
Funding Soundness Restoration Plan Overview: Understanding the Rules and Policy

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Pension Review Board
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Presentation Summary

- FSRP Types
 - Legacy FSRP
 - FSRP
 - Revised FSRP
 - Voluntary FSRP
- Proposed Rules
 - Rulemaking Timeline
 - FSRP Rules
- Policy Overview
- Recap & Questions



Funding Soundness Restoration Plan (FSRP) Types

Link: [Educational Materials](#)



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FSRP Types: General

- FSRP created in 2015 (HB 3310 84 R)
- Updated in 2021 (HB 3898 87 R)
- For all FSRPs formulated after 9-1-2021:
 - Target funding period of 30 years
 - At least two years to formulate and reach target
 - Uses valuation date rather than plan adoption of AV
 - Must submit an analysis or AV showing combined impact of changes and projection to full funding
 - Opportunity to become exempt from a revised FSRP



FSRP Types: Legacy FSRP (L-FSRP)

- Currently five systems – no new L-FSRPs
- Must adhere to law **before** September 1, 2021
 - Six months to create plan
 - Target funding period \leq 40 years
 - 10 years to reach target
 - Progress updates to the PRB every 2 years
- **New:** Compliance corridor to monitor adherence



FSRP (Standard FSRP)

- Law after 9-1-2021
- Target funding period \leq 30 years
- **Until 9-1-2025** OR two years to develop and implement plan
- Progress updates during development
 - Within 1 year of triggering AV, then every 6 months until FSRP is adopted
- Based on triggering AV date



Standard FSRP

- Must be adopted by system and sponsor in open meetings.
- AV or separate analysis must be submitted to show asset-liability projection to full funding.
 - Within 90 days of adoption, or 90 days from PRB request
- Compliance based on receipt of required materials and meeting statutory and rule requirements.
- Must update funding policy to reflect changes.



FSRP Types: Revised FSRP (R-FSRP)

- Law after 9-1-2021
- Triggered within 10 years of a completed FSRP
- Target funding period \leq 25 years
- Two years to formulate
- Progress updates during development
 - Within 1 year of triggering AV, then every 6 months until FSRP is adopted
- Must include things like automatic risk-sharing mechanisms and an ADC structure



Revision Exemption

- If the funding period is between 30 and 40 years AND
 - Adhering to an FSRP formulated before 9-1-2025
 - or
 - System is using or will ultimately use an actuarially determined contribution structure and is expect to reach full funding.
- If a plan triggers another FSRP within 10 years of a previous FSRP and meets the exemption requirements, they will be required to prepare a regular FSRP (targeting 30 years) rather than the R-FSRP (targeting 25 years).



FSRP Types: Voluntary FSRP (V-FSRP)

- Prepared without first becoming subject to the FSRP requirement
- Follow FSRP requirements, other than progress updates
 - Funding period \leq 30 years
 - AV or analysis due projecting UAAL to full funding
 - Could qualify for the revision exemption



Proposed Rules



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Rulemaking Timeline

- January: Initial rule concepts to Actuarial Committee
- February: PRB Meeting; committee concepts presented
- May: Initial draft rules and updated board policy to Actuarial Committee
- July: PRB Meeting; updated draft rules approved by the board for posting in the *Texas Register*. **Rules published in July 29th issue**
- **August: Public comment period through 5:00 p.m. on August 29**
- October: Board reviews any comments received; final approval of rules and policy. Rules take effect 20 days after submission.



Proposed Rules: Authority, Definitions, Applicability

- **Section 610.11 Authority and Purpose:** Why the rules were made.
- **Section 610.13 Definitions:** Clarifying the meaning of specific terms in the rules or statute to prevent confusion.
 - Ex: “Target Date,” “Valuation date,” etc.
- **610.14 Applicability:** Who is affected by the rules.
 - all public retirement systems subject to the FSRP requirement and those completing Voluntary FSRPs



Proposed Rules: Membership Notification

- Section 610.15
- Clarifies that the existing notification requirement under Texas Government Code §802.106(d)
 - applies if an AV shows a funding period above 30 years.
 - would need to notify members during regular annual communications if system is at risk or triggers an FSRP.

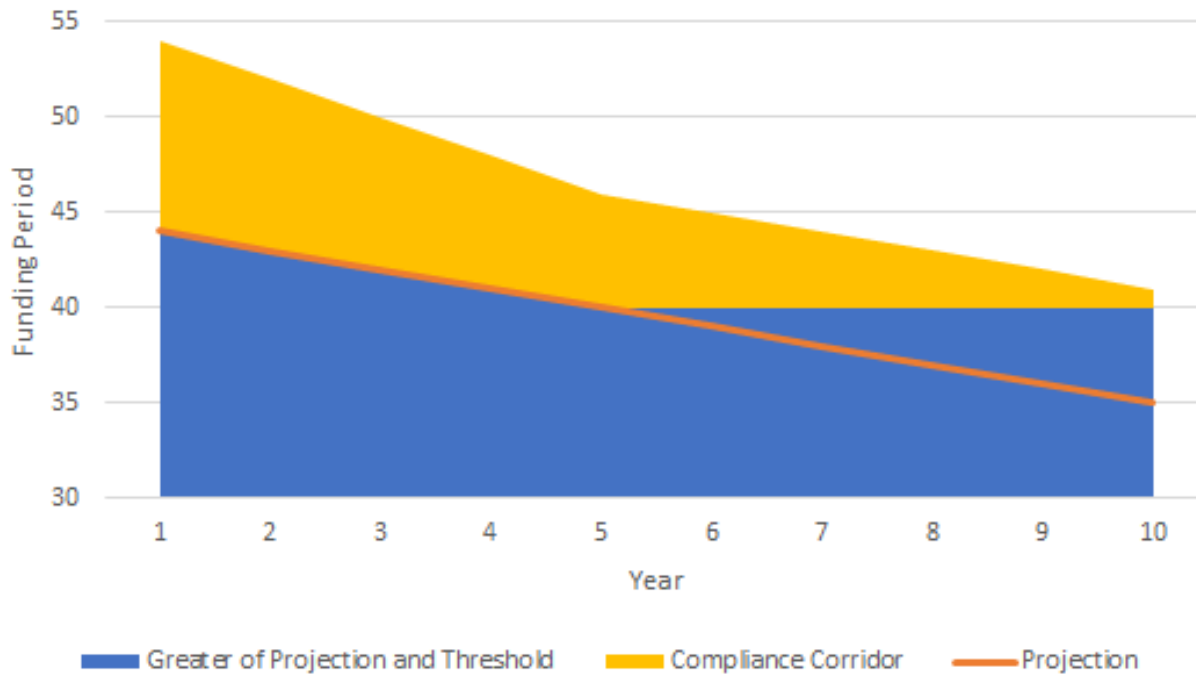
§802.106(d)

A public retirement system shall provide to each active member an annuitant a summary of the financial condition of the retirement system, if the actuary of the system determines... that the financing arrangement of the system is inadequate. The actuarial determination must be disclosed to members and annuitants at the time annual statements are next provided under Subsection (c) after the determination is made.



Proposed Rules: L-FSRP Compliance

L-FSRP Funding Period Compliance Corridor



- Section 610.20
- Establishes the methods the PRB will use to determine an L-FSRP system is still compliant, including the L-FSRP compliance corridors.



Proposed Rules: L-FSRP Completion

- Section 610.21
- Establishes when a system will complete their L-FSRP.
 - The original target date (10th anniversary of the date the L-FSRP was adopted)
- OR
- Once an actuarial valuation shows the system's funding period is below 30 years.
- Based on the earlier of these two dates, since under previous law, an FSRP lasted for 10 years until the target date.



Proposed Rules: Revision Exemption and L-FSRPs

- Section 610.22
- Clarifies that the revision exemption takes effect in 2025 once it is possible for a system to trigger an R-FSRP.
- Clarifies that an L-FSRP system would not qualify for the revision exemption until after the L-FSRP is complete.
 - HB 3898 specified that L-FSRP systems will prepare a new FSRP before an R-FSRP if they fall out of compliance.



Proposed Rules: New FSRP Compliance

- Section 610.30
- 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—for R-FSRPs
- PRB actuary will check consistency with ASOPs.



Proposed Rules: Progress Updates

- Section 610.31
- 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
- Systems doing **voluntary FSRPs** do not need to do progress updates since they are not subject to the requirements



Proposed Rules: Revision Exemption

- Section 610.32
- Establishes compliance corridors for new FSRPs in order to qualify for the pre-2025 branch of the exemption.
 - If a system's funding period is within 30-40 years, it can qualify for the exemption either with an FSRP formulated before Sept. 1, 2025, or with ADC contributions + projected to reach full funding.
- Establishes that a system can submit a V-FSRP as long as it follows all the compliance requirements.



Policy Overview



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Policy Overview

- “Policy for Promoting Compliance with Funding Soundness Restoration Plan Requirements”
 - Replacing “Policy for Determination of System Actuarial Review”
- Describes types of courtesy notices staff will send out related to FSRPs.
 - Adding current practices to policy, not adding new practices.
- **Will be formally adopted at PRB meeting after rules take effect** (expected in October).



Recap

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Reminder: Rules Comments

- Proposed rules in the July 29, 2022, issue of the Texas Register (starting on 4450).
- Send written comments to:
 - Madilyn Jarman
 - Policy Analyst
 - Pension Review Board
 - P.O. Box 13498
 - Austin, TX 78711-3498
- May also send comments to prb@prb.texas.gov, with “rule comments” in the subject line.
- Comments accepted until 5:00 p.m. on August 29, 2022.



Questions?

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