



Update: Funding Soundness Restoration Plan Texas Pension Review Board

TEXPERS 2022 Annual Conference

Amy Cardona, Interim Executive Director

Madilyn Jarman, Policy Analyst

Presentation Summary

- Leadership Team Introductions and PRB Overview
- FSRP Rulemaking Process
- Frequently Asked Questions
- Rule Concepts: Staff Recommendations
- Recap
- Questions



Leadership Team Introductions and PRB Overview



Amy Cardona



Leadership Team Introductions



- Amy Cardona, Interim Executive Director
 - amy.cardona@prb.texas.gov
- David Fee, Senior Actuary
 - david.fee@prb.texas.gov

PRB Overview

Primary Duties

- Conduct a **continuing review** of all Texas public retirement systems
- Conduct **intensive studies** of potential or existing problems that threaten the actuarial soundness of public retirement systems
- Prepare **actuarial impact statements** for pending legislation
- Provide **information** and **technical assistance**
- Recommend **policies, practices, and legislation** to public retirement systems and governmental entities
- Develop and administer an **educational training program** for trustees and administrators of retirement systems

PRB Overview

Board

Composed of **seven** governor-appointed members, including:

- three members with a background in securities investment, pension administration, or pension law
- one member who is an actuary
- one member who is an expert in governmental finance
- one active member of a public retirement system
- one retired member of a public retirement system

Staff

13 FTEs, including technical experts



FSRP Rulemaking Process



Madilyn Jarman

Rulemaking Timeline & Stakeholder Feedback

- 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 (now)**: Check-ins with stakeholders, draft initial rule language
- May 2022—Initial draft rules 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
 - Rules take effect 20 days after posting



Frequently Asked Questions



Madilyn Jarman

Who is involved in making changes during an FSRP?

- A system and sponsor are jointly responsible for developing an FSRP.
 - Both the system and sponsor must adopt the final version in open meetings.
- It is meant to be a collaborative process to make necessary changes for a plan's **long-term** fiscal sustainability.
- FSRPs must be developed in line with your governing statute.
 - Membership votes, elections, etc.

When do you prepare an FSRP?

- **Until Sept. 1, 2025:** FSRP is triggered after 2 or 3 actuarial valuations showing a funding period > **30 years**.
- After Sept. 1, 2025: Two immediate triggers also take effect.
 - Funding period >40 years
 - Funding period within 30-40 years + funded ratio < 65 percent
- As part of rulemaking, the PRB is currently evaluating options for systems to submit **voluntary FSRPs**.

How long do you get to prepare an FSRP?

- The first new FSRPs are not due until **September 1, 2025**.
- Otherwise, an FSRP is due within 2 years of the valuation date of the triggering actuarial valuation.
 - Systems have reported that additional time to do education and outreach has made the process easier.

New FSRP

vs

New Revised FSRP

- 30-year maximum funding period
 - Can be triggered now
 - No specific changes required
 - No exemptions, but systems with grandfathered FSRPs may continue under certain conditions
- 25-year maximum funding period
 - Cannot be triggered before FSRP
 - **Required changes:** automatic risk-sharing mechanisms, ADC structure, AND other adjustable benefit or contribution structures
 - Exemption available under certain circumstances

Do we need to develop a new funding policy?

- House Bill 3898 also included changes to the statute governing funding policies, including requiring sponsor involvement.
- Our current understanding:
 - If you already have a funding policy in place, you do not need to start over.
 - Moving forward, any revisions or changes will need to be developed jointly with the sponsor as required by the new law.
- If your system prepares an FSRP, the funding policy must be updated so they are both consistent.

In Progress

- What happens if you trigger an FSRP, but your funding period falls below 30 years by the next valuation?
- How will a system provide progress updates the PRB while preparing an FSRP?

Other questions may arise as this process continues.

We are working to provide any answers we can.



Rule Concepts: Staff Recommendations



Madilyn Jarman

Legacy FSRP & Transition Period

1A: Clarify how the PRB will determine whether a system with an L-FSRP is adhering to its plan to restore funding.

1B: 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.

1C: 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.

New FSRPs

2A: Adopt a method that the PRB will use to determine if a system has fulfilled the requirements of an FSRP or R-FSRP.

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

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.

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.

Opportunities for Comment

- We requested feedback on the revised concept document in March 2022.
- We are currently drafting the formal rule language.
- Upcoming Meetings:
 - Actuarial Committee, May 2022
 - PRB meeting, July 2022
- Formal public comment period on proposed rules in the *Texas Register*
- Staff is also accepting comments and feedback throughout the process.
 - prb@prb.texas.gov
 - (512) 463-1736

The earlier we hear your questions or concerns, the easier it will be to take them into consideration during this process. Please do not wait to let us know.

Recap

- Leadership Team Introductions and PRB Overview
- FSRP Rulemaking Process
- Frequently Asked Questions
- Rule Concepts: Staff Recommendations
- Recap
- Questions



Questions?

