

Policy for Determining and Promoting Compliance with Funding Soundness Restoration Plan Requirements

1. Purpose. This policy communicates the Pension Review Board's (PRB) approach to determining and 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, PRB board, the legislature, and the public are aware of instances of noncompliance with FSRP requirements. It also provides additional detail beyond that contained in the statute and administrative rules on the specific standards PRB will use to make compliance determinations.

2. Applicability. This policy applies to every public retirement system and associated governmental entity subject to statutory requirements to formulate funding soundness restoration plans that meet certain requirements. This includes systems with legacy funding soundness restoration plans (L-FSRP) operating under those statutes as they existed immediately before September 1, 2021. Parts of this policy also apply to systems not yet subject to the FSRP requirements, but that are at risk of triggering the requirement.

3. 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 (refer to section 4 for more information) when a determination is made 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 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.

4. Determining compliance. A plan is considered noncompliant if the PRB does not receive FSRP materials that adequately satisfy the requirements laid out in statute and PRB rules within the appropriate time periods for those materials.

- a. *Compliance corridor.* When a system submits a projection required by statute or requested by the board, the projection will be used as a baseline for a compliance corridor to establish the amount of variation in the system's funding period or funding ratio that is allowable for the system to remain in compliance with an FSRP submitted before September 1, 2025, or L-FSRP. The allowable degree of variation from the baseline will begin at five percent for a funded ratio corridor or five

¹ Sections 802.2015 and 802.2016, Texas Government Code and Title 40 Chapter 611, Texas Administrative Code

years for a funding period corridor and will decrease over the 10-year compliance period. A system would not be considered noncompliant if plan experience exceeds the corridor in a beneficial way (ex: if the funded ratio improves more than expected). Examples of a compliance corridor are included below. The PRB will use each system’s projection provided as specified in PRB rule to provide a compliance corridor unique to that system based on their amortization period and funded ratio, using the corridor sizes specified in this policy.²

Funded Ratio Corridor	
Year	Corridor Size
1	5.00%
2	4.75%
3	4.50%
4	4.25%
5	4.00%
6	3.75%
7	3.50%
8	3.25%
9	3.00%
10	2.75%

Funding Period Corridor	
Year	Corridor Size (years)
1	5.00
2	4.50
3	4.00
4	3.50
5	3.00
6	2.50
7	2.00
8	1.50
9	1.00
10	0.50

- b. *Inadequate materials.* After a system submits materials for an FSRP, the staff actuary will evaluate them to ensure they adequately fulfill the analysis and documentation requirements in statute and rules. If the staff actuary determines the submitted materials are inadequate to fulfill the requirements, the PRB will notify the system of the determination with an explanation of the reason.

5. Regular reports. Staff will regularly report on FSRP status of systems subject to the FSRP requirements and systems at risk of becoming subject to the requirements based on the 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.

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

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

² Title 40, Texas Administrative Code, Sec. 610.20

8. Executive director action. If the plan is still noncompliant 60 days from 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.

9. Role of the board. At each board meeting, staff may provide recommendations to the board for noncompliant plans for future discussion. The recommendations will be based on the severity of noncompliance for each plan, indicating 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 the noncompliant system(s) require formal attention at the next board meeting. If such determination is made, 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 comply within the time specified, the system will be placed on the agenda for the next meeting of the board. Representatives of the system and sponsor will be requested to appear for a formal discussion on the noncompliance status. At the meeting, the chair will recommend any further compliance steps if necessary.

10. 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.

11. Further action. To address the noncompliance of a plan, the board may consider using its statutory powers contained in §§801.204, 802.205, and 802.003(d) of the Texas Government Code.