



TEXAS PENSION REVIEW BOARD

ACTUARIAL COMMITTEE MEETING

MAY 18, 2022

TEXAS PENSION REVIEW BOARD

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

Wednesday, May 18, 2022 – 10:00 AM

Reagan Building, Committee Room 120

1400 Congress Avenue, Austin, TX, 78701

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

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

1. Meeting called to order
2. Roll call
3. Committee administrative matters
 - a. **TAB 1** January 28, 2022, meeting minutes
4. **TAB 2** Rulemaking relating to the updated Funding Soundness Restoration Plan (FSRP) requirements under Texas Government Code Sections 802.2015 and 802.2016, including:
 - a. Preliminary draft of proposed rules
 - b. Proposed updated *Policy for Determination of System Actuarial Review*
5. Future meetings: Agenda items, dates, locations, and related matters
6. Invitation for public comment
7. Adjournment

NOTE: The Committee may go into closed session concerning any item on this agenda if authorized under the Texas Open Meetings Act, Government Code, Code Ch. 551. Persons with disabilities who plan to attend this meeting and who may need special assistance are requested to contact Lindsay Seymour at (800) 213-9425/ (512) 463-1736 three to five (3-5) working days prior to the meeting date so that appropriate arrangements can be made.

TAB 1



Actuarial Committee Meeting Minutes

January 28, 2022

1. Meeting called to order (0:01)

The first meeting of 2022 of the Actuarial Committee was called to order Friday, January 28, 2022, at 10 a.m. in the Reagan Building, room 120, 1400 Congress Avenue, Austin, Texas, 78701.

Roll call of committee members (0:20)

Committee members present:

Chair Keith Brainard
Marcia Dush
Stephanie Leibe

A quorum being present, the meeting was called to order by Chair Brainard.

2. Committee administrative matters (0:40)

a. September 29, 2020, meeting minutes (5:10)

Chair Brainard entertained a motion to suspend the reading of minutes of the September 29, 2020, meeting and approve them as circulated.

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

The motion passed unanimously.

3. Rulemaking relating to the updated Funding Soundness Restoration Plan (FSRP) requirements under Texas Government Code Sections 802.2015 and 802.2016 (2:00)

Madilyn Jarman presented a conceptual document for rulemaking to:

- provide guidance and streamline reporting for FSRPs after changes from HB 3898;
- preserve the work of systems that had previously submitted effective FSRPs and are committed to achieving full funding; and
- support systems in unusual situations due to when they became subject to the new FSRP requirement.

David Fee provided the FSRP report. The committee encouraged plans subject to an FSRP to submit it earlier than the September 1, 2025, deadline. Mr. Fee encouraged plans at risk of triggering an FSRP or with amortization periods currently greater than 30 years to develop a plan to become fully funded and submit that plan to the PRB by September 1, 2025.

Mr. Fee updated the committee on the five plans that had submitted FSRPs prior to September 1, 2021. Ms. Dush clarified that the five plans listed are the only ones with legacy FSRPs and that there will not be any new legacy FSRPs.

Ms. Kumar stated staff had communicated with plans currently subject to or at risk of becoming subject to an FSRP. Ms. Dush noted FSRPs received before September 1, 2025, would have the

benefit of the revision exemption. Ms. Leibe asked staff to reach out to those plans not yet at risk of an FSRP to provide the benefit of additional planning time.

Ms. Jarman presented the recommended rulemaking included in the committee packet.

Ms. Dush noted that with 30-year amortization periods, the unfunded liabilities would be expected to grow for another ten years regardless of gains or losses, due to negative amortization. She noted the importance of a funding policy and balancing intergenerational equity, funding benefits, and budgeting contributions, and stated that 30 years was a very long time to take care of past unfunded liabilities. Chair Brainard agreed with Ms. Dush and added that the Governmental Accounting Standards Board (GASB) expected a 30-year amortization period to be the outlier, not the standard, and strongly encouraged plans to try to get well below 30 years. Ms. Leibe inquired about when progress updates for plans currently subject to FSRPs would be due. Ms. Kumar stated that staff would be in contact with those plans and would work on addressing the updates in rules.

Ms. Dush suggested staff consider a plan's actuarial value and market value and use the greater of the two to determine whether the FSRP requirement is triggered.

Chair Brainard asked staff to clarify the statutory definition of risk-sharing mechanisms in the rules. Committee members discussed the FSRP revision exemption and the PRB's current enforcement mechanisms for noncompliant plans. Ms. Dush mentioned she had noticed that plan participants are often unaware of plan funding or reporting issues and stated she would like to incorporate into the rules required communication with plan participants if a plan was noncompliant with the FSRP requirements. Ms. Leibe asked that staff work with PRB's assistant attorney general counsel during the rulemaking process.

Ms. Dush requested staff include the updated progress on FSRPs triggered on September 1, 2021, in its October 2022 meeting materials.

Chair Brainard reminded systems that the updated staff recommendations for rulemaking provided in the meeting materials will be available soon on the PRB's website. He instructed staff to incorporate feedback received during the meeting and share staff recommendations for rulemaking with stakeholders for feedback and comments; present received comments and updated recommendations to the board at its February meeting; and begin drafting FSRP rules and consider potential updates to the board's Policy for Determination of System Actuarial Review to provide draft rules and policy revisions to the committee at its next meeting.

4. Update on the Actuarial Matters PRB core course (1:15:10)

Ashley Rendon informed the committee that content updates to the Actuarial Matters course had been completed and will become available to systems shortly. She stated the Benefits Administration course would be updated next.

5. Update on the Actuarial Valuation Report, including PRB intensive reviews and Texas Public Pension Data Center (1:17:28)

Mr. Fee informed the committee that the PRB database had been updated. Ms. Kumar stated the PRB contracts with a database administrator but does not have one on staff and that the data center will soon be updated. Mr. Fee stated staff will recommend a system for intensive review at the February meeting of the full board.

6. Date and location of next Actuarial Committee meeting (1:20:06)

Chair Brainard stated the next committee meeting would be in May 2022, with the exact date TBD.

7. **Invitation for public comment (1:20:23)**

There were no public comments.

8. **Adjournment (1:21:00)**

The meeting was adjourned at 11:21 a.m.

PRB staff in attendance:

Anumeha Kumar	Wes Allen	Bryan Burnham	Amy Cardona	David Fee
Madilyn Jarman	Mariah Miller	Robert Munter	Ashley Rendon	Lindsay Seymour

Chair Keith Brainard

TAB 2

Funding Soundness Restoration Plans: Draft Rules & Board Policy

Texas Pension Review Board
Actuarial Committee
May 18, 2022
Agenda Item 4

Presentation Summary

- Overview & Timeline
- Feedback from Stakeholders
- Comparison with Rule Concepts
- Draft Rule Language
- Draft Board Policy
- Recap
- Questions

Overview & Timeline

Overview

- Overall goals:
 - Adopt rules and related board policy using a transparent process with ample opportunity for stakeholder input.
 - Assist systems in complying with broad FSRP requirements established in statute.
- New rules:
 - Clarify aspects of the new FSRP law after changes made during the previous session.
 - Help transition from the old requirements.
- Board policy update:
 - Update written policy to be consistent with current statute and agency practices.

Timeline

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

Feedback From Stakeholders

Comments Received

- Three comments from systems or stakeholders.
 - Specific concerns discussed alongside the relevant rule language.
 - One comment on evaluating the portion of the normal cost being paid by members before automatic risk-sharing mechanisms take effect.
 - Generational equity and contributions—Not currently addressed in rule language



Comparison with Rule Concepts



Rule concepts vs. rule numbers

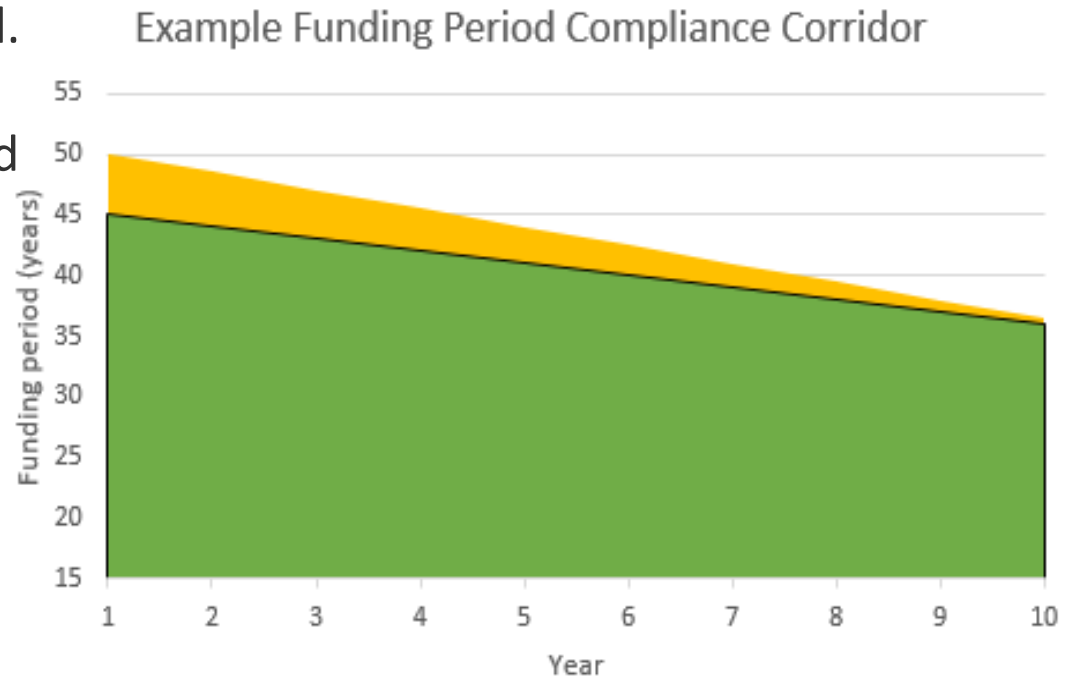
Rule Concept/Recommendation	Corresponding Rule Number
Defining Terms	§610.13
1A: Clarify L-FSRP adherence	§610.20
1B: Adjust threshold for completing L-FSRP	§610.21
1C: L-FSRPs and date of revised FSRP exemption	§610.22
2A: New FSRP adherence	§610.30
2B: Progress updates	§610.31
2C: New FSRP revision exemption qualification	§610.32
2D: Member Communication	§610.15

Rule Language

Recommendation 1A—§610.20

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

- Includes previous method used before the law changed.
- Adds compliance corridor—new option based on method for new FSRPs
 - Allows more flexibility to account for normal fluctuations.
 - Systems would submit a baseline projection.



Recommendation 1B—§610.21

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

- The target date is the 10th anniversary of the date the L-FSRP was originally finalized.

Recommendation 1C—§610.22

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

- Includes an additional option to ensure systems with L-FSRPs do not get removed from their status early.

Recommendation 2A—§610.30

Adopt a method that the PRB will use to determine if a system has fulfilled the requirements of an FSRP or R-FSRP.

- Description of the required FSRP contents
 - coversheet
 - any necessary explanatory materials
 - documentation of adoption by system and sponsor
- FSRP would be complete when the AV/analysis is submitted.
 - Allows submission of either AV or analysis in place of one another.
- Definition of automatic risk-sharing
- PRB actuary will check to see that it is consistent with ASOPs.

Recommendation 2B—§610.31

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

- First update for systems that are currently subject: Sept. 1, 2023.
- First draft should include a planned timeline to complete the FSRP—minimum
- Description of changes should include actuarial impacts of each change

Recommendation 2C—§610.32

2C. Adopt methods to determine when a system qualifies for the revision exemptions, including potential options for voluntary submission of FSRPs from systems that are not currently subject to the requirement.

- Compliance corridor—projection submitted with AV/analysis would be used as the baseline for the first 10 years.
 - Would include corridors for both funding period and funded ratio.

Recommendation 2D—§610.15

2D. Interpret the existing statutory plan member communication requirements on inadequate funding arrangements to also apply to triggering the FSRP requirement, which is a direct result of inadequate funding.

- An AV with a funding period above the maximum would be a determination that the funding arrangements are inadequate.
 - Would need to notify members during regular annual communications.
 - Would notify members if this triggered an FSRP.

Revised Board Policy

Board Policy for New FSRP Statute and Rules

- Staff determined a new policy would better fit the situation.
 - “Policy for Determining and Promoting Compliance with Funding Soundness Restoration Plan Requirements”
 - Replacing “Policy for Determination of System Actuarial Review”
 - More consistent with Policy for Regulation of Non-Compliant Retirement Systems (2013) and new FSRP standards
 - Includes the compliance corridor.
- Describes types of courtesy notices staff will send out related to FSRPs.
 - Adding current practices to policy, not a new practice.

Next Steps

- Adjust drafts based on stakeholder feedback and committee discussion.
- Prepare preamble and governor's office memo for posting.
- Collect further public comment on drafts.
- Board meeting in July—approve revised drafts for posting.

Recap

- FSRP Overview & Timeline
- Feedback from Stakeholders
- Comparison with Rule Concepts
- Draft Rule Language
- Draft Board Policy
- Recap
- Questions



Questions?



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2D: Member Communication	§610.15

Chapter 610 Funding Soundness Restoration Plans

§610.11 Authority & Purpose

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

§610.13 Definitions

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

(#) Compliance corridor – the acceptable range of variation from a system’s projections 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.

(#) "Formulated" means finalized and approved by the appropriate decision-making bodies.

(#) "Funded ratio" has the meaning assigned by §802.2011, Texas Government Code.

(#) "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.

(#) "Governmental entity" has the meaning assigned by §802.1012, Texas Government Code.

(#) "Legacy funding soundness restoration plan" or "L-FSRP" means a funding soundness restoration plan formulated prior to September 1, 2021, accepted by the Pension Review Board, and governed by the law as it existed immediately before that date.

(#) "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.

§610.14 Applicability

This chapter applies to every public retirement system and its associated governmental entity that is subject to §802.2015 or §802.2016 of the Texas Government Code.

§ 610.15 Required disclosure of inadequate financing arrangement to plan members

(a) A notification to the associated governmental entity under §802.2015(c) or §802.2016(c), Texas Government Code, 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 §802.106(d), Texas Government Code shall be accompanied by a disclosure of triggering the funding soundness restoration plan requirement under §802.2015(c) or §802.2016(c), Texas Government Code, when a system becomes subject to the requirement.

§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 10th anniversary of the date on which the final version of the funding soundness restoration plan was agreed to as required by law, and so long as the system's funding period continues to shorten during the first 10 years the plan is in effect; or

(2) an increase in funding period compared to the previous valuation, and the system's actuarial valuation show 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 the Policy for Determining and Promoting Compliance with Funding Soundness Restoration Plan Requirements.

(b) The baseline for a system's legacy funding soundness restoration plan compliance corridor will be a projection submitted by public retirement systems with legacy funding soundness restorations plans for the purposes of this subsection. This projection must show the projected funded ratio and funding period for each year beginning with the current date until the 10th anniversary of the date on which the final version of the funding soundness restoration plan was agreed to under the law as it existed immediately before September 1, 2021. 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.

§610.21 Completion of a Legacy Funding Soundness Restoration Plan

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

(1) the 10th anniversary of the date on which the final version of the funding soundness restoration plan was agreed to under the law as it existed immediately prior to September 1, 2021; or,

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

§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 revised funding soundness restoration plan exemption under §802.2015(d-1)(1) or §802.2016(d-1)(1), Texas Government Code.

(b) The exemptions provided in to §802.2015(d-1) or §802.2016(d-1), Texas Government Code, do not apply to a system adhering to a legacy funding soundness restoration plan before the date prescribed by §610.21.

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

(a) A retirement system will be considered 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, such as the minutes or other record of an open meeting when each adoption occurred.

(b) A retirement system will be considered to have completed the funding soundness restoration plan requirement when the board receives an actuarial valuation or separate analysis under §§802.2015(e-2) or 802.2016(e-2), Texas Government Code, and the staff or board actuary determines the plan complies with actuarial standards of practice. An actuarial valuation and separate analysis are equivalent for the purposes of §§802.2015(e-2) or 802.2016(e-2), Texas Government Code, 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:

- (1) "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 will be compliant with the funding soundness restoration plan or revised funding soundness restoration plan requirements once all materials, including the actuarial valuation or separate analysis, are submitted to the board and the board or staff actuary determines the materials are sufficient to fulfil the standards set forth in statute and rules.

§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 §§802.2015(f) or 802.2016(f), Texas Government Code, 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 §§802.2015(f) or 802.2016(f), Texas Government Code, must include the projected actuarial impact of each change under consideration on the retirement system's funding period and funded ratio.

(d) For systems for which the valuation date of the actuarial valuation that triggered the FSRP requirement was prior to September 1, 2021, but do not have legacy funding soundness restoration plans, updates will be due starting on September 1, 2023, and each subsequent six-month period until the plan is submitted to the board.

§610.32 Revised Funding Soundness Restoration Plan Exemption

(a) The Board hereby adopts by reference the Policy for Determining and Promoting Compliance with Funding Soundness Restoration Plan Requirements, which is available to all public retirement systems from the offices of the State Pension Review Board and from its website.

(b) 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 prescribed by §§802.2015(e)(2) or 802.2016(e)(2), the system's actuarial valuation shows the system's funding period and funded ratio remain within the compliance corridor established in the Policy for Determining and Promoting Compliance with Funding Soundness Restoration Plan Requirements.

(c) The baseline for a system's compliance corridor will be the actuarial projection of the system's expected future assets and liabilities submitted in accordance with either §§802.2015(e-2)(1) or 802.2016(e-2)(1), Texas Government Code.

(d) A system may voluntarily submit a funding soundness restoration plan without first becoming subject to the requirement, for the purposes of qualifying for the revised funding soundness restoration plan exemption, provided the plan is consistent with all applicable requirements in statute and rules.

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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

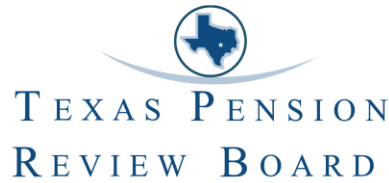
8.Executive director action. If the plan is still noncompliant 60 days from the deadline and staff has been unable to reach a resolution with the system, the names of the system and sponsor will be included on the list of noncompliant public retirement systems posted on the PRB website. The executive 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.

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**Policy for Determination of System Actuarial Review
(Adopted May 5, 2016)**

1. In accordance with Government Code, Section 801.202, the Pension Review Board (PRB or Board) staff will review all actuarial reports submitted by public retirement systems. Staff will determine whether or not the public retirement system's actuarial valuation ("Valuation") shows that the system's actual contributions are sufficient to amortize the unfunded actuarial accrued liability within 40 years, as specified in Texas Government Code, Sections 802.2015 and 802.2016. As part of its review of a system's actuarial reports, the PRB staff may calculate an amortization period that is different from what is reported in the Valuation.
2. If the staff determines a system's actual contributions are not sufficient to amortize the unfunded actuarial accrued liability within 40 years ("Over-40-Year-Amortization-Determination"), the executive director will notify the Board.
3. If the Board actuary concurs with the Over-40-Year-Amortization-Determination, the executive director will notify the system of this determination in writing and provide the system a 30-day period in which to voluntarily respond to staff. If the PRB does not receive any response from the system within the designated time period, the system's Over-40-Year-Amortization-Determination will be confirmed. The system will also be informed of the requirement that the system provide its associated governmental entity the notice required under Sections 802.2015(c) and 802.2016(c) of the Texas Government Code.
4. If the system in its response, if any, does not agree with staff's Over-40-Year-Amortization-Determination, the staff will present staff's review and the system's response to the Board's actuarial committee. The actuarial committee will confirm, deny, or amend the staff's Over-40-Year-Amortization-Determination and will recommend its findings to the Board. The Board will make the final decision regarding the Over-40-Year-Amortization-Determination. The Board's decision and the system's disagreement, if any, will be included in the PRB's actuarial and financial reports and in the funding soundness restoration plan (FSRP) lists staff presents at each PRB meeting.

5. A system with a confirmed Over-40-Year-Amortization-Determination will be placed under staff review for further risk assessment. The staff will notify the system and the Board in advance of the review to provide the system with details of the review, including the scope and time period of the review. The executive director will report preliminary findings to the Board's actuarial committee.
6. If a system receives a confirmed Over-40-Year-Amortization-Determination based on three consecutive annual Valuations, or two consecutive Valuations for a system that conducts the Valuations every two or three years, the executive director will notify the system and its associated governmental entity regarding the statutory requirement to formulate an FSRP in accordance with Texas Government Code Section 802.2015.¹
7. At each PRB meeting, staff will provide a list of systems subject to the FSRP formulation requirement. The staff will also provide a list of systems that are at risk of becoming subject to the requirement because the system has a confirmed Over-40-Year-Amortization-Determination, based on the most recent Valuation.
8. The Board may refer a system that is subject to the FSRP formulation requirement to be placed under the review of the Board's actuarial committee. If a system is referred as such, the findings and recommendations of the staff review will be presented at the next meeting of the committee. The system and its associated governmental entity will be notified in writing no later than seven (7) days prior to the committee meeting and may be asked to appear before the committee.
9. Upon the recommendation of the committee, the Board may ask a system and its associated governmental entity to appear at a regularly scheduled meeting of the PRB. If such recommendation is made, the entities will be notified in writing no later than ten (10) business days prior to such meeting.

¹ Texas Government Code Section 802.2016, concerning the Funding Soundness Restoration Plan for Certain Public Retirement Systems, has similar requirements to Section 802.2015 and applies only to a public retirement system that is governed by Article 6243i, Revised Statutes.

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El Paso Firemen & Policemen's Pension Fund

909 East San Antonio • El Paso, Texas 79901-2523



March 17, 2022

To: Madilyn Jarman, Policy Analyst, Texas Pension Review Board

From: Tyler Grossman, Executive Director, El Paso Firemen & Policemen's Pension Fund

RE: Proposed Staff Recommendations for FSRP Rulemaking

Thank you for the opportunity to provide feedback on proposed rule concepts to implement changes made during the 87th Legislature to the Funding Soundness Restoration Plan (FSRP) statute.

HB 3898 was a complex piece of legislation which made significant revisions to the FSRP process. As such, the El Paso Firemen & Policemen's Pension Fund applauds the Pension Review Board's efforts to engage stakeholders early in the rulemaking process.

We look forward to participating fully in the upcoming rulemaking and reviewing actual rules language as it is developed. However, at a high level, our preliminary view is that Staff's proposed rules concepts and recommendations represent a straightforward and important step toward simplifying and clarifying provisions of HB 3898 that could be subject to interpretation without proper guidance.

Historically, our Fund has been a strong proponent of preserving a reasonable transition or phase-in period when adjustments were made to funding period benchmarks by either the PRB or the Legislature. However, we realize that such a transition can complicate implementation of a bill like HB 3898, especially given that some systems were already engaged in the FSRP process before the legislation was enacted and/or face unique circumstances based upon timing.

Given these potential complexities, any effort to streamline reporting and offer clear and uniform criteria for ensuring compliance with new FSRP requirements is welcomed. The vast majority of systems want to comply with all statutory and regulatory requirements. Toward that end, an easy-to-follow "roadmap" that also addresses essential deadlines and deliverables for new FSRP obligations would be valuable.

Regarding questions or concerns our Fund may have at this stage about proposed rule concepts and recommendations, we would like to highlight a couple of issues for Staff's consideration:

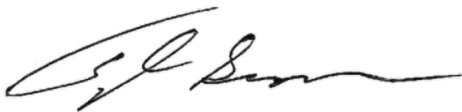
- **Components of a Revised FSRP (R-FSRP):** We support Staff's proposed effort to provide definitions in rule to clarify the meanings of the various R-FSRP components identified in the

new law, including “automatic risk-sharing mechanisms” and “adjustable benefit or contribution structures.” In addition to providing needed definitional clarity, we would hope that the final rules product also preserves the ability of individual systems to work with their respective government sponsors to jointly determine which of these actions need to be taken to fulfil R-FSRP requirements, consistent with each system’s governing statute and/or the plan sponsor’s charter. As such, we believe rules implementing this section of HB 3898 should not mandate the use of all of these remedies in formulating an R-FSRP, but rather leave it up to the systems and their sponsors, subject to PRB review, to identify the actual combination of actions to be taken.

- **90-day actuarial valuation following FSRP or R-FSRP adoption:** During legislative consideration of HB 3898, we raised the issue of timing for an actuarial valuation following adoption of an FSRP or R-FSRP. Specifically, we were concerned that a rigid 90-day AV requirement could potentially result in a system incurring higher costs—especially if its regularly-scheduled AV falls in a reasonable time frame following the adoption of the FSRP or R-FSRP but beyond the 90-day threshold. Of course, any AV performed in the aftermath of an FSRP or R-FSRP would necessarily reflect the combined impact of all changes made to address inadequate funding. Therefore, we would hope that new rules give the PRB some discretion to evaluate the timing of follow-up AVs based upon a system’s individual circumstances. In our view, the new law provides some leeway to do so.

Again, we appreciate the opportunity to engage in this important rulemaking and look forward to providing additional input as rules language takes shape. In the meantime, I am available to discuss any of the issues raised at this stage of the process or to answer any questions you may have.

Respectfully,

A handwritten signature in black ink, appearing to read "Tyler Grossman", with a stylized, flowing script.

Tyler Grossman
Executive Director/CIO
El Paso Fireman & Policemen’s Pension Fund

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March 9, 2022

Texas Pension Review Board
Via Email: prb@prb.texas.gov

Re: Legacy FSRP Rulemaking

Attn: Ms. Amy Cardona, Interim Executive Director

Background

The Fort Worth City Council adopted comprehensive changes for the Fort Worth Employees' Retirement Fund (ERF) on December 11, 2018 and the changes to member contributions were subsequently approved by a vote of the active employees of the City. These changes included the elimination of COLAs for certain active members, automatic contribution increases for both the City and members, and the introduction of additional risk-sharing contributions for both the City and members. With these risk-sharing contributions, the City of Fort Worth was one of the first cities in Texas to adopt plan reforms incorporating "automatic risk-sharing mechanisms" which will be required of all new Funding Soundness Restoration Plans (FSRPs) going forward.

ERF formally submitted this FSRP to the Texas Pension Review Board (PRB) on April 11, 2019 and the PRB confirmed the compliance of the FSRP on August 30, 2019.

The December 31, 2018 actuarial valuation, the first valuation following the adoption of the plan changes, indicated that the funding period for ERF was 44 years. The December 31, 2020 actuarial valuation, the most recently completed actuarial valuation, indicated that the funding period for ERF was 42 years. Based on the risk-sharing contributions and other benefit provisions contingent on the funded status of ERF, we expect the funding period for ERF to continue decreasing by approximately one year in each subsequent actuarial valuation.

Comments for Rulemaking

We want to commend the City of Fort Worth and the ERF members for their efforts to significantly improve the financial outlook for ERF. In recognition of their efforts, our goal is to maintain the Legacy FSRP status and to enshrine the current FSRP under the prior rules.

To meet this goal, we respectfully request that the rules allow the current FSRP for ERF to maintain the status as a Legacy FSRP as long as the funding period for ERF is less than 40 years as of September 1, 2025 (or the effective date of the transition).

Texas Pension Review Board
March 9, 2022
Page 2

Accordingly, the current FSRP for ERF will continue to be covered by the prior rules and ERF will continue to provide updates on progress to the PRB through the 10th anniversary of the original FSRP.

Thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Benita Falls Harper", with a stylized flourish at the end.

Benita Falls Harper
Executive Director

BFH:ac

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From: [PRB](#)
To: [Madilyn Jarman](#); [Ashley Rendon](#)
Subject: FW: Feedback on updated rules concept
Date: Tuesday, March 8, 2022 9:49:19 AM

FYI

From: Kolby Beckham <Kbeckham@longviewtexas.gov>
Sent: Monday, March 7, 2022 7:46 PM
To: PRB <PRB@prb.state.tx.us>
Subject: Feedback on updated rules concept

My main concern with the proposed policy is the mandated risk sharing language. It was pointed out in the last committee meeting that there are many funds that are paying 100% or more of the normal cost of their plan. I would suggest that the percentage of normal cost being paid by members, should be evaluated before automatic cost sharing goes into effect. Asking for members that are already paying 100% of their benefit, to give more is not fair or equitable. At some point the sponsoring agencies need to be held accountable for making changes. Plans should not be constantly burdened with "shall" orders in statutes, when the sponsoring agencies get off with "May".

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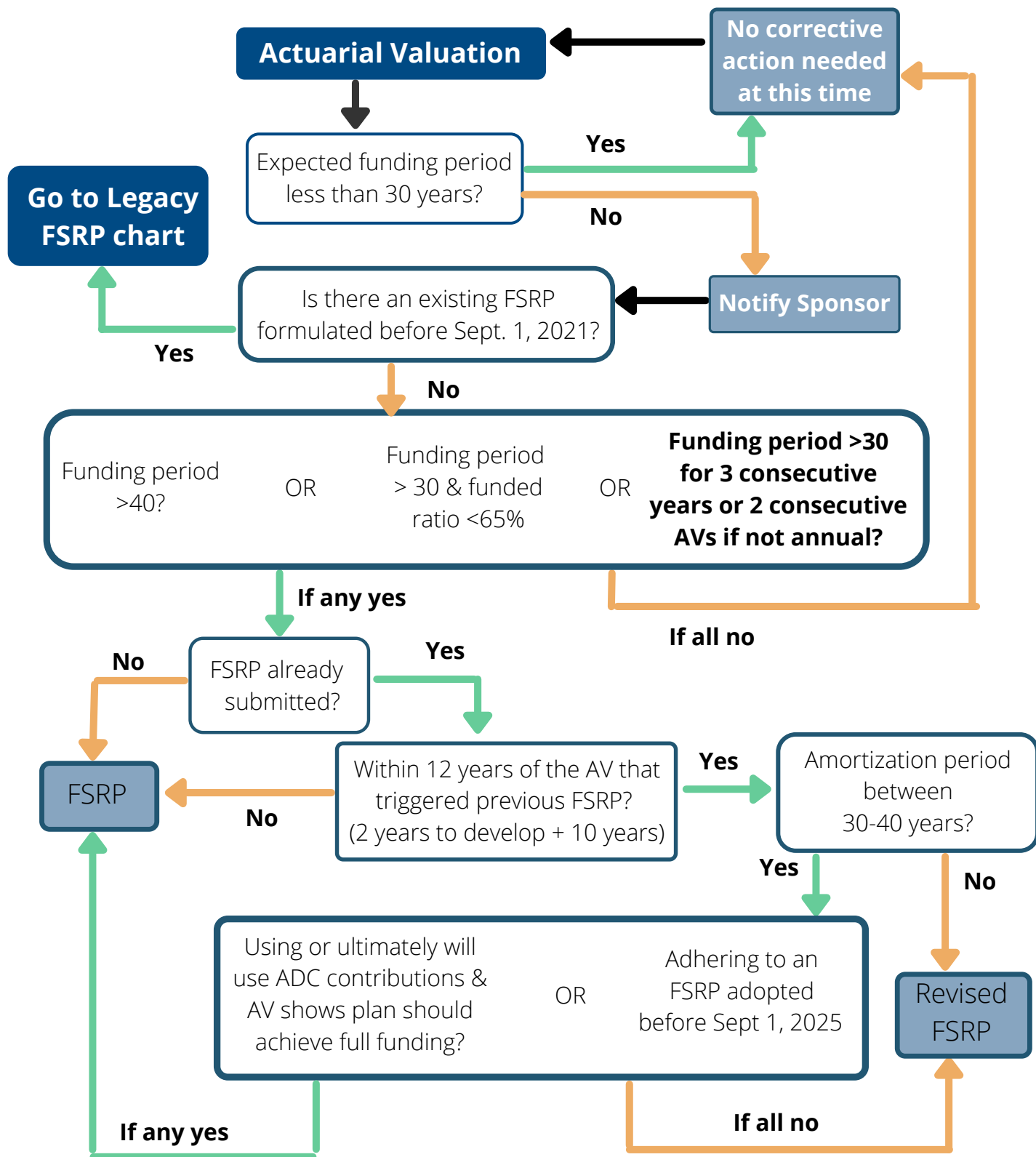
J. Kolby Beckham
Captain TK#3 A
Longview Firemen's Relief & Retirement Chairman
Cell- 903-738-7545

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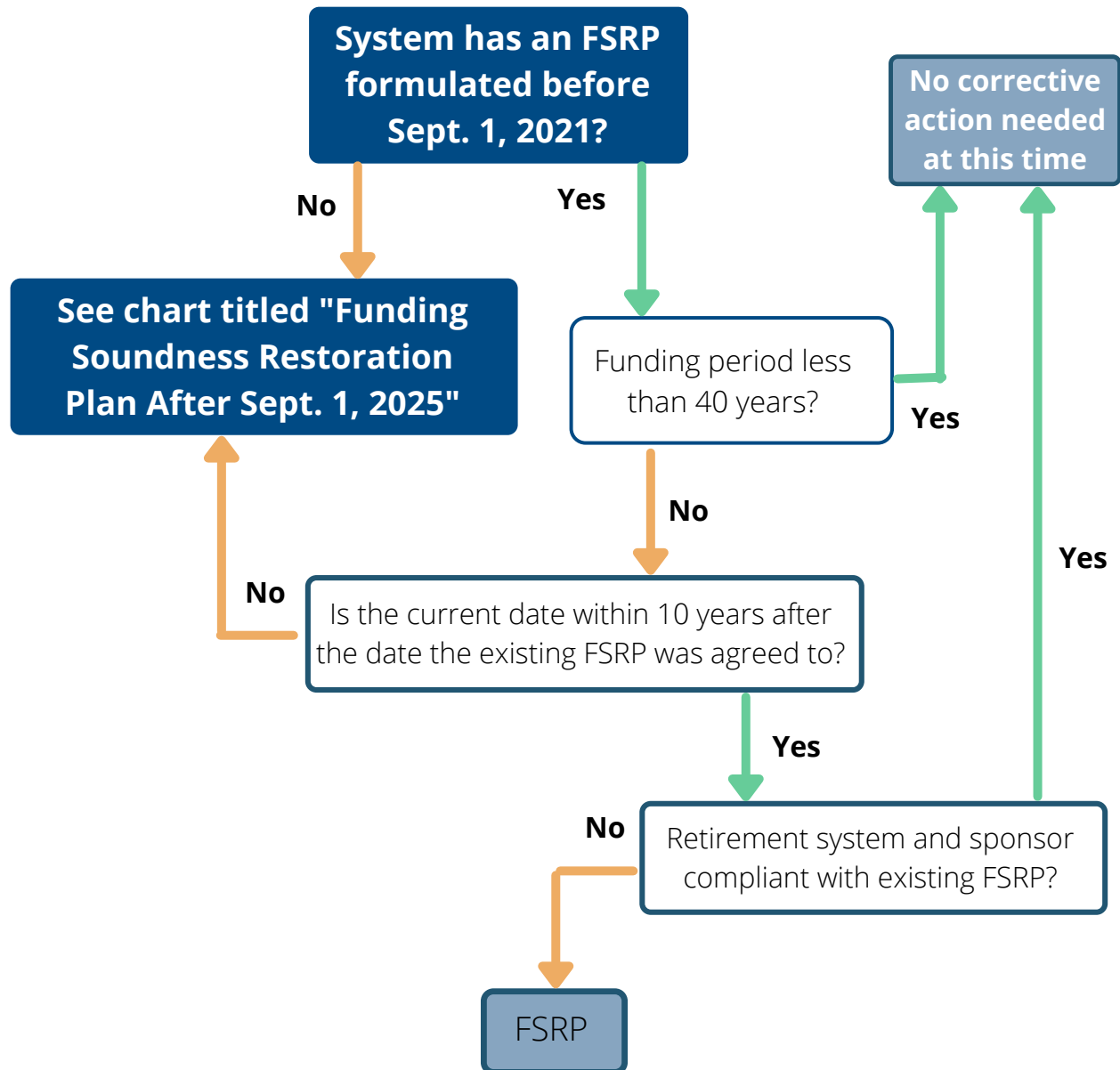
Comparison of FSRP Provisions

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

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



Funding Soundness Restoration Plan for Legacy FSRP Systems



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

FSRP Reporting to PRB

Retirement system & sponsor work together after FSRP is triggered



Within 1 year of triggering AV:

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



Within 2 years of triggering AV:

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



Update funding policy based on the FSRP/R-FSRP



Within 31 days of adoption:

submit FSRP/R-FSRP to PRB



Within 90 days of adoption:

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

OR

Within 90 days of request from PRB:

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



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

FSRP Changes through HB 3898 (87R)

Legacy Funding Soundness Restoration Plan

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

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

Funding Soundness Restoration Plan

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

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

Revised Funding Soundness Restoration Plan

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

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

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