopt an FSRP. Generally, the legislature amends a system's enabling statute only when both the system and sponsor agree to the changes and the changes do not negatively impact the system's actuarial soundness.

Potential legislative recommendation 2 – Require the PRB to provide regular reports on FSRP noncompliance to ensure transparency.

This recommendation would require in statute that the PRB provide reports on systems subject to, but not compliant with the FSRP requirement. The PRB could provide either or both of the following reports:

- FSRP compliance report – a standalone biennial report to leadership offices (office of the governor, lieutenant governor, and speaker of the house). This report would be prepared and submitted at the same time as the agency's biennial report but would be published under separate cover to highlight FSRP noncompliance issues.
- FSRP progress report – the PRB would provide regular updates to the appropriate standing committees (generally Senate Finance Committee and House Pensions, Investments & Financial Services Committee) on systems subject to the FSRP requirement. The PRB would adapt the FSRP report provided to the board to keep the standing committees apprised of FSRP updates, ensuring awareness of noncompliance that could lead to potential need for legislative action.

INADEQUATE FUNDING NOTICE
for
[insert name of pension system]

Introduction

This notice includes important information about the funding status of your pension system (“the system”). This notice is required by state law (Section 802.106(d), Texas Government Code). All Texas public retirement systems with more than 30 projected years remaining to become fully funded based on current contribution rates must send a notice to their members at the time the next annual statements are provided.

Funding Status of Your System

The chart below shows you key information regarding your pension system.

Funding Status Last Three Valuations			
	[Insert year]	[Insert year]	[Insert year]
1. Valuation Date	[insert date]	[insert date]	[insert date]
2. Assets	[insert amount]	[insert amount]	[insert amount]
3. Liability	[insert amount]	[insert amount]	[insert amount]
4. Funded Percentage (2)/(3)	[insert percentage]	[insert percentage]	[insert percentage]
5. Funding Period	[insert years]	[insert years]	[insert years]

Key Terms

The **assets** in line 2 of the chart above may represent the unadjusted market value of assets, or an actuarial value of assets that blends the investment gains and losses over a reasonable period.

The **liability** in line 3 of the chart above is an estimate of the amount of assets the system needs on the Valuation Date to pay for promised benefits that have already been accrued.

The **funded percentage** in line 4 of the chart above represents the system’s assets as a percentage of the system liability. Since the liability represents benefits for service already worked in previous years, the ideal funded percentage on any valuation date is 100 percent.

The **funding period** in line 5 of the chart above represents the projected future years to become fully funded based on current benefit and contribution levels. Systems with funding periods longer than 30 years must send this notice.

Information on File with Texas Pension Review Board

The Texas Pension Review Board (PRB) provides oversight for Texas public retirement systems. You can find all available information on file with the PRB for your system and all other Texas public retirement systems in the PRB’s [Texas public pension data center](#).

Where to Get More Information

You can reach your system's administrator using the contact methods listed below:

[Insert contact information]



P.O. Box 13498, Austin, TX 78711 | Phone: (512) 463-1736 | Email: prb@prb.texas.gov

Funding Soundness Restoration Plan Progress Update Form

Retirement System Profile

_____	_____
System Name	Phone Number
_____	_____
Report Contact Name (Please Print)	Email Address

FSRP Progress Update Form

This form is a required component of progress updates for Funding Soundness Restoration Plans (FSRPs) and Revised Funding Soundness Restoration Plans (R-FSRPs). For full details on FSRP requirements, please review Sections 802.2015 and 802.2016, Texas Government Code; 40 T.A.C. Chapter 610; and the FSRP materials on the PRB's [website](#).

Pension systems and their sponsors are required to provide FSRP progress updates to the PRB within one year of the actuarial valuation date that triggered the FSRP, and every six months thereafter.¹

Attached Documents: Please list or describe any supplemental documents your system is submitting with this form, if any, to constitute your FSRP progress update.

¹ Sections 802.2015(f) and 802.2016(f), Texas Government Code.

Recent Discussions Between Sponsor and System:

Please provide a summary of any recent discussions:

Components: Please indicate all categories that your system and sponsor have discussed as potential changes to funding policy. **Revised FSRPs MUST include automatic risk sharing mechanisms, an ADC structure, and other adjustable benefit or contribution mechanisms.** A description of an “automatic risk sharing-mechanisms” may be found in 40 T.A.C. Section 610.30(c).

<u>Benefit Changes:</u> <input type="checkbox"/> New benefit tier <input type="checkbox"/> COLA eliminated <input type="checkbox"/> COLA changed <input type="checkbox"/> DROP eliminated <input type="checkbox"/> DROP changed <input type="checkbox"/> Other (describe below or on a separate page.)	<u>Contribution Changes:</u> <input type="checkbox"/> Actuarially determined contribution structure <input type="checkbox"/> Sponsor contribution increase <input type="checkbox"/> Member contribution increase <input type="checkbox"/> Other (describe below or on a separate page.)	<u>Risk-sharing Mechanisms:</u> <input type="checkbox"/> Corridor <input type="checkbox"/> Other (describe below or on a separate page.)
Please briefly describe the specific changes being contemplated: 		

Upcoming Discussions Between Sponsor and System:

Please provide the dates and expected topics of any upcoming scheduled discussions:

System Certification

I hereby certify that the information provided above is correct and accurate and that I am duly authorized by the retirement system to complete this form.

Authorizing Signature

Date

Printed Name

System Certification

I hereby certify that the information provided above is correct and accurate and that I am duly authorized by the system sponsor to complete this form.

Authorizing Signature

Date

Printed Name