HOUSE RESEARCH ORGANIZATION bill analysis | 5/6/2015 | HB 3310 Paul, et al. (CSHB 3310 by Stephenson)

SUBJECT: Requiring funding soundness restoration plans for retirement systems

COMMITTEE: Pensions — committee substitute recommended

VOTE: 6 ayes — Flynn, Hernandez, Klick, Paul, J. Rodriguez, Stephenson

1 nay — Alonzo

WITNESSES: For — (*Registered, but did not testify*: Deborah Ingersoll, Texas State Troopers Association)

Against — Susan Alanis, City of Fort Worth; (*Registered, but did not testify*: Tom Tagliabue, City of Corpus Christi; Bill Elkin, Houston Police Retired Officers Association; Vicki Truitt, Texas Municipal Police Association)

On — Tyler Grossman, El Paso Firemen and Policemen's Pension Fund; Rhonda Smith, Houston Municipal Employee Pension System; John Lawson, Houston Police Officers' Pension System; Keith Brainard, Texas Pension Review Board; James Smith, San Antonio Fire and Police Pension Fund; Maxie Patterson, TEXPERS; (*Registered, but did not testify*: Todd Clark, Houston Firefighters Relief and Retirement Fund; Bob May, Texas Pension Review Board)

BACKGROUND: Government Code, sec. 802.101(a) requires public retirement systems to make an actuarial valuation at least once every three years of the system's assets and liabilities and offers the actuary's best estimate of anticipated experience under the program. Government Code, sec. 801.209(a) requires the Texas Pension Review Board (PRB) to post on its website certain reports from state and local public retirement systems.

The PRB guidelines for actuarial soundness state that funding should be adequate to amortize the unfunded accrued liability over a period not to exceed 40 years, with 15 to 25 years being a more preferable target.

DIGEST: CSHB 3310 would require public retirement systems to include in their actuarial valuations a recommended contribution rate needed for the system to achieve and maintain an amortization period that does not exceed 30 years.

Public retirement systems that have assets of at least $100 million would be required to conduct an actuarial experience study once every five years and submit that study to the PRB. The first such study would be conducted not later than September 1, 2016. The study requirement would not apply to the Employees Retirement System of Texas, the Teacher Retirement System of Texas, the Texas County and District Retirement System, the Texas Municipal Retirement System, or the Judicial Retirement System of Texas Plan II.

Retirement systems would be required to notify the associated government entity in writing if the system received an actuarial valuation indicating that system contributions were insufficient to amortize the unfunded actuarial accrued liability within 40 years. Systems that had received a series of consecutive valuations showing an amortization period exceeding 40 years would be required to formulate a funding soundness restoration plan. Such a plan would be developed by the retirement system and the associated government entity and be designed to achieve a contribution rate that would be sufficient to amortize the unfunded liability within 40 years by the plan’s 10th anniversary.

Systems would be required to formulate a plan not later than November 1, 2016. A copy of the restoration plan would be sent to the PRB and posted on the PRB website. The system and associated entity would report any updates of progress toward improved actuarial soundness to the PRB every two years.

A revised plan would be required for systems that had not adhered to a previously formulated funding restoration plan and exceeded the 40-year amortization period.

This bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2015.

SUPPORTERS SAY:

HB 3310 would help retirement systems focus on securing adequate funding to meet their long-term obligations. Systems that are not actuarially sound would be required to work with the sponsoring government entity to develop a 10-year plan to improve funding.

The 83rd Legislature in 2013 enacted HB 13 by Callegari, which required the PRB to study the financial health of public retirement systems in Texas. The study found that public retirement systems that had consistently received adequate funding were in a better position to meet their long-term obligations than systems that had not. The PRB recommended that the Legislature require retirement systems and their sponsors to adopt adequate funding policies to help achieve actuarial soundness.

The bill would simply require systems to report their plans to the state and whether they are making progress toward the goal of actuarial soundness, but would not make the state the final arbiter of the plans.

The bill would increase transparency about troubled pension systems, which would be required to determine the level of contributions needed to pay off liabilities within 30 years. This information could be used in developing a plan to meet the PRB guidelines for actuarial soundness, which require liabilities to be paid off within 40 years.

By working together to address current or potential future funding problems, a system and its sponsor would send the right message to bond rating agencies that look favorably on systems that make progress toward reducing their unfunded liabilities.

OPPONENTS SAY:

CSHB 3310 would duplicate ongoing efforts at the local level between government entities and employees to improve pension funding. Pension contributions are a shared responsibility between local taxpayers and government employees, and those parties should be free to make decisions without state oversight.

The bill also could interfere with decisions made by local governing boards during contract negotiations with public employee unions. It could be inappropriate to have separate negotiations with a retirement system board whose members include union representatives. A city could be in litigation over pension decisions, and should not be required to develop a funding soundness restoration plan while navigating complex legal issues in court.