

BILL ANALYSIS

C.S.H.B. 2763
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Pensions, Investments & Financial Services
Committee Report (Substituted)

BACKGROUND AND PURPOSE

There are concerns about the unfunded liabilities of the retirement fund and the pension systems for police officers in certain large cities. C.S.H.B. 2763 seeks to address this concern by revising pension benefits and contributions of police pension funds in certain municipalities.

CRIMINAL JUSTICE IMPACT

It is the committee's opinion that this bill does not expressly create a criminal offense, increase the punishment for an existing criminal offense or category of offenses, or change the eligibility of a person for community supervision, parole, or mandatory supervision.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

C.S.H.B. 2763 amends Vernon's Texas Civil Statutes to revise provisions relating to the board of trustees of a police pension fund in certain municipalities with a population of more than 50,000 and less than 400,000 by doing the following:

- increasing from seven to eight the number of trustees;
- revising the composition of the board;
- setting out the required qualifications of a trustee; and
- requiring a person appointed or elected to the board to complete a training program and setting out the requirements of such program.

C.S.H.B. 2763 prohibits the rate of contributions to the pension fund from being reduced or eliminated, a new monetary benefit payable by the pension fund from being established, and the amount of a monetary benefit from the fund from being increased, if, as a result of the particular action, the time, as determined by an actuarial valuation, required to amortize the unfunded actuarial liabilities of the pension fund would be increased to a period that exceeds 25 years. The bill requires the assumptions and methods adopted by the board and used to prepare an actuarial valuation of the pension fund's assets and liabilities to be consistent with generally accepted actuarial standards and requires any assumed rate of return adopted by the board to be reviewed as part of each actuarial valuation conducted on or after January 1, 2020.

C.S.H.B. 2763 requires the board to adopt an assumed rate of return of seven percent to be used in the preparation of any actuarial valuation conducted on or after September 1, 2019, and before January 1, 2020, and sets this provision to expire January 2, 2020.

C.S.H.B. 2763 revises provisions relating to active member contributions to the fund as follows:

- removes the exception to the requirement that each member make contributions to the fund except in a time of national emergency; and
- changes the authorization for the municipality to deduct a sum of not less than one percent and not more than 10 percent, based on board determination, of a pension member's monthly wages as contributions to the fund to a requirement for the municipality, subject to certain modification, to deduct 12 percent of those wages as contributions to the funds for service rendered after August 31, 2019.

C.S.H.B. 2763 revises provisions relating to municipal contributions to the fund as follows:

- changes the required municipal contribution from contributions expressed as a percentage of payroll or compensation for each member in such amounts based on certain conditions to 18 percent of payroll or compensation, subject to certain modification, based on authorized position, as determined by the municipality;
- requires the municipality to make such contribution not later than the 15th business day after the first day of the municipality's fiscal year;
- removes the requirement for the municipality to include in the contribution to the fund sufficient money to pay the costs of the fund's administration; and
- requires the municipality, not later than December 31 of the year following the year in which the municipality makes the contribution, to calculate the difference between the amount of the municipality's actual payroll for the applicable fiscal year and the amount of payroll on which its contribution was based and contribute to the fund an amount equal to the municipality's applicable contribution rate multiplied by the amount of the calculated difference.

C.S.H.B. 2763 requires the municipality to pay the fund money in an amount sufficient to offset any negative financial impact to the fund, as determined by the fund actuary, caused by a unilateral action taken by the municipality, including a reduction by the municipality in the number of the municipality's police officers. The bill requires the fund actuary to annually determine whether a reduction in the number of municipal police officers by a municipality had a negative financial impact to the fund. The bill requires the municipality, if the actuary determines a negative financial impact to the fund has occurred, to provide additional funding to the fund in the time frame prescribed for making contribution increases and to continue to provide such funding until the negative impact of the action is eliminated as determined by the fund actuary.

C.S.H.B. 2763 sets out the following with regard to certain board activity:

- changes the number of trustees whose approval authorizes the board to modify benefits from four to six;
- prohibits the board from modifying the contribution rates before January 1, 2025;
- requires the board, if, on or after that date, the fund's most recent actuarial valuation recommends an actuarially determined contribution rate that exceeds the aggregate contributions rates, to calculate the difference between the actuarially determined contribution rate and the aggregate contribution rates and, by rule, increase the contribution rates by 50 percent of the calculated difference;
- prohibits such increase in contributions rates from taking effect before certain specified dates; and
- revises board voting requirements for providing for refunds for members who leave service and requirements for selecting an actuary.

C.S.H.B. 2763 provides for the designation and election of members of the board, in accordance with the bill's provisions, whose terms are to begin November 1, 2019, and the staggered term dates for the members, and sets the term of a trustee serving on the board before the bill's effective date to expire on October 31, 2019. The bill establishes that a municipality is not required to pay interest on any unfunded actuarial requirement that is outstanding on the bill's effective date, except to the extent agreed to under a collective bargaining agreement.

EFFECTIVE DATE

On passage, or, if the bill does not receive the necessary vote, September 1, 2019.

COMPARISON OF ORIGINAL AND SUBSTITUTE

While C.S.H.B. 2763 may differ from the original in minor or nonsubstantive ways, the following summarizes the substantial differences between the introduced and committee substitute versions of the bill.

The substitute changes the revision of the composition of the board of trustees, includes provisions relating to the required qualifications for a trustee, and does not include the requirement for the board by rule to provide for the terms for an elected trustee.

The substitute includes a requirement for an appointed or elected trustee to complete a training program and sets out the requirements of such program.

The substitute does not include a provision setting out certain administrative requirements for the board.

The substitute revises provisions relating to certain requirements for any assumptions and methods adopted by the board to prepare an actuarial valuation of the fund.

The substitute includes a requirement for the board to adopt an assumed rate of return of seven percent to be used in the preparation of any actuarial valuation conducted between September 1, 2019, and January 1, 2020.

The substitute does not include a provision setting out the conditions under which the board may vote to reduce the percentage of certain wage deductions and setting out certain prohibitions against the board relating to reductions and increases of the percentage of members' wage deductions. The substitute does not include the authorization for the municipality to reduce the municipality's contribution rate.

The substitute includes certain requirements relating to municipality contributions to the fund and removes a requirement for the municipality to include in the fund contribution sufficient money to pay the costs of the fund's administration.

The substitute includes a requirement for the fund actuary to annually determine whether a reduction in the number of municipal police officers had a negative financial impact to the fund and a requirement for the municipality, if the actuary determines such negative impact occurred, to provide additional funding to the fund until the negative impact is eliminated.

The substitute does not include a provision entitling a member who has at least 25 years of service and retires on or after the member's 58th birthday to receive certain benefits entitled to a member who retires on or after the member's 65th birthday. The substitute does not include the provision changing the age and service credit requirement entitling certain members to a certain amount of early pension benefits.

The substitute includes a prohibition against the board modifying contribution rates before

January 1, 2025, a requirement for the board, if a certain condition is met, to calculate the difference between the actuarially determined contribution rate and the aggregate contribution rates and to increase the contributions by a certain percentage, and a prohibition against such an increase taking effect before certain specified dates.

The substitute changes the number of trustees whose approval authorizes the board to modify benefits.

The substitute revises the conditions under which the board is authorized to and prohibited from modifying a benefit or contribution rate.

The substitute includes provisions providing for the appointments and designations of board members in accordance with the substitute's revisions, sets out staggered term dates for the members, and sets the term of a trustee serving on the board before the bill's effective date to expire on October 31, 2019. The substitute does not include a provision providing for continued service on the board until expiration of a trustee's term.

The substitute includes a provision establishing that a municipality is not required to pay interest on any unfunded actuarial requirement that is outstanding on the bill's effective date, except under a certain condition.

The substitute does not include the provision making the bill's provisions applicable to an actuarial valuation prepared by the pension fund before, on, or after the bill's effective date.

The substitute changes the bill's effective date.