

Chapter 318

H.B. No. 3158

AN ACT

relating to the retirement systems for and the provision of other benefits to police and fire fighters in certain municipalities.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

ARTICLE 1. CONTINGENT PROVISIONS:

EFFECTIVE SEPTEMBER 1, 2017

SECTION 1.01. Section 1.01, Article 6243a-1, Revised Statutes, is amended to read as follows:

Sec. 1.01. AMENDMENT, RESTATEMENT, AND CONSOLIDATION. (a) The purpose of this article is to restate and amend the provisions of a former law governing the pension funds for police officers and fire fighters in certain municipalities (Chapter 4, Acts of the 43rd Legislature, 1st Called Session, 1933, also known as Article 6243a) having previously been amended and restated to permit the consolidation of the terms of certain pension plans created under Sections 1, 11A, and 11B of that Act for the purpose of simply and accurately reflecting the joint administration of the plans.

(b) ~~[The provisions of this article are entirely consistent with all terms and conditions relating to benefits and benefit entitlement previously contained in the plans.]~~ This article does not ~~[intend to]~~ take away or reduce any accrued benefit contained in the plans created under former Article 6243a or under this article as it existed on or before August 31, 2017.

SECTION 1.02. Section 2.01, Article 6243a-1, Revised

1 Statutes, is amended to read as follows:

2 Sec. 2.01. DEFINITIONS. In this article:

3 (1) "415 compensation" means a member's wages, salary,
4 and other amounts received for personal services rendered in the
5 course of employment with the city during a limitation year and
6 permitted to be treated as compensation for purposes of Section
7 415(c) of the code, including differential wage payments described
8 in Section 414(u)(12) of the code. The term does not include
9 amounts picked up under Section 4.03(i) of this article.

10 (2) "Active service" means any period that a member
11 receives compensation as a police officer or fire fighter from
12 either department for services rendered.

13 (3) [~~2~~] "Actuarial equivalent" means a form of
14 benefit differing in time, duration, or manner of payment from a
15 standard benefit payable under this article but having the same
16 value when computed using the assumptions set forth in this
17 article.

18 [~~3~~] ~~"Administrator" means the person designated by~~
19 ~~the board to supervise the affairs of the pension system.]~~

20 (4) "Alternate payee" has the meaning given the term
21 by Section 414(p) [414] of the code or any successor provision.

22 (5) "Alternative investment" means an investment in an
23 asset other than a traditional asset. The term includes an
24 investment in private equity funds, private real estate
25 transactions, hedge funds, and infrastructure.

26 (6) [~~5~~] "Annual additions" means the sum of the
27 following amounts credited to a member's account under any defined

1 contribution plan maintained by the city for the limitation year:

2 (A) city contributions;

3 (B) member contributions, other than rollover
4 contributions from a plan maintained by any employer other than the
5 city;

6 (C) forfeitures; and

7 (D) amounts allocated after March 31, 1984, to an
8 individual medical benefit account, as defined in Section 415(1)(2)
9 [~~415(1)(2)~~] of the code, that is part of a pension or annuity plan
10 maintained by the city.

11 [~~The term does not include amounts described in Paragraph (D)~~
12 ~~of this subdivision for the purpose of computing the percentage~~
13 ~~limitation described in Section 415(c)(1)(B) of the code.] For any
14 limitation year beginning before January 1, 1987, only that portion
15 of member contributions equal to the lesser of member contributions
16 in excess of six percent of 415 compensation or one-half of member
17 contributions to the combined pension plan or any qualified defined
18 contribution plan maintained by the city is treated as annual
19 additions.~~

20 (7) [~~(6)~~] "Annual benefit" means the aggregate
21 benefit attributable to city and member contributions payable
22 annually under the combined pension plan, or any plan maintained by
23 the city, exclusive of any benefit not required to be considered for
24 purposes of applying the limitations of Section 415 of the code to
25 the combined pension plan, payable in the form of a straight life
26 annuity beginning at age 62 with no ancillary benefits. Solely for
27 purposes of computing the limitations under the combined pension

1 plan, benefits actually payable to a pensioner are adjusted to the
2 actuarial equivalent of a straight life annuity pursuant to Section
3 415(b) [~~8.01~~] of the code [~~this article~~] even though no member may
4 actually receive a benefit in the form of a straight life annuity.

5 (8) [~~(7)~~] "Article 6243a" means Chapter 4, Acts of the
6 43rd Legislature, 1st Called Session, 1933 (former Article 6243a,
7 Vernon's Texas Civil Statutes), pertaining to a pension system for
8 police officers, fire fighters, and fire alarm operators in certain
9 cities.

10 (9) [~~(8)~~] "Assignment pay" means monthly pay, in
11 addition to salary, granted to a Group B member and authorized by
12 the city council for the performance of certain enumerated duty
13 assignments.

14 (10) [~~(9)~~] "Base pay" means the maximum monthly civil
15 service pay from time to time established by the city for a person
16 who holds the rank of "police officer" in the city's police
17 department or the rank of "fire and rescue officer" in the city's
18 fire department [~~a police officer or fire fighter~~], exclusive of
19 any other form of compensation. The term does not include
20 compensation paid by the city to a person for prior periods of
21 service or compensation that otherwise constitutes back pay unless
22 the compensation is eligible back pay. The board may adopt rules
23 and procedures necessary to include eligible back pay as base pay
24 for purposes of this definition, including rules regarding how
25 increases in benefits will be determined and administered.

26 (11) [~~(10)~~] "Base pension" means the amount of
27 retirement, death, or disability benefits as determined [~~computed~~]

1 ~~under this article]~~ at the earliest of the time a Group B member
2 and, solely for the purposes of Section 6.12 of this article, a
3 Group A member:

- 4 (A) begins participation in DROP;
5 (B) leaves or left active service;
6 (C) [~~leaves active service,~~] dies; [~~7~~] or
7 (D) becomes entitled to a disability pension
8 under the combined pension plan [~~disabled~~].

9 Solely for purposes of this definition, when a member becomes
10 entitled to a disability pension, the base pension shall be
11 determined as of the date on which the disability pension begins.

12 (12) [~~11~~] "Board" means the board of trustees
13 created under Section 3.01 of this article for the purpose of
14 administering the pension system.

15 (13) [~~12~~] "Child" means a [~~an unmarried~~] person
16 [~~under the age of 19~~] whose [~~natural or adoptive~~] parent, as
17 recognized under the laws of this state, is a primary party.

18 (14) [~~13~~] "City" means each municipality having a
19 population of more than 1.18 million and located predominantly in a
20 county that has a total area of less than 1,000 square miles.

21 (15) "City attorney" means the chief legal officer of
22 a city.

23 (16) [~~14~~] "City council" means the governing body of
24 the city.

25 (17) "City manager" means the city manager of a city or
26 the city manager's designee and includes, to the extent of any
27 designation, an interim or acting city manager, chief financial

1 officer, budget director, or assistant city manager. If a city does
2 not have an individual serving in a position otherwise described by
3 this subdivision, "city manager" means the mayor of that city.

4 (18) [~~(15)~~] "City service incentive pay" means annual
5 incentive pay, adjusted by the city from time to time, in addition
6 to the salary of a member granted to the member under the authority
7 of the city charter and received by the member during active
8 service.

9 (19) [~~(16)~~] "Code" means the United States Internal
10 Revenue Code of 1986, as amended.

11 (20) [~~(17)~~] "Combined pension plan" means any pension
12 plan created pursuant to this article before September 1, 2017.

13 (21) [~~(18)~~] "Computation pay" shall be used in
14 determining the amount of the city's contribution under Section
15 4.02(d) of this article and a Group B member's contribution under
16 Section 4.03(d) of this article and in determining the base pension
17 [~~of any benefits~~] to be paid to a Group B member or the benefits to
18 be paid to the member's qualified survivors and means the sum of the
19 following:

20 (A) the biweekly [~~monthly~~] rate of pay of a
21 [~~Group B~~] member for the highest civil service rank the person
22 holds, from time to time, as a result of a competitive examination;
23 plus

24 (B) the [~~monthly rate of pay of a Group B member~~
25 ~~as~~] educational incentive pay of a member, computed on a biweekly
26 basis; plus

27 (C) the longevity [~~monthly rate of~~] pay of a

1 [~~Group B~~] member [~~as longevity pay~~], as authorized by the
2 legislature, computed on a biweekly basis; plus

3 (D) the city service incentive pay, computed on a
4 biweekly [~~monthly~~] basis, of a [~~Group B~~] member.

5 The term includes only amounts actually paid in salary or
6 payments made instead of salary to the member and member
7 contributions picked up by the city, and does not include any
8 imputed pay. Furthermore, any [~~Any~~] compensation received by a
9 [~~Group B~~] member, other than that noted in Paragraphs (A)-(D) of
10 this subdivision (for example, compensation for overtime work,
11 certification pay, and the [~~monthly rate of~~] pay a member would
12 receive from the city in the form of assignment pay), will not be
13 considered in determining the computation pay of a [~~Group B~~]
14 member. Any lump-sum payments for compensatory time, unused sick
15 leave, unused vacation time, or city service incentive pay payable
16 after a [~~Group B~~] member leaves active service, dies [~~death~~],
17 becomes disabled [~~disability~~], or resigns [~~resignation~~], or after
18 any other type of termination may not be considered in determining
19 the computation pay of any [~~Group B~~] member. Computation pay for a
20 [~~Group B~~] member for any given period [~~month~~] is determined on the
21 biweekly [~~monthly~~] rates of pay due the [~~Group B~~] member for the
22 entire period [~~month~~]. The term does not include compensation paid
23 by the city to a person for prior periods of service or compensation
24 that otherwise constitutes back pay unless the compensation is
25 eligible back pay. The board may adopt rules and procedures
26 necessary to include eligible back pay as computation pay for
27 purposes of this definition, including rules regarding how

1 increases in benefits will be determined and administered. [~~If a~~
2 ~~Group B member works less than the member's assigned schedule for~~
3 ~~any given month, the computation pay for the Group B member shall be~~
4 ~~prorated for the portion of the month that the Group B member~~
5 ~~worked.~~

6 [~~(19) "Educational incentive pay" means incentive pay~~
7 ~~designed to reward completion of certain hours of college credit,~~
8 ~~adjusted by the city from time to time, that is paid to a member in~~
9 ~~addition to the member's salary.~~]

10 (22) [~~(20)~~] "Department" means either the police
11 department of the city, the fire department of the city, or both the
12 police and fire departments of the city together.

13 (23) [~~(21)~~] "Dependent parent" means a natural parent
14 or parent who adopted a primary party and who immediately before the
15 death of a primary party received over half of the parent's
16 financial support from the primary party.

17 (24) [~~(22)~~] "Disability retirement" means any period
18 that a pensioner receives periodic disability compensation or a
19 disability pension.

20 (25) "DROP" means the deferred retirement option plan
21 established in accordance with Section 6.14 of this article.

22 (26) "Educational incentive pay" means incentive pay
23 designed to reward completion of certain hours of college credit,
24 adjusted by the city from time to time, that is paid to a member in
25 addition to the member's salary.

26 (27) "Eligible back pay," except as otherwise provided
27 by this definition, means additional compensation paid by the city

1 to a member or pensioner:

2 (A) that constitutes back pay to the member's or
3 pensioner's prior period of service and is otherwise considered
4 taxable wages paid by the city to the member or pensioner for
5 federal income tax purposes; and

6 (B) for which the pension system receives:

7 (i) an amount equal to the aggregate member
8 and city contributions that the pension system would have collected
9 with respect to the compensation for all time periods relating to
10 the back pay compensation; and

11 (ii) interest, calculated using the pension
12 system's actuarial rate of return assumptions in effect for the
13 periods relating to the back pay, compounded annually, on the
14 contribution amounts for the period from the date that the
15 contributions would have been received if the back pay compensation
16 had been paid during the relevant periods of prior service through
17 the date the amount relating to the contributions for back pay is
18 actually received by the pension system.

19 The term does not include any additional compensation paid by
20 the city to a member or pensioner wholly or partly or directly or
21 indirectly as the result of litigation instituted to recover back
22 pay.

23 The pension system is not obligated to collect the additional
24 contributions or interest described in Paragraph (B) of this
25 subdivision from the member, pensioner, or city. The pension system
26 may not recognize back pay as eligible back pay until the
27 contributions and interest described in Paragraph (B) of this

1 subdivision have been received.

2 (28) "Executive director" means the person designated
3 by the board to supervise the operation of the pension system.

4 (29) [~~(23)~~ "415 compensation" means a member's wages,
5 salary, and other amounts received for personal services rendered
6 in the course of employment with the city during a limitation year,
7 but does not include:

8 [~~(A)~~ contributions made by the city to a plan of
9 deferred compensation, or a simplified employee pension plan, to
10 the extent such contributions are excludable from the member's
11 gross income,

12 [~~(B)~~ any distributions from a plan of deferred
13 compensation, or a simplified employee pension plan, to the extent
14 the distributions are excludable from the member's gross income,

15 [~~(C)~~ other amounts that received special tax
16 benefits, such as premiums for group term life insurance, to the
17 extent that the premiums are not includable in the gross income of
18 the member, or contributions made by the city, including
19 contributions toward the purchase of an annuity described by
20 Section 403(b) of the code, whether or not contributed pursuant to a
21 salary reduction agreement and whether or not the amounts are
22 actually excludable from the gross income of the member, and

23 [~~(D)~~ for any limitation year beginning after
24 December 31, 1988, compensation in excess of \$200,000, adjusted in
25 a manner permitted under Section 415(d) of the code.

26 [~~(24)~~] "Fund" means all funds and property held to
27 provide benefits to [~~for the benefit of~~] all persons who are or who

1 may become entitled to any benefits under any plan within the
2 pension system, together with all income, profits, or other
3 increments.

4 (30) [~~(25)~~] "Group A member" means any police officer
5 or fire fighter included in Group A membership under [~~described by~~]
6 Section 5.01(a)(1) of this article.

7 (31) [~~(26)~~] "Group B member" means any police officer
8 or fire fighter included in Group B membership under [~~described by~~]
9 Section 5.01(a)(2) of this article.

10 (32) [~~(27)~~] "Health director" means any qualified
11 physician designated from time to time by the board.

12 (33) [~~(28)~~] "Limitation year" means the plan year of
13 the combined pension plan and any defined benefit plan or defined
14 contribution plan of the city in which a member participates.

15 (34) [~~(29)~~] "Longevity pay" means pay in addition to
16 the salary of a member granted under Section 141.032, Local
17 Government Code, for each year of active service completed by a
18 member in either department.

19 (35) [~~(30)~~] "Member" means both Group A and Group B
20 members.

21 (36) [~~(31)~~] "Member's account" means an account
22 established and maintained for a member with respect to the
23 member's total interest in one or more defined contribution plans
24 under this article or maintained by the city resulting in annual
25 additions.

26 (37) "Nominations committee" means the nominations
27 committee established under Section 3.011 of this article.

1 (38) [~~(32)~~] "Old plan" means any pension plan created
2 pursuant to Section 1 of Article 6243a.

3 (39) [~~(33)~~] "Pensioner," "Group A pensioner," or
4 "Group B pensioner" means a former member of the pension system who
5 is on either a service or disability retirement.

6 (40) [~~(34)~~] "Pension service" means the time, in
7 years, and prorated for fractional years, that a member has
8 contributed to the fund under the terms of the combined pension plan
9 or any plan within the pension system, reduced to reflect refunds
10 that have been received and not fully repaid.

11 (41) [~~(35)~~] "Pension system" means the fund and any
12 plans created pursuant to this article or Article 6243a and that are
13 intended to be qualified under Section 401(a) of the code.

14 (42) [~~(36)~~] "Plan A" means any plan created pursuant
15 to Section 11A of Article 6243a.

16 (43) [~~(37)~~] "Plan B" means any plan created pursuant
17 to Section 11B of Article 6243a.

18 (44) [~~(38)~~] "Police officer" or "fire fighter" means,
19 as appropriate, a police officer, fire fighter, fire and rescue
20 officer, fire alarm operator, fire inspector, apprentice police
21 officer, apprentice fire fighter, or similar employee of either
22 department as defined in the classifications of the human resources
23 [~~personnel~~] department of the city.

24 (45) [~~(39)~~] "Primary party," "Group B primary party,"
25 or "Group A primary party" means a member[~~, former member,~~] or
26 pensioner.

27 (46) [~~(40)~~] "Qualified actuary" means either:

1 (A) an individual who is a Fellow of the Society
2 of Actuaries, a Fellow of the Conference of Consulting Actuaries
3 [~~in Public Practice~~], or a member of the American Academy of
4 Actuaries; or

5 (B) a firm that employs one or more persons who
6 are Fellows of the Society of Actuaries, Fellows of the Conference
7 of Consulting Actuaries [~~in Public Practice~~], or members of the
8 American Academy of Actuaries and are providing services to the
9 pension system.

10 (47) [~~41~~] "Qualified domestic relations order" has
11 the meaning provided by Section 414(p) [~~414~~] of the code.

12 (48) [~~42~~] "Qualified survivor" means a person who is
13 eligible to receive death [~~survivor~~] benefits after the death of a
14 primary party and includes only:

15 (A) a surviving spouse, if the spouse was
16 continuously married to the primary party from [~~both at~~] the date
17 when the primary party either voluntarily or involuntarily left
18 active service as a member through [~~and at~~] the date of the primary
19 party's death;

20 (B) all surviving, unmarried[~~, legitimate, and~~
21 ~~legally adopted~~] children who are either under 19 years of age or
22 have a disability, as determined by the board under Section
23 6.06(o-2) of this article, and who were:

24 (i) born or adopted before the primary
25 party [~~as a member~~] either voluntarily or involuntarily left active
26 service; or

27 (ii) [~~who were~~] born after the primary party

1 [~~a member~~] left active service if the mother was pregnant with the
2 child before the primary party [~~member~~] left active service; and

3 (C) a surviving dependent parent of a primary
4 party if the primary party is not survived by a spouse or child
5 eligible for benefits.

6 (49) [~~43~~] "Service retirement" means any period
7 that a pensioner receives a retirement pension but does not include
8 any period of disability retirement.

9 (50) [~~44~~] "Spouse" means the person to whom [~~husband~~
10 ~~or wife of~~] a primary party is legally married [~~recognized~~] under
11 the laws of this state or any other state.

12 (51) "Traditional asset" includes stocks, bonds, and
13 cash [~~45~~] "~~Total wages and salaries~~" means ~~all pay received by a~~
14 ~~member of any plan within the pension system from the city,~~
15 ~~excluding any lump-sum payments for unused sick time or unused~~
16 ~~vacation time accrued by any member and payable as the result of the~~
17 ~~member's death, disability, resignation, or any other reason for~~
18 ~~leaving active service~~].

19 (52) [~~46~~] "Trustee" means a member of the board.

20 (53) "Two-thirds vote," in reference to a vote of all
21 the trustees, means a vote of 8 of the 11 trustees of the board.

22 SECTION 1.03. Sections 2.02(a) and (b), Article 6243a-1,
23 Revised Statutes, are amended to read as follows:

24 (a) If the amount of any benefit or contribution is to be
25 determined on the basis of actuarial assumptions that are not
26 otherwise specifically set forth for that purpose in this article,
27 the actuarial assumptions to be used are those earnings and

1 mortality assumptions being used on the date of the determination
2 by the pension system's qualified actuary and approved by the
3 board.

4 (b) The actuarial assumptions being used at any particular
5 time shall be attached by the executive director [~~administrator~~] as
6 an addendum to this article and treated for all purposes as a part
7 of any plan created by this article. The executive director shall
8 promptly update any addendum to conform to any changed actuarial
9 assumptions approved by the board.

10 SECTION 1.04. Part 2, Article 6243a-1, Revised Statutes, is
11 amended by adding Sections 2.025 and 2.03 to read as follows:

12 Sec. 2.025. INDEPENDENT ACTUARIAL ANALYSIS AND LEGISLATIVE
13 RECOMMENDATIONS. (a) Before July 1, 2024, the State Pension Review
14 Board shall select an independent actuary who the board shall hire
15 to perform an actuarial analysis of the most recently completed
16 actuarial valuation of the pension system. The independent actuary
17 shall submit the analysis to the State Pension Review Board and the
18 board not later than October 1, 2024. The analysis must include the
19 independent actuary's:

20 (1) conclusion regarding whether the pension system
21 meets State Pension Review Board pension funding guidelines; and

22 (2) recommendations regarding changes to benefits or
23 to member or city contribution rates.

24 (b) Subject to Subsection (d) of this section, not later
25 than November 1, 2024, the board shall by rule adopt a plan that:

26 (1) complies with funding and amortization period
27 requirements applicable to the pension system under Subchapter C,

1 Chapter 802, Government Code; and

2 (2) takes into consideration the independent actuary's
3 recommendations under Subsection (a)(2) of this section.

4 (b-1) The board shall provide a copy of the analysis
5 prepared under Subsection (a) of this section and a summary of any
6 rules adopted by the board under Subsection (b) of this section to
7 the State Pension Review Board.

8 (c) Not later than December 1, 2024, the State Pension
9 Review Board shall submit a report to the legislature regarding
10 actions taken under this section. The report required under this
11 section must include a copy of the analysis prepared under
12 Subsection (a) of this section and a summary of rules adopted by the
13 board under Subsection (b) of this section.

14 (d) Notwithstanding any other provision of this article, a
15 rule adopted by the board under Subsection (b) of this section that
16 conflicts with a provision of this article remains in effect until:

17 (1) a law that is enacted by the legislature and
18 becomes law preempts the rule; or

19 (2) the board amends the rule and the amendment takes
20 effect, provided the board may only amend the rule if the pension
21 system complies with the funding and amortization period
22 requirements applicable to the pension system under Subchapter C,
23 Chapter 802, Government Code.

24 (e) This section expires September 1, 2025.

25 Sec. 2.03. REFERENCES TO CERTAIN LAW. A reference to a
26 statute made in this article includes a reference to any
27 regulation, rule, order, or notice made by a governmental entity

1 with the authority under law to adopt the regulation, rule, order,
2 or notice, and on which the governmental entity intends persons to
3 rely, as appropriate.

4 SECTION 1.05. Section 3.01, Article 6243a-1, Revised
5 Statutes, is amended by amending Subsections (a), (b), (d), (e),
6 (f), (h), (i), (j), (n), and (o) and adding Subsections (b-1),
7 (b-2), (b-3), (b-4), (j-1), (j-2), (j-3), (j-4), (j-5), (j-6),
8 (j-7), (j-8), (j-9), (j-10), (o-1), (p), (q), (r), and (s) to read
9 as follows:

10 (a) The pension system shall be administered by the board.
11 The board shall execute its fiduciary duty to hold and administer
12 the assets of the fund for the exclusive benefit of members and
13 their beneficiaries under Section 802.203, Government Code,
14 Section 67(f), Article XVI, Texas Constitution, and any other
15 applicable law, in a manner that ensures the sustainability of the
16 pension system for purposes of providing current and future
17 benefits to members and their beneficiaries.

18 (b) Subject to Subsections (b-1) and (b-2) of this section,
19 the [The] board consists of 11 [seven] trustees who shall be
20 selected and shall serve as follows:

21 (1) six trustees appointed by the mayor, in
22 consultation with the city council;

23 (2) three trustees elected under rules adopted by the
24 board by the members and pensioners of the pension system from a
25 slate of nominees, in a number determined under the rules, selected
26 and vetted by the nominations committee;

27 (3) subject to Subsection (b-3) of this section, one

1 trustee who is a current or former police officer of the city
2 nominated and elected by members of the pension system under rules
3 adopted by the board; and

4 (4) subject to Subsection (b-3) of this section, one
5 trustee who is a current or former fire fighter of the city
6 nominated and elected by members of the pension system under rules
7 adopted by the board.

8 (b-1) To be appointed or elected a trustee under this
9 section, a person:

10 (1) must have demonstrated financial, accounting,
11 business, investment, budgeting, real estate, or actuarial
12 expertise; and

13 (2) may not be an elected official of the city.

14 (b-2) To be appointed or elected a trustee under Subsection
15 (b)(1) or (2) of this section a person may not be an active member or
16 pensioner.

17 (b-3) If the board determines that it is not possible to
18 nominate or elect a trustee under Subsection (b)(3) or (4) of this
19 section who meets the requirements of Subsection (b-1) of this
20 section, the board shall notify the nominations committee and the
21 nominations committee shall select, vet, and nominate a slate of
22 persons, the number of which is determined by board rule, who meet
23 the requirements of Subsection (b-1) of this section, and the
24 members of the pension system shall elect a trustee from the slate
25 of nominees to represent the interests of police officers or fire
26 fighters, as appropriate, of the city on the board. The nomination
27 and election of a trustee under this subsection may be made without

1 regard to whether the trustee is qualified under Subsection (b)(3)
2 or (4), as applicable, of this section.

3 (b-4) A trustee is not required to reside in a particular
4 city or county of this state. [~~The city council shall name from~~
5 ~~among its members three council members who shall serve as trustees~~
6 ~~of the board. The council member trustees shall be named as soon as~~
7 ~~possible after the first Monday in May of each odd-numbered year and~~
8 ~~shall serve for the term of office to which they were elected as~~
9 ~~council members. If there is a vacancy in any of the council member~~
10 ~~trustees' seats on the board, the city council shall name another~~
11 ~~council member to serve out the remainder of the unexpired term.~~

12 [~~(2) The police and fire department members of the~~
13 ~~pension plans within the pension system shall separately, by~~
14 ~~department and not by plan, elect from among their respective~~
15 ~~memberships two active police officer and two active fire fighter~~
16 ~~members. On their election, each of the trustees under this~~
17 ~~subdivision shall execute a written affirmation of the person's~~
18 ~~undertaking to faithfully perform duties to the pension system.~~
19 ~~The police and fire department trustees shall serve terms of four~~
20 ~~years each, the terms being staggered so that one term, but not both~~
21 ~~from the same department, shall expire on June 1 of each~~
22 ~~odd-numbered year. If a vacancy occurs among the police and fire~~
23 ~~department trustees, the vacancy shall be filled in accordance with~~
24 ~~the provisions of Subsection (d) of this section. The police and~~
25 ~~fire department trustees will continue to serve beyond the~~
26 ~~expiration of their terms, if their successors have not been~~
27 ~~elected and affirmed in writing their undertaking to faithfully~~

1 ~~perform their duties to the pension system, until their successors~~
2 ~~are elected and have affirmed in writing their undertaking to~~
3 ~~faithfully perform their duties to the pension system.]~~

4 (d) A [If a] vacancy on the board in a trustee position under
5 Subsection (b)(1) or (2) of this section shall be filled in the same
6 manner as the original appointment, or election. The board by rule
7 shall determine the manner by which a vacancy in a trustee position
8 under Subsection (b)(3) or (4) of this section is filled ~~[occurs~~
9 ~~among the police or fire department alternate trustees, for reasons~~
10 ~~other than the failure to elect a successor alternate trustee or the~~
11 ~~occurrence of a vacancy among the regular trustees of either~~
12 ~~department, the board shall appoint a new alternate trustee~~
13 ~~representing the department from which the vacancy occurs to serve~~
14 ~~as the alternate trustee for the remainder of the alternate~~
15 ~~trustee's term]. [A candidate is not eligible for election to an~~
16 ~~alternate trustee position and to a regular trustee position during~~
17 ~~the same election.]~~

18 (e) The mayor shall determine whether all trustees
19 appointed under Subsection (b)(1) of this section hold office for
20 staggered two-year terms or staggered three-year terms. The
21 nominations committee shall determine whether all trustees elected
22 under Subsection (b)(2), (3), or (4) of this section hold office for
23 staggered two-year terms or staggered three-year terms. A trustee
24 appointed or elected, as applicable, under Subsection (b)(1) or (2)
25 of this section may not serve for more than six consecutive years on
26 the board ~~[If a vacancy occurs among the police or fire department~~
27 ~~regular trustees, the alternate trustee representing the~~

1 ~~department from which the vacancy occurs shall serve as the regular~~
2 ~~trustee for the remainder of the unexpired regular trustee's term].~~
3 ~~[Thereafter, the board shall appoint a new alternate trustee from~~
4 ~~the same department to serve for a period ending on the earlier of~~
5 ~~the expiration of the regular trustee's term or the original~~
6 ~~alternate trustee's term. If the original alternate trustee's term~~
7 ~~has not expired after serving in place of the regular trustee, then~~
8 ~~that person shall serve out the remainder of the unexpired term.~~
9 ~~After a new regular trustee has been elected, the original~~
10 ~~alternate trustee shall return to serve as an alternate trustee~~
11 ~~until the regular trustee's term has expired. However, if the~~
12 ~~original alternate trustee, while an alternate trustee, is elected~~
13 ~~to a full term as a regular trustee before the expiration of the~~
14 ~~term as an alternate trustee, the term of the new alternate trustee~~
15 ~~extends until the expiration of the original alternate trustee's~~
16 ~~term.]~~

17 (f) The election of the trustees under Subsection (b)(2),
18 (3), or (4) of this section, including an election under Subsection
19 (b-3) of this section to fill a trustee position under Subsection
20 (b)(3) or (4) of this section, ~~[representing the police and fire~~
21 ~~departments]~~ shall be held under the supervision of the board, and
22 the board shall adopt such rules ~~[and regulations]~~ governing the
23 election procedure as it considers appropriate, as long as the
24 rules ~~[and regulations]~~ are consistent with generally accepted
25 principles of secret ballot and majority rule. The rules ~~[and~~
26 ~~regulations]~~ adopted by the board shall be recorded in the minutes
27 of the board and made available to the members of any pension plan

1 within the pension system.

2 (h) The executive director [~~administrator~~], or in the
3 executive director's [~~administrator's~~] absence a member of the
4 administrative staff designated by the board, shall serve as the
5 secretary of the board.

6 (i) The board shall serve without separate compensation
7 from the fund, but a trustee is entitled to reimbursement for travel
8 expenses and, if applicable, [~~with entitlement~~] to any appropriate
9 compensation from the city as if the trustee [~~board members~~] were
10 performing the trustee's [~~their~~] regular functions for the police
11 or fire department or for the city. The board shall meet not less
12 than once each month and may meet at any time on the call of its
13 chairman.

14 (j) The board has full power to make rules [~~and regulations~~]
15 pertaining to the conduct of its meetings and to the operation of
16 the pension system as long as its rules are not, subject to
17 Subsections (j-1) and (j-2) of this section, inconsistent with the
18 terms of this article, any pension plan within the pension system,
19 or the laws of this state or the United States to the extent
20 applicable. A board meeting may be held by telephone conference
21 call or by videoconference call in accordance with Sections 551.125
22 and 551.127, Government Code, except that Section 551.125(b),
23 Government Code, does not apply.

24 (j-1) Subject to Subsection (o)(2) of this section, the
25 board may adopt a rule that conflicts with this article:

26 (1) to ensure compliance with the code, including
27 Section 415 of the code, and other applicable federal law;

1 (2) subject to Subsections (j-5) through (j-8) of this
2 section, to amortize the unfunded actuarial accrued liability of
3 the pension system within a period that does not exceed 35 years, if
4 the board determines the rule is appropriate based on the
5 evaluations required under Subsection (j-5) of this section; or

6 (3) subject to Subsections (j-6) and (j-7) of this
7 section and notwithstanding any other law, to increase the benefits
8 provided under this article in any manner the board determines
9 appropriate if the increase will not cause the amortization period
10 of the unfunded actuarial accrued liability of the pension system
11 to exceed 25 years, after taking into account the impact of the
12 increase.

13 (j-2) Except as provided by Subsection (j-1) of this section
14 or Section 4.02(b) of this article, a provision of any plan provided
15 by the pension system may only be amended if approved by the board.
16 An amendment described by this subsection:

17 (1) may not cause the amortization period of the
18 unfunded actuarial accrued liability of the pension system to
19 exceed 35 years, after taking into account the impact of the
20 amendment, as determined by the board and reviewed by the State
21 Pension Review Board; and

22 (2) is not required to be ratified by the legislature.

23 (j-3) The board may correct any defect, supply any omission,
24 and reconcile any inconsistency that may appear in this article in a
25 manner and to the extent that the board believes would:

26 (1) be expedient for the administration of the pension
27 system;

1 (2) be for the greatest benefit of all members,
2 pensioners, and qualified survivors; and

3 (3) not adversely affect the benefits of a member,
4 pensioner, or qualified survivor.

5 (j-4) The board has full discretion and authority to
6 construe and interpret the combined pension plan and to do all acts
7 necessary to carry out the purpose of the combined pension plan. A
8 decision of the board is final and binding on all affected parties.

9 (j-5) Not later than January 1, 2018, the board shall
10 conduct an evaluation of:

11 (1) how benefits are computed under this article to
12 identify potential means of abusing the computation of benefits to
13 inflate pension benefits received by pensioners; and

14 (2) the impact, including the impact on the combined
15 pension plan, of establishing one or more alternative benefit
16 plans, including a defined contribution plan or a hybrid retirement
17 plan that combines elements of both a defined benefit plan and a
18 defined contribution plan, for newly hired employees of the city
19 and for members who voluntarily elect to transfer to an alternative
20 benefit plan.

21 (j-6) The board may not adopt a rule under Subsection
22 (j-1)(2) or (3) of this section unless the rule has first been
23 reviewed by the State Pension Review Board and the State Pension
24 Review Board finds that implementation of a rule under:

25 (1) Subsection (j-1)(2) of this section complies with
26 the amortization period prescribed by that subdivision and
27 Subsection (j-8) of this section; or

1 (2) Subsection (j-1)(3) of this section complies with
2 the amortization period prescribed by that subdivision.

3 (j-7) The board shall provide the State Pension Review Board
4 with a copy of a proposed rule for purposes of Subsection (j-6) of
5 this section at least 90 days before the date the board intends to
6 implement the rule.

7 (j-8) The board may not adopt a rule under Subsection
8 (j-1)(2) of this section based on an evaluation under Subsection
9 (j-5)(2) of this section if the board determines implementation of
10 the rule would cause the amortization period of the unfunded
11 actuarial accrued liability of the combined pension plan or any
12 plan established under this article by the pension system to exceed
13 35 years, after taking into account implementation of the rule.

14 (j-9) At least twice each year, the board shall have a
15 meeting to receive public input regarding the pension system and to
16 inform the public about the health and performance of the pension
17 system. The State Pension Review Board is entitled to all documents
18 and other information provided to the public or that are the basis
19 for information provided to the public, as determined by the State
20 Pension Review Board, for purposes of this subsection and shall
21 independently review the information to ensure its validity.

22 (j-10) An employee or other agent acting on behalf of the
23 pension system or the city must certify to the State Pension Review
24 Board that any information provided by the pension system or city,
25 as appropriate, under this article or other law is accurate and
26 based on realistic assumptions.

27 (n) Six [~~Four~~] trustees of the board constitute a quorum at

1 any [~~called~~] meeting[~~, except that a trustee from the police~~
2 ~~department and a trustee from the fire department must be present to~~
3 ~~conduct business~~].

4 (o) No action may be taken by the board except at a meeting.
5 Except as otherwise specifically provided by this article or other
6 law:

7 (1) [~~and~~] no action shall be taken during a board
8 meeting without the approval of a majority of the trustees of the
9 board; and

10 (2) no action otherwise authorized by this article or
11 other law may be taken that establishes an alternative benefit
12 plan, reduces the city contribution rate, increases the member
13 contribution rate, or reduces benefits, including accrued
14 benefits, without the approval of at least a two-thirds vote of all
15 the trustees of the board [~~present~~].

16 (o-1) Only actions of the board taken or approved of during
17 a meeting are binding on the board, and no other written or oral
18 statement or representation made by any person is binding on the
19 board or the pension system.

20 (p) The board may file suit on behalf of the pension system
21 in a court of competent jurisdiction regardless of the court's
22 location. The board has sole authority to litigate matters on
23 behalf of the pension system. Notwithstanding Chapter 15, Civil
24 Practice and Remedies Code, or any other law, an action against the
25 pension system or the board shall be brought in a court of competent
26 jurisdiction located in the city or county in which the pension
27 system is located.

1 (q) The board may purchase from one or more insurers one or
2 more insurance policies that provide for the reimbursement of a
3 trustee or employee of the pension system for liability imposed as
4 damages caused by, and for costs and expenses incurred by the
5 individual in defense of, an alleged act, error, or omission
6 committed by the individual in the individual's capacity as a
7 fiduciary or employee of the pension system. The board may not
8 purchase an insurance policy that provides for the reimbursement of
9 a trustee or employee of the pension system due to the trustee's or
10 employee's dishonesty, fraudulent breach of trust, lack of good
11 faith, intentional fraud or deception, or intentional failure to
12 act prudently.

13 (r) The board shall adopt a code or codes of ethics
14 consistent with Section 825.212, Government Code. In adopting or
15 amending a code or codes of ethics, the board may consider comments
16 on the policy from the city attorney of the city. The board shall:

17 (1) review the code or codes of ethics on an annual
18 basis and amend the code or codes as the board considers necessary;

19 (2) file a copy of the code or codes of ethics adopted
20 or amended in accordance with this subsection with the State
21 Pension Review Board; and

22 (3) provide a copy of the code or codes of ethics
23 adopted or amended in accordance with this subsection to the city
24 attorney.

25 (s) The board shall develop an Internet website designed to
26 give active members and pensioners access to the information
27 concerning the pension system and the individual's participation in

1 the pension system required by Section 802.106, Government Code, as
2 well as information concerning the financial health of the pension
3 system.

4 SECTION 1.06. Part 3, Article 6243a-1, Revised Statutes, is
5 amended by adding Sections 3.011, 3.012, and 3.013 to read as
6 follows:

7 Sec. 3.011. NOMINATIONS COMMITTEE. (a) Subject to
8 Subsection (b) of this section, the nominations committee consists
9 of:

10 (1) the executive director, who is a nonvoting member;
11 and

12 (2) the president, chair, or other executive head of
13 the following organizations or their successor organizations, or
14 that person's designee:

15 (A) the Dallas Black Firefighters Association;

16 (B) the Black Police Association of Greater
17 Dallas;

18 (C) the National Latino Law Enforcement
19 Organization;

20 (D) the Dallas Fraternal Order Police Lodge 588;

21 (E) the Dallas Police Association;

22 (F) the Dallas Fire Fighters Association,
23 International Association of Fire Fighters Local No. 58;

24 (G) the Dallas Hispanic Firefighters
25 Association, Inc.;

26 (H) the Dallas Police Retired Officers
27 Association;

1 (I) the Dallas Retired Firefighters Association;
2 (J) the Retired Black Firefighters Association
3 of Dallas; and
4 (K) the Dallas Hispanic Retired Fire Fighters
5 Association.

6 (b) If an organization described by Subsection (a)(2) of
7 this section elects not to participate on the nominations
8 committee, is prohibited from participating on the nominations
9 committee under Subsection (g) of this section, or ceases to exist,
10 the nominations committee members appointed under that subsection
11 consist only of representatives of the remaining organizations, if
12 any.

13 (c) The executive director shall serve as presiding officer
14 of the nominations committee.

15 (d) The nominations committee shall meet at the call of the
16 presiding officer.

17 (e) The nominations committee shall nominate trustees to
18 the board in accordance with Sections 3.01(b)(2) and (b-3) of this
19 article.

20 (f) A person serving on the nominations committee under
21 Subsection (a)(2) of this section serves without compensation and
22 may not be reimbursed for travel or other expenses incurred while
23 conducting the business of the nominations committee. The
24 executive director may not receive additional compensation for
25 service on the nominations committee.

26 (g) An organization described by Subsection (a)(2) of this
27 section may not participate on the nominations committee unless the

1 organization is in good standing with the secretary of state, if
2 applicable.

3 (h) Chapter 2110, Government Code, does not apply to the
4 nominations committee.

5 (i) The nominations committee may establish policies and
6 procedures governing its operations.

7 Sec. 3.012. REMOVAL OF TRUSTEES. (a) In accordance with
8 procedures adopted by board rule, a trustee:

9 (1) appointed under Section 3.01(b)(1) of this article
10 may be removed by the mayor for cause; and

11 (2) elected under Section 3.01(b)(2), (3), or (4) of
12 this article may be removed by the nominations committee for cause.

13 (b) It is a cause for removal of a trustee from the board
14 that the trustee:

15 (1) does not have at the time of taking office the
16 qualifications required by Section 3.01(b) or (b-1)(1) of this
17 article, subject to Subsection (b-3) of that section;

18 (2) does not maintain during service on the board the
19 qualifications required by Section 3.01(b) or (b-1)(1) of this
20 article, subject to Subsection (b-3) of that section;

21 (3) is ineligible for membership under Section
22 3.01(b-1)(2) or (b-2) of this article; or

23 (4) is absent from more than 40 percent of the meetings
24 that the trustee is eligible to attend during a calendar year
25 without an excuse approved by a majority vote of the board.

26 (c) The validity of an action of the board is not affected by
27 the fact that it is taken when a cause for removal of a trustee

1 exists.

2 (d) If the executive director has knowledge that a potential
3 cause for removal exists, the executive director shall notify the
4 chairman of the board of the potential cause. The chairman shall
5 then notify the mayor or nominations committee, as appropriate,
6 that a potential cause for removal exists. If the potential cause
7 for removal involves the chairman, the executive director shall
8 notify the vice chairman or next highest ranking officer of the
9 board, who shall then notify the mayor or nominations committee, as
10 appropriate, that a potential cause for removal exists.

11 Sec. 3.013. TRUSTEE TRAINING. (a) A person who is
12 appointed or elected to the board and qualifies for office as a
13 trustee shall complete a training program that complies with this
14 section.

15 (b) The training program must provide the person with
16 information regarding:

17 (1) the law governing the pension system's operations;

18 (2) the programs, functions, rules, and budget of the
19 pension system;

20 (3) the scope of and limitations on the rulemaking
21 authority of the board;

22 (4) the results of the most recent formal audit of the
23 pension system;

24 (5) the requirements of:

25 (A) laws relating to open meetings, public
26 information, administrative procedure, and disclosing conflicts of
27 interest; and

1 (B) other laws applicable to a trustee in
2 performing the trustee's duties, including the board's fiduciary
3 duties described under Section 3.01(a) of this article;

4 (6) the code or codes of ethics adopted under Section
5 3.01(r) of this article and any applicable ethics policies adopted
6 by the Texas Ethics Commission; and

7 (7) financial training regarding the risks of
8 investing in alternative investments.

9 (c) The executive director shall create a training manual
10 that includes the information required by Subsection (b) of this
11 section. The executive director shall distribute a copy of the
12 training manual annually to each trustee. On receipt of the
13 training manual, each trustee shall sign and submit to the
14 executive director a statement acknowledging receipt of the
15 training manual.

16 SECTION 1.07. Section 3.02, Article 6243a-1, Revised
17 Statutes, is amended to read as follows:

18 Sec. 3.02. PROFESSIONAL CONSULTANTS. In addition to the
19 authority of the board to employ the services of certain
20 consultants set forth in this article, the board has the authority
21 to employ the services of any professional consultant recommended
22 by the executive director, including investment advisors and
23 investment managers, whenever the services of the consultants
24 [~~consultant~~] are considered necessary or desirable and in the best
25 interests of the pension system, as determined by the board in
26 consultation with the executive director. A professional
27 consultant shall receive such compensation as may be determined by

1 the board in accordance with Section 4.01 of this article.

2 SECTION 1.08. Part 3, Article 6243a-1, Revised Statutes, is
3 amended by adding Section 3.025 to read as follows:

4 Sec. 3.025. CHIEF INVESTMENT OFFICER. The executive
5 director may hire a chief investment officer, subject to
6 confirmation by the board, to assist the pension system regarding
7 the investment of assets of the fund. Compensation for a chief
8 investment officer hired under this section shall be made in
9 accordance with Section 4.01 of this article.

10 SECTION 1.09. Section 3.03, Article 6243a-1, Revised
11 Statutes, is amended by amending Subsections (b) and (c) and adding
12 Subsection (b-1) to read as follows:

13 (b) Subject to Subsection (b-1) of this section, the [The]
14 city attorney or an assistant city attorney may [shall] attend
15 board [all] meetings [of the board] and may advise the board on any
16 matter on which the pension system [board] requests a legal opinion
17 from the city attorney.

18 (b-1) The city attorney or an assistant city attorney is not
19 required to provide an opinion under Subsection (b) of this section
20 unless the opinion is requested by the city council on behalf of the
21 pension system. The city attorney or assistant city attorney may
22 decline to provide the opinion if the subject matter of the request
23 is too dependent on disputed facts to permit a generalized opinion,
24 as determined by the city attorney or assistant city attorney.

25 (c) The board may retain other attorneys to serve as legal
26 advisors to [represent] the board [or to give advice]. The
27 executive director may hire a chief legal officer, subject to

1 confirmation by the board, or other attorneys if necessary to carry
2 out the business of the pension system. Compensation for a chief
3 legal officer or other attorneys hired under this subsection shall
4 be made in accordance with Section 4.01 of this article.

5 SECTION 1.10. Section 3.04, Article 6243a-1, Revised
6 Statutes, is amended to read as follows:

7 Sec. 3.04. APPOINTMENT OF EXECUTIVE DIRECTOR
8 ~~[ADMINISTRATOR]~~. (a) The board has the authority to appoint an
9 executive director ~~[administrator]~~ to assist ~~[carry out the~~
10 ~~business of]~~ the board with administering the pension system and
11 ensure that records are kept ~~[to keep a record]~~ of the proceedings
12 of the board. Subject to Subsection (a-1) of this section, a person
13 appointed executive director under this section:

14 (1) must have, to the extent possible, relevant
15 experience in managing a similarly situated business entity; and

16 (2) may not be a current or former trustee ~~[The~~
17 ~~administrator, in carrying out the business of the board within the~~
18 ~~scope of the administrator's responsibility, may not be considered~~
19 ~~a fiduciary with respect to the pension system].~~

20 (a-1) During any period in which the most recent actuarial
21 valuation of the pension system indicates that the period needed to
22 amortize the unfunded actuarial accrued liability of the pension
23 system exceeds 35 years, the board shall, to the extent lapsed
24 investments are a significant portion of the pension system's
25 assets, ensure that the executive director appointed under
26 Subsection (a) of this section has, or hires staff that has,
27 appropriate experience in managing a business entity with lapsed

1 investments in a manner that resulted in the improved liquidity or
2 profitability of the business entity.

3 (b) Subject to Subsections (b-1) and (b-3) of this section
4 [~~the approval of the board~~], the executive director [~~administrator~~]
5 may select any number of persons the executive director determines
6 appropriate to assist the executive director in carrying out the
7 executive director's duties under this section. Subject to Section
8 4.01 of this article, the titles and salaries of persons selected to
9 assist the executive director shall be determined by the executive
10 director.

11 (b-1) The executive director may not select a person to
12 assist the executive director who is an active, former, or retired
13 police officer or fire fighter of the city [~~administrator~~].

14 (b-2) The executive director shall establish the
15 organizational structure of pension system employees to optimize
16 administration of the pension system.

17 (b-3) A former or retired employee of the city may not
18 before the second anniversary of the first day of the month
19 following the date the person terminated employment with the city
20 serve the pension system in any capacity other than as a trustee.
21 Except as specifically provided by this article, including Section
22 3.01(b)(3) or (4) of this article, or other law, an employee of the
23 city may not serve the pension system in any capacity.

24 (c) The executive director [~~Both the administrator~~] and
25 those persons selected to assist the executive director
26 [~~administrator~~] may be considered employees of the city. Unless
27 otherwise delegated to the executive director [~~administrator~~], the

1 board shall have the ultimate authority to retain, discipline, or
2 terminate the engagement of the executive director.

3 (d) If acting in the executive director's own discretion,
4 the executive director owes a fiduciary duty to the pension system
5 and shall ensure the sustainability of the pension system for the
6 purpose of providing current and future benefits to members of the
7 pension system and their beneficiaries [~~any persons selected under~~
8 ~~this subsection~~]. If the executive director is acting at the
9 direction of the board and not exercising the executive director's
10 own discretion, the executive director does not owe a fiduciary
11 duty under this subsection.

12 SECTION 1.11. Sections 4.01(a), (c), and (d), Article
13 6243a-1, Revised Statutes, are amended to read as follows:

14 (a) The board shall pay for all costs of administration out
15 of the income from the fund when in the judgment of the board the
16 costs are necessary, including the cost of:

17 (1) salaries and benefits for the executive director
18 [~~of the administrator, assistant administrator,~~] and
19 administrative staff;

20 (2) [~~✓~~] office expenses;

21 (3) expenses associated with securing[~~✓~~] adequate
22 office space and associated utilities;

23 (4) compensation for [~~✓~~ and] professional
24 consultants, professional investment managers, or other persons
25 providing professional services; and

26 (5) any other expenses approved by the board[~~✓~~ ~~out of~~
27 ~~income from the fund when it is actuarially determined that the~~

1 ~~payments will not have an adverse effect on the payment of benefits~~
2 ~~from any of the plans within the pension system and when in the~~
3 ~~judgment of the board the costs are necessary]. [The city shall~~
4 ~~provide for costs of administration if the board determines that~~
5 ~~payment of the costs by the fund will have an adverse effect on the~~
6 ~~payment of benefits from any plan within the pension system.]~~

7 (c) No expenditure for the costs of administration,
8 including the ~~[or]~~ payment of any fee for professional consultants,
9 professional investment management services, or any other person
10 providing professional services, may be made from the fund without
11 the approval of the board.

12 (d) After the board has developed an annual budget for the
13 pension system, the budget shall be presented to the city manager
14 ~~[city's budget office]~~ for comment. The city manager ~~[city's budget~~
15 ~~office]~~ may request the board to reconsider the appropriation for
16 any expenditure at a board meeting, but the board shall make the
17 final determination concerning any appropriation.

18 SECTION 1.12. Sections 4.02(b), (d), and (e), Article
19 6243a-1, Revised Statutes, are amended to read as follows:

20 (b) Funds contributed by the city as its share of the amount
21 required to finance the payment of benefits under the pension
22 system may be used for no other purpose. The city is not
23 responsible for the payment of any administrative or professional
24 service fees of the pension system. Any change to the ~~[The]~~
25 contributions required to be made to the pension system by the city
26 ~~[shall be annually appropriated by the city council and~~
27 ~~periodically paid on the basis of a percentage of the total wages~~

1 ~~and salaries of the members of the police and fire departments who~~
2 ~~are members of each of the plans within the pension system. The~~
3 ~~amount of this percentage and any change in it] may [be determined]~~
4 only be made:

- 5 (1) by the legislature; [ex]
6 (2) by a majority vote of the voters of the city; or
7 (3) in accordance with a written agreement entered
8 into between the pension system, by at least a two-thirds vote of
9 all trustees of the board, and the city, provided that a change made
10 in accordance with this subdivision may not increase the period
11 required to amortize the unfunded actuarial accrued liability of
12 the fund.

13 (d) Subject to Section 4.025 of this article, the city shall
14 make contributions to the pension system biweekly in an amount
15 equal to the sum of:

- 16 (1) the greater of:
17 (A) 34.5 percent of the aggregate computation pay
18 paid to members during the period for which the contribution is
19 made; or

- 20 (B) the applicable amount set forth below:
21 (i) \$5,173,000 for the biweekly pay periods
22 beginning with the first biweekly pay period that begins after
23 September 1, 2017, and ends on the last day of the first biweekly
24 pay period that ends after December 31, 2017;

- 25 (ii) \$5,344,000 for the 26 biweekly pay
26 periods immediately following the last biweekly pay period
27 described by Subparagraph (i) of this paragraph;

1 (iii) \$5,571,000 for the 26 biweekly pay
2 periods immediately following the last biweekly pay period
3 described by Subparagraph (ii) of this paragraph;

4 (iv) \$5,724,000 for the 26 biweekly pay
5 periods immediately following the last biweekly pay period
6 described by Subparagraph (iii) of this paragraph;

7 (v) \$5,882,000 for the 26 biweekly pay
8 periods immediately following the last biweekly pay period
9 described by Subparagraph (iv) of this paragraph;

10 (vi) \$6,043,000 for the 26 biweekly pay
11 periods immediately following the last biweekly pay period
12 described by Subparagraph (v) of this paragraph;

13 (vii) \$5,812,000 for the 26 biweekly pay
14 periods immediately following the last biweekly pay period
15 described by Subparagraph (vi) of this paragraph;

16 (viii) \$6,024,000 for the 26 biweekly pay
17 periods immediately following the last biweekly pay period
18 described by Subparagraph (vii) of this paragraph through the
19 biweekly pay period that ends after December 31, 2024; and

20 (ix) \$0 for each subsequent biweekly pay
21 period beginning with the first biweekly pay period following the
22 last biweekly pay period described by Subparagraph (viii) of this
23 paragraph; and

24 (2) except as provided by Subsection (e) of this
25 section, an amount equal to 1/26th of \$13 million. [~~The percentage~~
26 ~~of required contributions from the city shall be in accordance with~~
27 ~~the following schedule and any increase or decrease in city~~

1 ~~contributions shall occur automatically on any increases or~~
2 ~~decreases in the members' contribution percentage.~~

3 <u>[City Contributions</u>	<u>Member Contributions</u>
4 28-1/2%	9%
5 27-1/2%	8-1/2%
6 26%	8%
7 24-1/2%	7-1/2%
8 23%	7%
9 21-1/2%	6-1/2%]

10 (e) The city is required to pay the contribution amount
11 described by Subsection (d)(2) of this section only through the
12 last biweekly pay period that ends after December 31, 2024 [~~may~~
13 ~~elect to contribute more than that required in the schedule~~
14 ~~provided by Subsection (d) of this section, except that the city's~~
15 ~~contribution percentage may not exceed 28-1/2 percent unless~~
16 ~~approved as provided by Subsection (b) of this section. Further, in~~
17 ~~no event may the city's contribution be less than 21-1/2 percent~~
18 ~~unless approved as provided by Subsection (b)].~~

19 SECTION 1.13. Part 4, Article 6243a-1, Revised Statutes, is
20 amended by adding Section 4.025 to read as follows:

21 Sec. 4.025. CITY OR MEMBER CONTRIBUTIONS IF NO UNFUNDED
22 ACTUARIAL LIABILITIES. Notwithstanding Section 4.02 or 4.03 of
23 this article, if the pension system has no unfunded actuarial
24 liability according to the most recent actuarial valuation, the
25 annual normal costs must be equally divided between the city and the
26 members unless equally dividing the costs would increase the member
27 contribution rates beyond the rates prescribed by Section 4.03 of

1 this article. The board shall adjust the city contribution rates
2 under Section 4.02 of this article and the member contribution
3 rates under Section 4.03 of this article accordingly, and certify
4 the adjusted rates. After the completion of a subsequent actuarial
5 valuation showing unfunded actuarial liabilities, the contribution
6 rates applicable under Sections 4.02 and 4.03 of this article
7 apply.

8 SECTION 1.14. Section 4.03, Article 6243a-1, Revised
9 Statutes, is amended by amending Subsections (a), (b), (c), (d),
10 and (g) and adding Subsections (a-1), (d-1), (d-2), and (i) to read
11 as follows:

12 (a) Subject to Subsection (a-1) of this section and except
13 as provided by Section 4.025 of this article, each [~~Each~~] Group A
14 member of the combined pension plan shall have 13.5 [~~6.5~~] percent of
15 base pay deducted from the member's wages on a biweekly basis [~~each~~
16 month], and the contributions shall be promptly remitted to the
17 fund by the city.

18 (a-1) If a Group A member is assigned, for any period, to a
19 job-sharing program or any similar work schedule that is considered
20 by the member's department to be less than a full-time work
21 schedule, the member's contributions are determined by multiplying
22 the applicable contribution rate by a fraction, the numerator of
23 which is the number of hours the member actually worked during the
24 period and the denominator of which is the number of hours the
25 member would have worked during the period if the member had been
26 working a full-time work schedule.

27 (b) Each member shall [~~continue to~~] contribute to the fund

1 under the applicable terms of this article [~~section~~] until the
2 member leaves active service with either department. If a member
3 leaves active service with a department, [~~or until the beginning of~~
4 ~~the member's 33rd year of pension service, at which time~~] the member
5 shall cease making contributions.

6 (c) Each Group B member shall authorize the city to deduct
7 from the member's salary a percentage of the member's computation
8 pay. The authorization shall be in writing and filed with the
9 executive director [~~administrator~~].

10 (d) Subject to Subsection (d-1) of this section and except
11 as provided by Section 4.025 of this article, for pay periods
12 starting on or after September 1, 2017, each [~~Each~~] Group B member
13 shall have 13.5 [~~8.5~~] percent of the member's computation pay
14 deducted from the member's wages on a biweekly basis [~~each month,~~]
15 and the contributions shall be promptly remitted to the fund by the
16 city.

17 (d-1) If a Group B member is assigned, for any period, to a
18 job-sharing program or any similar work schedule that is considered
19 by the member's department to be less than a full-time work
20 schedule, the member's contributions are determined by multiplying
21 the applicable contribution rate by a fraction, the numerator of
22 which is the number of hours the member actually worked during the
23 period and the denominator of which is the number of hours the
24 member would have worked during the period if the member had been
25 working a full-time work schedule.

26 (d-2) For purposes of Subsection (d) of this section,
27 "computation pay" includes computation pay paid to a Group B member

1 during any period the member is receiving workers' compensation.

2 (g) The percentage of base pay contributed by Group A
3 members or computation pay contributed by Group B members may not be
4 altered except by an adjustment under Section 4.025 [~~amendment~~
5 ~~pursuant to the terms of Section 4.02~~] of this article.

6 (i) Member contributions under this article or any payments
7 a member is entitled to make under this article to receive
8 additional pension service may be picked up by the city under the
9 terms of an appropriate resolution of the city council.

10 SECTION 1.15. Section 4.04, Article 6243a-1, Revised
11 Statutes, is amended by amending Subsections (a), (c), (d), (e),
12 (f), (g), (h), (j), and (k) and adding Subsections (f-1) and (h-1)
13 to read as follows:

14 (a) Except as provided by Subsection (d) or (e) of this
15 section, a [A] Group B member who, either voluntarily or
16 involuntarily, leaves active service is entitled to a refund from
17 the fund of the total amount of the member's Plan B and Group B
18 contributions, without interest, that were paid beginning with the
19 effective date of the member's Group B membership or membership in
20 Plan B. A refund under this subsection results in a total
21 cancellation of pension service credit and the member and any
22 person who would otherwise take by, through, or under the member is
23 not entitled to any benefits from the pension system [~~an~~
24 ~~appropriate reduction of pension service~~].

25 (c) A [~~former~~] Group B member who desires [~~desiring~~]
26 refund of the Plan B or Group B contributions under Subsection (a)
27 of this section [~~the person made to the fund~~] must make written

1 application for the refund with the executive director
2 [~~administrator~~]. In no case may any refund be made to a a [~~any~~
3 ~~former~~] Group B member before the expiration of 30 days after the
4 date the person leaves active service.

5 (d) Subject to Subsection (k) of this section, if a Group B
6 member with less than five years of pension service either
7 voluntarily or involuntarily leaves active service and fails to
8 make written application for a refund of contributions within three
9 years after the date of the notice described by Subsection (j) of
10 this section [~~is~~] made by the board, the person forfeits the right
11 to withdraw any portion of the contribution, and the total amount of
12 Plan B and Group B contributions the person made will remain in the
13 fund. If the Group B member described by this subsection dies after
14 leaving active service, the [~~person's heirs or, if there are no~~
15 ~~heirs, the~~] deceased member's designee [~~estate~~] may apply for the
16 refund of the person's contributions, resulting in an appropriate
17 loss of pension service if the application is filed with the
18 executive director [~~administrator~~] within three years after the
19 date of the notice described by Subsection (j) of this section [~~is~~]
20 made by the board. Subject to Subsection (k) of this section, if a
21 Group B member's designee [~~heirs or estate~~] fails to apply for a
22 refund of the Group B member's contributions within the three-year
23 period described by this subsection, the designee forfeits [~~heirs~~
24 ~~and the estate forfeit~~] any right to the contributions, and the
25 total amount of the Plan B and Group B contributions made by the
26 Group B member will remain in the fund.

27 (e) Subject to Subsection (k) of this section, if a Group B

1 member with five or more years of pension service either
2 voluntarily or involuntarily leaves active service and fails to
3 make written application for a refund of the person's Plan B and
4 Group B contributions within three years after the date of the
5 notice described by Subsection (j) of this section [~~is~~] made by the
6 board, the person forfeits the right to withdraw any portion of the
7 contributions, and the total amount of the contributions will
8 remain in the fund. A Group B member described by this subsection
9 may, however, apply for a Group B retirement pension [~~benefits~~]
10 under Section 6.02 of this article or, if the Group B member dies
11 before the member is eligible to apply for a Group B retirement
12 pension, the member's qualified survivors [~~benefits, the person's~~
13 ~~heirs or, if there are no heirs, the deceased member's estate~~] may
14 apply for Group B death benefits under Sections 6.06, 6.061, 6.062,
15 and 6.063 of this article. If the Group B member dies before the
16 member is eligible to apply for a Group B retirement pension and the
17 member has no qualified survivors, the Group B member's designee
18 [~~in accordance with the provisions of this article, or the heirs or~~
19 ~~the estate~~] may apply for a refund of the Group B member's Plan B and
20 Group B contributions, resulting in a total cancellation [~~an~~
21 ~~appropriate loss~~] of pension service. Subject to Subsection (k) of
22 this section, if a Group B member's designee [~~heirs or estate~~] fails
23 to apply for a refund of the Group B and Plan B member's
24 contributions within the three-year period described by this
25 subsection, the designee forfeits [~~heirs and the estate forfeit~~]
26 any right to the contributions, and the total amount of the Plan B
27 and Group B contributions made by the Group B member will remain in

1 the fund.

2 (f) Subject to Subsections (g) and (h) of this section, [If]
3 a Group B member, other than a Group B member who elects or has
4 elected to receive a Group A benefit or a benefit determined under
5 the old plan or Plan A, who [with five or more years of pension
6 service] either voluntarily or involuntarily leaves active service
7 with five or more years of pension service [the person] is
8 entitled to:

9 (1) subject to Subsection (f-1) of this section, have
10 the total amount of the person's Plan B and Group B contributions to
11 the fund refunded in accordance with Subsection (a) of this
12 section, which results in a loss of all of the person's accrued
13 pension service; or

14 (2) if the Group B member first entered active service
15 before January 1, 1999, elect to take a refund of less than the
16 total amount of the person's Plan B and Group B contributions while
17 leaving a sufficient amount to retain pension service amounting to
18 five or more years.

19 (f-1) A Group B member who elects to receive a refund under
20 Subsection (f)(1) of this section and any person who would
21 otherwise take by, through, or under the member is not entitled to
22 any benefits from the pension system.

23 (g) If a Group B member elects a refund of a portion of the
24 person's contributions under Subsection (f)(2) of this section, the
25 amount of the refund shall equal the total amount of the person's
26 Plan B and Group B annual contributions, without interest, for each
27 full year of pension service canceled [~~cancelled~~], computed based

1 on the earliest contributions made.

2 (h) A [~~former~~] Group B member who first entered active
3 service on or after January 1, 1999, is entitled to have the total
4 amount of the person's Group B contributions refunded under
5 Subsection (a) of this section in accordance with Subsection (f)(1)
6 of this section, but may not receive a refund of less than the total
7 amount in accordance with Subsection (f)(2) of this section.

8 (h-1) A Group B member who leaves active service and later
9 returns to active service is permitted to repay to the fund any
10 previously withdrawn employee contributions and receive pension
11 service in accordance with Section 5.07(d) of this article as a
12 Group B member to the extent that [~~if,~~] before again leaving active
13 service, the Group B member repays [~~completely~~] to the fund the
14 previously withdrawn contributions with interest, calculated at
15 the interest rate from time to time used in the pension system's
16 actuarial rate of return assumptions, compounded annually, on the
17 previously withdrawn contributions [~~for the period from the date~~
18 ~~the contributions were withdrawn until the date the principal and~~
19 ~~accrued interest are repaid in full~~].

20 (j) On the 58th [~~50th~~] anniversary of the birth of a Group B
21 member described by Subsection (d) or (e) of this section, or on the
22 board's receipt of notice of the death of the Group B member, the
23 board shall, by registered or certified mail, return receipt
24 requested, attempt to notify the Group B member or designee [~~the~~
25 ~~member's heirs or estate~~], as applicable, of the status of the
26 person's [~~their~~] entitlement to a refund of contributions from the
27 fund.

1 (k) A Group B member or designee described by Subsection (d)
2 or (e) of this section [~~or the heirs or estate of the Group B member~~]
3 shall have the person's [~~their~~] right, title, interest, or claim to
4 a refund of the Group B member's contributions reinstated only on
5 the board's grant of their written request for a reinstatement and
6 refund. The board's decision shall be based on a uniform and
7 nondiscriminatory basis [~~policy that it shall, from time to time,~~
8 ~~adopt~~].

9 SECTION 1.16. Section 4.06(c), Article 6243a-1, Revised
10 Statutes, is amended to read as follows:

11 (c) The authority of the board to make a custody account or
12 master trust agreement is supplementary to its authority to make an
13 investment management contract. Allocation of assets to a custody
14 account or master trust shall be coordinated by the executive
15 director [~~administrator~~], as authorized by the board, and the bank
16 designated as custodian or master trustee for the assets.

17 SECTION 1.17. Section 4.07, Article 6243a-1, Revised
18 Statutes, is amended by amending Subsections (a), (d), and (g) and
19 adding Subsection (h) to read as follows:

20 (a) Subject to Section 4.071 of this article, if [~~if~~] the
21 board determines that there is in the fund a surplus exceeding a
22 reasonably safe amount to take care of current demands on the
23 pension system, the board may invest or direct the investment of the
24 surplus for the sole benefit of the pension system.

25 (d) The board also has the authority to contract for
26 professional investment management services. Any contract that the
27 board makes with an investment manager shall set forth the board's

1 investment policies and guidelines [~~of the board for the use of~~
2 ~~standard rating services and shall include specific criteria for~~
3 ~~determining the quality of investments~~]. A professional investment
4 management service shall receive such compensation as may be
5 determined by the board in accordance with Section 4.01 of this
6 article.

7 (g) A [~~No investment manager, other than a~~] bank or trust
8 company that has custody and trustee powers and a contract with the
9 board to provide assistance in making investments[~~r~~] shall be the
10 custodian or master trustee of any of the securities or other assets
11 of the fund. Pursuant to Section 4.06 of this article, the board
12 may designate a bank to serve as custodian or master trustee, or
13 subcustodian or submaster trustee, to perform the customary duty of
14 safekeeping as well as duties incident to the execution of
15 transactions. As the demands of the pension system require, the
16 board shall withdraw from the custodian or master trustee money
17 previously considered surplus in excess of current cash and
18 proceeds from the sale of investments. The money may without
19 distinction be used for the payment of benefits pursuant to each of
20 the plans within the pension system and for other uses authorized by
21 this article and approved by the board.

22 (h) The board through policy shall establish an investment
23 advisory committee composed of trustees and outside investment
24 professionals to review investment related matters as prescribed by
25 the board and make recommendations to the board. A majority of the
26 members of the committee established under this subsection must be
27 outside investment professionals.

1 SECTION 1.18. Part 4, Article 6243a-1, Revised Statutes, is
2 amended by adding Section 4.071 to read as follows:

3 Sec. 4.071. BOARD APPROVAL OF CERTAIN ALTERNATIVE
4 INVESTMENTS. (a) The executive director, an investment manager, a
5 provider of professional investment management services or
6 professional advisory services, or any other person delegated
7 authority to invest or reinvest pension system assets under this
8 article may not invest pension system assets in a single
9 alternative investment unless the board votes to approve the
10 investment by at least a two-thirds vote of all the trustees.

11 (b) The board may adopt rules necessary to implement this
12 section.

13 SECTION 1.19. Section 4.08, Article 6243a-1, Revised
14 Statutes, is amended by adding Subsection (c) to read as follows:

15 (c) On written request by the city, the executive director
16 shall make available to the city's actuary or auditor the
17 information and documents provided to or used by the pension
18 system's actuary or auditor in conducting an actuarial valuation
19 under this article or preparing any other document prepared under
20 this article.

21 SECTION 1.20. Section 4.09, Article 6243a-1, Revised
22 Statutes, is amended to read as follows:

23 Sec. 4.09. REWARDS, DONATIONS, AND CONTRIBUTIONS. Any
24 reward, donation, or contribution given to any member as payment or
25 gratuity for service performed in the line of duty shall be turned
26 over to the chief of the member's department, who shall, in turn,
27 forward the reward, donation, or contribution to the executive

1 director [~~administrator~~] of the pension system for deposit in the
2 fund.

3 SECTION 1.21. Section 5.01, Article 6243a-1, Revised
4 Statutes, is amended to read as follows:

5 Sec. 5.01. MEMBERSHIP IN COMBINED PENSION PLAN. (a) Except
6 as provided by Subsection (a-1) of this section, the [~~The~~]
7 membership of the combined pension plan is composed of the
8 following persons:

9 (1) Group A members:

10 (A) police officers or fire fighters who are on
11 active service and who as of February 28, 1973, had filed a written
12 statement with the pension system of their desire to participate in
13 either the old plan or Plan A;

14 (B) police officers and fire fighters who are on
15 active service and [✓] who were employed and receiving compensation
16 from the city as a police officer or a fire fighter before March 1,
17 1973, and who made contributions to either the old plan or Plan A
18 attributable to any period of employment before March 1, 1973; and

19 (C) except as provided by Subsection (b) of this
20 section, persons who elect to become Group A members under that
21 subsection; and

22 (2) Group B members:

23 (A) police officers and fire fighters who are on
24 active service and who [✓] were formerly members of either the old
25 plan or Plan A[✓] and who, as of April 30, 1973, had filed a written
26 statement with the pension system of their desire to participate in
27 Plan B;

1 (B) police officers and fire fighters who are on
2 active service and who on or after March 1, 1973, and before January
3 1, 1993, became members of Plan B;

4 (C) as a condition of employment, any police
5 officer [~~office~~] or fire fighter who is initially employed as a
6 police officer or a fire fighter by the city on or after January 1,
7 1993;

8 (D) as a condition of return to active service
9 and except as provided by Subsection (b) of this section, former
10 members of the old plan or Plan A who left active service before
11 March 1, 1973;

12 (E) as a condition of return to active service
13 and except as provided by Subsection (c) of this section, former
14 Group B members who are no longer on active service, whether or not
15 the persons were ever a member of the old plan, Plan A, or the
16 combined pension plan;

17 (F) Group A members who are on active service and
18 meet the requirements and make an election under Subsection (d) of
19 this section; and

20 (G) persons who are on active service and make an
21 election under Subsection (e) of this section.

22 (a-1) Group A or Group B members do not include any employee
23 of the city who is:

24 (1) required by ordinance or who elects, in accordance
25 with an ordinance, to participate in an alternative benefit plan
26 established under Section 3.01(j-1)(2) of this article based on an
27 evaluation under Section 3.01(j-5)(2) of this article; or

1 (2) required by ordinance to participate in an
2 alternative benefit plan established under Section 810.002,
3 Government Code.

4 (b) A person who has received an old plan, Plan A, or
5 combined pension plan retirement or disability pension on or after
6 March 1, 1973, may, if the person returns to active service, elect
7 to participate as a Group A or Group B member by filing a written
8 application for membership with the executive director
9 ~~[administrator]~~ not later than 60 days after the date of return to
10 active service. ~~[As a condition of either Group A or Group B~~
11 ~~membership, the board may require the person to undergo a physical~~
12 ~~examination and be certified by the health director as being~~
13 ~~capable of performing the duties to which the person will be~~
14 ~~assigned.]~~ If the person described by this subsection does not
15 elect to become a Group A or Group B member, the person shall on
16 leaving active service receive a retirement pension in an amount
17 that is unadjusted for the period of return to active service if the
18 person meets all of the requirements of Group A membership.

19 (c) A Group B pensioner who was never a member of the old
20 plan, Plan A, or the combined pension plan before January 1, 1993,
21 may, if the person returns to active service, elect to become a
22 Group B member by filing a written application for membership with
23 the executive director ~~[administrator]~~ not later than 60 days after
24 the date of return to active service. ~~[As a condition of Group B~~
25 ~~membership, the board may require the pensioner to undergo a~~
26 ~~physical examination and be certified by the health director as~~
27 ~~being capable of performing the duties to which the person will be~~

1 ~~assigned.~~] If the person described by this subsection does not
2 elect to again become a Group B member, on leaving active service,
3 if the person meets all applicable requirements of this article,
4 the person shall receive benefits in an amount equal to the amount
5 the person was receiving as of the day before the day the person
6 returned to active service, and the person's base pension shall be
7 the same as the base pension originally computed before the return
8 to active service.

9 (d) A person who is on active service and is a Group A member
10 may, before the person participates in DROP, irrevocably elect to
11 become a Group B member by filing a written application with the
12 executive director [~~administrator~~]. On and after the filing of the
13 application, the Group A member shall make contributions to the
14 fund at the rate applicable to Group B members. However, the
15 contributions do not, by themselves, establish [~~constitute~~] Group B
16 membership. Group B membership is contingent on the satisfaction
17 of the following conditions:

18 (1) the [~~The~~] person must, before the person elects to
19 participate in DROP, pay an amount to the fund equal to the
20 difference between the contributions the person would have made to
21 the fund had the person been a Group B member for the entire period
22 the person could otherwise have been a Group B member before making
23 application for membership and the contributions the person
24 actually made during that period, plus interest calculated in
25 accordance with procedures adopted by the board from time to time;
26 and[-]

27 (2) the [~~The~~] payments described by this subsection

1 must be completed before the earlier of the date on which the person
2 begins participation in DROP or leaves active service in accordance
3 with procedures adopted by the board from time to time.

4 (d-1) If the fund does not receive payment under Subsection
5 (d)(1) of this section by the ~~[that]~~ date prescribed by Subsection
6 (d)(2) of this section, all payments made under Subsection (d)(1)
7 of this section ~~[of this type]~~, as well as those contribution
8 amounts paid by the person after the person's application for Group
9 B membership that are in excess of the Group A member contribution
10 rate, shall be returned without accrued interest to the person, or
11 in the event of the person's death to the person's designee
12 ~~[surviving spouse, children, or estate]~~, as applicable.

13 (e) A person who is on active service and has never been a
14 member of any plan within the pension system may elect to become a
15 Group B member on a prospective basis by filing a written
16 application for membership with the executive director
17 ~~[administrator]~~.

18 SECTION 1.22. Sections 5.02(a), (d), (e), (h), and (i),
19 Article 6243a-1, Revised Statutes, are amended to read as follows:

20 (a) The effective date of Group B membership for a person
21 who becomes a Group B member under ~~[persons described by]~~ Section
22 5.01(a)(2)(A) or (B) of this article is the date the Group B member
23 first became a member of Plan B ~~[January 1, 1993]~~.

24 (d) The effective date of Group B membership for a person
25 ~~[former Group B member]~~ who again becomes a Group B member and is
26 described by Section 5.01(a)(2)(E) of this article is the person's
27 original effective date of Group B membership, adjusted for any

1 period for which [~~that~~] the person was not on active service or [~~7~~
2 ~~if the person~~] has [~~not~~] withdrawn some, but not all, contributions
3 to the fund pursuant to Section 4.04 of this article. If, however,
4 the person withdraws [~~former Group B member has withdrawn~~] all
5 contributions to the fund in accordance with Section 4.04 of this
6 article, and the person does not replace the previously withdrawn
7 contributions together with interest as provided by Section
8 4.04(h-1) [~~4.04(h)~~] of this article, the effective date of the
9 person's membership is the date of return to active service.

10 (e) The effective date of membership for a person who
11 becomes a Group B member pursuant to Section 5.01(b) of this article
12 is the date on which written application for the membership is filed
13 with the executive director [~~administrator~~]. The effective date of
14 membership for a person who becomes a Group A member pursuant to
15 Section 5.01(b) of this article is the person's original effective
16 date of membership in the old plan, Plan A, or the combined pension
17 plan, whichever is applicable.

18 (h) A person described by Subsection (a), (c), (d), (e),
19 (f), or (g) of this section shall be given full pension service for
20 the time the person was a contributing member of the old plan, Plan
21 A, the combined pension plan, and Plan B, and the pension service
22 shall be counted as if it had been earned while a Group B member.
23 Neither the length of time persons described by Subsection (a),
24 (c), (d), (e), (f), or (g) of this section received a retirement or
25 disability pension, whether under the old plan, Plan A, the
26 combined pension plan or Plan B, nor the amount of any benefits paid
27 to the person shall have any effect on the pension service earned by

1 the person. No pension service may be earned while on service
2 retirement or disability retirement, or when the person was not on
3 active service. Except as provided by Sections 5.08 [~~5.02~~] and 5.09
4 of this article, a person described by Subsection (a), (c), (d),
5 (e), (f), or (g) of this section may not be allowed to contribute to
6 the fund in order to receive pension service for the time the person
7 was not on active service, regardless of whether the person was
8 actually receiving a pension.

9 (i) The effective date of Group B membership for a person
10 who becomes a Group B member pursuant to Section 5.01(e) of this
11 article is the date on which written application for Group B
12 membership is filed with the executive director [~~administrator~~].

13 SECTION 1.23. Section 5.03, Article 6243a-1, Revised
14 Statutes, is amended by amending Subsections (c) and (d) and adding
15 Subsection (c-1) to read as follows:

16 (c) A Group B member who is on active service and [~~or former~~
17 ~~Group B member who also~~] was a former contributing member of either
18 the old plan or Plan A may elect, when applying for either a
19 retirement or disability pension if applicable, to terminate
20 membership and receive a Group A retirement or disability pension
21 under the applicable provisions of this article, if the Group B
22 member's application for retirement or disability pension is
23 granted by the board.

24 (c-1) A Group B member who is not on active service and was a
25 former contributing member of either the old plan or Plan A may
26 elect, when applying for a retirement pension, to terminate
27 membership and receive a Group A retirement pension under the

1 applicable provisions of this article, if the Group B member's
2 application for retirement pension is granted by the board.

3 (d) If a Group B member [~~or former Group B member~~] described
4 by Subsection (c) or (c-1) of this section has elected and been
5 granted a Group A retirement or disability pension under the
6 applicable provisions of this article, the person is entitled to a
7 reimbursement from the fund. The reimbursement shall be equal to
8 that portion of the person's contributions to the fund, without
9 interest, from the person's effective date of Group B membership
10 until the time the person left active service[7] that is in excess
11 of the total amount the person would have contributed as a Group A
12 member or as a member of the old plan or Plan A for the same period.
13 A Group B member [~~or former Group B member~~] desiring a refund of
14 excess contributions must make written application for the refund
15 with the executive director [~~administrator~~] within three years
16 after the date the person's Group A retirement or disability
17 pension, whichever is applicable, begins; otherwise, the person
18 will [~~or~~] lose all right, title, interest, or claim to the refund
19 until such time as the board grants the refund in response to the
20 person's written request. The refund shall be made as soon as
21 practicable after written application is filed with the executive
22 director [~~administrator~~].

23 SECTION 1.24. Section 5.04, Article 6243a-1, Revised
24 Statutes, is amended to read as follows:

25 Sec. 5.04. GROUP B MEMBERSHIP MAY BE DECLARED INACTIVE. (a)
26 Except as provided by Subsection (d)(1) of this section, if [If] a
27 Group B member with less than five years of pension service either

1 voluntarily or involuntarily leaves active service, the person's
2 Group B membership remains active as long as the person has not
3 withdrawn the person's contributions pursuant to Section 4.04 of
4 this article.

5 (b) Except as provided by Subsection (d)(2) of this section,
6 if [~~If~~] a Group B member with five or more years of pension service
7 either voluntarily or involuntarily leaves active service, the
8 person's Group B membership remains active as long as the person has
9 not withdrawn the person's entire contributions pursuant to Section
10 4.04 of this article.

11 (c) Except as provided by Subsection (d)(3) of this section,
12 if [~~If~~] the board receives valid information that a Group B primary
13 party has died, [~~leaving one or more heirs,~~] the board shall, by
14 registered or certified mail, return receipt requested, attempt to
15 notify:

16 (1) the qualified survivors [~~heirs~~] of the primary
17 party of the procedures for applying and qualifying for death
18 [~~survivor~~] benefits under Section 6.06, 6.061, 6.062, or 6.063 of
19 this article; or

20 (2) if the primary party does not have any qualified
21 survivors, the primary party's designee of the procedures for
22 applying for [~~or~~] a refund of the [~~Group B~~] primary party's
23 contributions, if applicable, in accordance with Section 4.04 of
24 this article.

25 (d)(1) Subject to the provisions of Subdivision (5)(A) of
26 this subsection, the membership of a Group B member described by
27 Subsection (a) of this section shall be declared inactive and all of

1 the person's accrued pension service voided if the person does not
2 return to active service within three years after the date of
3 ~~[receiving]~~ the notice described by Subdivision (4) of this
4 subsection.

5 (2) Subject to the provisions of Subdivision (5)(B) of
6 this subsection, the membership of a Group B member described by
7 Subsection (b) of this section shall be declared inactive and all of
8 the person's accrued pension service voided if the person does not
9 file an application for a Group B retirement pension with the board
10 within three years after the date of ~~[receiving]~~ the notice
11 described by Subdivision (4) of this subsection.

12 (3) Subject to the provisions of Subdivision (5)(C) of
13 this subsection, if a primary party described by Subsection (c) of
14 this section:

15 (A) does not have any qualified survivors, the
16 designee has ~~[, the heirs or estate of a deceased primary party~~
17 ~~described by Subsection (c) of this section have]~~ no right, title,
18 interest, or claim for ~~[benefits or]~~ a refund of the primary party's
19 contributions to the fund~~[,]~~ if the designee does not file an
20 application for the primary party's contributions within three
21 years after the date of the notice described in Subsection (c) of
22 this section; or

23 (B) has qualified survivors, the qualified
24 survivors have no right, title, interest, or claim to ~~[heirs or the~~
25 ~~estate, whichever is applicable, fails to file an application for]~~
26 the primary party's death benefits if the qualified survivor does
27 not file an application for the benefits ~~[or contributions]~~ within

1 three years after the date of [~~receiving~~] the notice described in
2 Subsection (c) [~~by Subdivision (4)~~] of this section [~~subsection~~].

3 (4) On the 58th [~~50th~~] anniversary of the birth of a
4 Group B member described by Subsection (a) or (b) of this section
5 [~~or on the board's receipt of notice of the death of a primary party~~
6 ~~described by Subsection (c) of this section~~], the board shall, by
7 registered or certified mail, return receipt requested, attempt to
8 notify:

9 (A) the [~~Group B~~] member [~~or the heirs or estate~~
10 ~~of a primary party, whichever is applicable,~~] of the status of the
11 member's [~~their~~] entitlement to benefits or contributions from the
12 fund; or

13 (B) if the board receives valid information that
14 the member has died, the qualified survivors of the deceased person
15 or, if none exists, the designee of the deceased person.

16 (5)(A) A Group B member described by Subdivision (1)
17 of this subsection shall have the person's Group B membership and
18 pension service reinstated on the person's return to active
19 service.

20 (B) A Group B member described by Subdivision (2)
21 of this subsection shall have the person's Group B membership and
22 pension service reinstated on the person's return to active service
23 or on the grant of the person's written request to the board of the
24 person's desire to apply for a Group B [~~service~~] retirement pension
25 under Section 6.02 of this article [~~benefit~~].

26 (C) A primary party's qualified survivors or
27 designee, as appropriate, [~~The heirs or estate of a primary party~~]

1 described by Subdivision (3) of this subsection shall have their
2 right, title, interest, or claim to the primary party's refund of
3 the party's contributions reinstated on the board's grant of their
4 written request [~~for the reinstatement and refund~~]. [~~The board's~~
5 ~~decision shall be based on a uniform and nondiscriminatory policy~~
6 ~~that it shall, from time to time, adopt.~~]

7 SECTION 1.25. Section 5.05, Article 6243a-1, Revised
8 Statutes, is amended to read as follows:

9 Sec. 5.05. PENSION SERVICE. (a) Subject to Subsection (d)
10 of this section and except as provided by Subsection (e) of this
11 section, a [A] member shall receive pension service for the time,
12 computed in years and fractional years for months and days,
13 completed as a member of the combined pension plan, the old plan,
14 Plan A, or Plan B.

15 (b) A member who elects to pay contributions for time spent
16 on military leave, authorized non-uniformed leave of absence, or
17 for an apprenticeship or probationary period, or for any other
18 reason provided for by this article may [~~not~~] receive [~~any~~] pension
19 service for [~~any part of~~] the time for which the member is
20 contributing only to the extent provided under Section 5.07(d),
21 5.08, or 5.09 of this article [~~until the entire amount due the fund~~
22 ~~for the entire period involved has been paid as if the service were~~
23 ~~performed as a member~~].

24 (c) If a member, either voluntarily or involuntarily,
25 leaves active service and later returns to active service, the
26 person shall receive full pension service for the period of the
27 person's original membership, if the person did not withdraw the

1 person's contributions pursuant to Section 4.04 of this article.
2 If, however, the member had withdrawn the person's contributions
3 and did [~~does~~] not replace the previously withdrawn contributions
4 [~~with interest~~] as required by Section 4.04 of this article, the
5 member [~~person~~] forfeits any pension service attributable to any
6 period of time for which the respective contributions were not
7 repaid [~~accrued while a member before the date of the person's~~
8 ~~return to active service~~].

9 (d) If a member is assigned, for any period, to a
10 job-sharing program or any similar work schedule that is considered
11 by the member's department to be less than a full-time work
12 schedule, the member's pension service is determined by multiplying
13 the pension service that could have been earned for full-time work
14 during the period by a fraction, the numerator of which is the
15 number of hours the member actually worked during the period and the
16 denominator of which is the number of hours the member would have
17 worked during the period if the member had been working a full-time
18 work schedule. This proration may not affect the computation of
19 pension service for a member during any period the member is on
20 leave:

21 (1) because of an illness or injury; or
22 (2) receiving periodic payments of workers'
23 compensation.

24 (e) Notwithstanding any other provision in this section, a
25 member may not receive pension service attributable to nonqualified
26 service to the extent the pension service would result in either
27 more than five years of permissive service attributable to

1 nonqualified service being taken into account, or any permissive
2 service being taken into account before the member has completed at
3 least five years of active service. In this subsection,
4 "permissive service" and "nonqualified service" have the meanings
5 described by Section 415(n)(3) of the code.

6 SECTION 1.26. Sections 5.06, 5.07, 5.08, and 5.09, Article
7 6243a-1, Revised Statutes, are amended to read as follows:

8 Sec. 5.06. VESTED RIGHTS OF GROUP B MEMBERS. (a) If a Group
9 B member accrues five years of pension service, whether the pension
10 service is accrued while a Group B member or while a member of the
11 old plan, Plan B, Plan A, the combined pension plan, or a
12 combination of the plans, the Group B member has vested rights and
13 is eligible to apply for a retirement pension in accordance with
14 Section 6.02 of this article.

15 (b) If a Group B member has vested rights as determined
16 under Subsection (a) of this section, and the Group B member either
17 voluntarily or involuntarily leaves active service before becoming
18 eligible to receive any benefits under Section 6.02 of this
19 article, the person shall be provided with a letter approved by the
20 board and signed by the executive director [~~administrator~~] that,
21 barring unrepaid refunds, clerical error, miscalculation, or other
22 error, is incontestable and shall state:

23 (1) the total amount of pension service the Group B
24 member had accrued until the date the person left active service;

25 (2) the total amount of contributions the Group B
26 member made under the terms of Plan B and the combined pension plan;

27 and

1 (3) the monthly retirement pension due the Group B
2 member at age 58 [~~50~~].

3 Sec. 5.07. PURCHASE OF PENSION SERVICE BY GROUP B MEMBERS.

4 (a) A Group B member who is on active service and has previously
5 elected not to become a contributing member of the old plan or [~~and~~]
6 Plan A may purchase pension service from the fund for that period
7 during which the member performed active service with either
8 department until the effective date of the member's Group B
9 membership. No pension service may be given to the Group B member
10 except to the extent that [~~until~~] payment is made for the [~~entire~~
11 ~~period described by this subsection, and no~~] pension service in
12 accordance with Subsection (d) of this section [~~may be purchased~~
13 ~~for any period that is of greater or lesser length~~].

14 (b) Payment for the purchase of pension service under
15 Subsection (a) of this section shall be equal to the amount of
16 contributions the Group B member would have made to the old plan and
17 Plan A had the member been a contributing member of either of the
18 plans during the period for which the pension service is being
19 purchased [~~described by Subsection (a) of this section~~], plus
20 interest calculated in accordance with procedures adopted by the
21 board from time to time.

22 (c) Subject to Subsection (d) of this section, a [A] Group B
23 member who is on active service may repay the fund all or a portion
24 of the employee contributions withdrawn by an alternate payee
25 pursuant to the terms of a qualified domestic relations order [~~and~~
26 ~~receive pension service as a Group B member attributable to the~~
27 ~~contributions, if the Group B member repays completely to the fund~~

1 ~~the withdrawn contributions]~~ with interest, calculated at the
2 interest rate from time to time used in the pension system's
3 actuarial rate of return assumptions, compounded annually, on the
4 contributions for the period from the date the contributions were
5 withdrawn until the date the principal and accrued interest are
6 repaid, and receive pension service as a Group B member, in
7 accordance with Subsection (d) of this section, for the period for
8 which the contributions and interest were paid [in full].

9 (d) ~~[No pension service may be given to a Group B member~~
10 ~~under Subsection (b) or (c) of this section until the entire amount~~
11 ~~described by Subsection (b) or (c) has been paid to the fund.]~~ If
12 payment of the entire amount of pension service a member is entitled
13 to under Subsection (a) or (c) of this section or under Section
14 4.04(h-1) of this article is not completed by the earlier of the
15 date the Group B member begins participation in DROP or the date the
16 member [is not completed by the date the Group B member] leaves
17 active service, pension service will be provided only for the
18 number of full years of pension service that the contributions and
19 interest paid under those provisions will purchase, computed based
20 on the most recent years for which the member was entitled to
21 purchase pension service. Except for pension service that is
22 picked up by the city under the authority of Section 414(h)(2) of
23 the code, a fractional year of pension service may be purchased only
24 if less than a full year of pension service is available for
25 purchase.

26 (e) The amounts paid but insufficient to purchase one or
27 more whole years of pension service that remain available for

1 purchase, including any interest paid by the Group B member, must be
2 returned to the Group B member or, if the Group B member has died, to
3 the Group B member's designee, without any accrued interest on the
4 returned money.

5 (f) Notwithstanding any other provision of this section,
6 any amounts that have been picked up and paid by the city may not be
7 paid to a member or designee, and the member shall be given credit
8 for all years, and fractions of years, of pension service that can
9 be purchased with the picked-up contributions ~~[all partial payments~~
10 ~~shall be returned to the Group B member or, if the Group B member has~~
11 ~~died, to the member's heirs or estate, whichever is applicable].~~

12 Sec. 5.08. MEMBERS IN UNIFORMED ~~[ARMED]~~ SERVICES. (a) In
13 this section, "service in the uniformed services" has the meaning
14 assigned by the federal Uniformed Services Employment and
15 Reemployment Rights Act of 1994 (38 U.S.C. Section 4301 et seq.), as
16 amended.

17 (a-1) A member who is reemployed by the city after an
18 absence due to service in the uniformed services shall receive
19 contributions, benefits, and pension service that are no less
20 favorable than those required by Section 414(u) of the code in
21 accordance with the procedure described by Subsection (c) of this
22 section ~~[may receive pension service for time spent away from~~
23 ~~either department while on active duty in any of the military~~
24 ~~services of the United States, including service in any state or~~
25 ~~National Guard or any reserve component of any military service in~~
26 ~~accordance with the military leave provided by this section].~~

27 (b) To the extent a provision of this section that was in

1 effect before November 25, 1996, would provide a member who was on
2 active service with the pension system before November 25, 1996,
3 with greater rights, the prior provision of this section applies
4 ~~[Any member inducted into the armed forces as a draftee must reapply~~
5 ~~for reinstatement with the member's prior department within 90 days~~
6 ~~after the date of honorable discharge or separation from military~~
7 ~~service. On such reinstatement, the member may elect to repay the~~
8 ~~member's contributions at any time under the procedure described by~~
9 ~~Subsection (h) of this section].~~

10 (c) Payment for credit for pension service under this
11 section ~~[Any member enlisting in the armed forces, other than as a~~
12 ~~reservist, whose military service between June 24, 1948, and August~~
13 ~~1, 1961, did not exceed four years, or whose military service began~~
14 ~~after August 1, 1961, and did not exceed five years if the fifth~~
15 ~~year is at the request and convenience of the federal government,~~
16 ~~and who was honorably discharged or separated from service is~~
17 ~~guaranteed, under the provisions of coverage described by this~~
18 ~~subsection, the right to restore pension service under the~~
19 ~~procedure described by Subsection (h) of this section. The four-~~
20 ~~and five-year leaves permitted by this subsection apply to all of a~~
21 ~~member's employment with the city. An enlistment plus any number of~~
22 ~~reenlistments may not exceed the four- or five-year limitations~~
23 ~~stated above.~~

24 ~~[(d) Any member ordered to an initial period of active duty~~
25 ~~for training in a reserve component of not less than 12 consecutive~~
26 ~~weeks is entitled to restore pension service for the period absent~~
27 ~~from the member's department, if the member returns to the member's~~

1 ~~department within 31 days after the date of honorable discharge or~~
2 ~~separation from duty in the reserve unit.~~

3 ~~[(e) Any member serving in a reserve component, voluntarily~~
4 ~~or involuntarily, may remain on military leave for four years,~~
5 ~~which may be extended for periods when the President of the United~~
6 ~~States calls the reserve unit into active duty. The service~~
7 ~~extension for members joining a reserve unit voluntarily is~~
8 ~~available only when the additional service is at the request and for~~
9 ~~the convenience of the federal government. Any member returning to~~
10 ~~the member's department under this provision must report back to~~
11 ~~work within the time specified to the member by the department,~~
12 ~~giving due regard for travel time and hospitalization, if required.~~
13 ~~Any inquiry into the validity of orders extending terms of~~
14 ~~reservist active duty for training will be referred to the~~
15 ~~Department of Labor's Office of Veterans' Employment and Training.~~

16 ~~[(f) Any member on military leave for short periods of~~
17 ~~authorized training, such as two-week encampments, are treated as~~
18 ~~on leave with pay for up to 15 working days in any one calendar year,~~
19 ~~during which time pension service automatically accrues. Leave in~~
20 ~~excess of 15 days will be treated as described by Subsection (e) of~~
21 ~~this section.~~

22 ~~[(g) With the exception of those circumstances described by~~
23 ~~Subsection (f) of this section, the city is not required to match~~
24 ~~contributions made by members under the terms of this section.~~

25 ~~[(h) Repayment]~~ shall be made in accordance with Section
26 5.07 of this article and a [the procedure set forth in any] uniform
27 and nondiscriminatory ~~[military leave and payment]~~ procedure

1 adopted by the board [~~and in effect from time to time~~].

2 Sec. 5.09. NON-UNIFORMED [~~NONMILITARY~~] LEAVE OF ABSENCE.

3 (a) An "authorized non-uniformed leave of absence" means any leave
4 of absence that meets one of the following requirements
5 [~~conditions~~]:

6 (1) the leave of absence was unpaid and granted by the
7 member's department in accordance with the federal Family and
8 Medical Leave Act of 1993 (29 U.S.C. Section 2601 et seq.); or

9 (2) the leave of absence was unpaid and was [~~must be~~]
10 an official leave authorized and certified by the chief of the
11 member's [~~either~~] department as being beneficial to [~~and~~

12 [~~(2) the leave of absence must be for the purpose of~~
13 ~~benefitting~~] the department.

14 (b) Subject to the requirements of this section and any
15 procedures adopted by the board, a [A] member may receive pension
16 service for time spent away from the member's [~~either~~] department
17 on an authorized non-uniformed [~~nonmilitary~~] leave of absence. To
18 receive pension service under this section [~~for a nonmilitary leave~~
19 ~~of absence, the following conditions must be met:~~

20 [~~(1) before the date the member's leave of absence is to~~
21 ~~begin~~], the member must file with the executive director
22 [~~administrator~~] a written application to pay to the fund both:

23 (1) the member contributions the member would have
24 made to the fund had the member remained on active service and had
25 there been no change in the member's position or hours of work
26 during the period of the authorized non-uniformed leave of absence;
27 and

1 (2) the contributions the city would have made to the
2 fund on the member's behalf ~~[any contributions that will accrue~~
3 ~~during the member's leave as set forth in Subdivisions (2) and (3)~~
4 ~~of this subsection,~~

5 ~~[(2) the member must agree to pay into the fund the~~
6 ~~amount the member would have contributed had the member remained on~~
7 ~~active service, the amount to be based on the computation pay the~~
8 ~~member would have normally received had there been no change in the~~
9 ~~member's position during the period of leave,~~

10 ~~[(3) the member must agree to pay into the fund an~~
11 ~~amount equal to the amount the city would have contributed computed~~
12 ~~on the basis of total wages and salary the member would normally~~
13 ~~have received]~~ had the member remained on active service and had
14 there been no change in the member's position or hours of work
15 during the period of the authorized non-uniformed leave of absence.

16 (b-1) Contributions made under Subsection (b)(2) of this
17 section may not be refunded to the member.

18 (b-2) The written application described by Subsection (b)
19 of this section must be filed before the member's authorized
20 non-uniformed leave of absence begins, unless the pension system
21 determines that it would not be reasonable to expect the member to
22 file the application before the authorized non-uniformed leave of
23 absence begins, in which case the application must be filed as soon
24 as circumstances permit, as determined by the pension system.

25 ~~[leave, the payment to represent the total amount that would have~~
26 ~~been contributed by the city on the member's behalf had the member~~
27 ~~remained on active service and paid in addition to the amount the~~

1 ~~member must contribute as set forth in Subdivision (2) of this~~
2 ~~subsection,]~~

3 (b-3) To receive pension service under this section, the
4 following additional conditions must also be met:

5 (1) [(4)] if the member's contribution rate, the
6 city's contribution rate, or both the member's and city's
7 contribution rates change before the end of the member's authorized
8 non-uniformed leave of absence [~~changes as provided by Section 4.02~~
9 ~~of this article], the percentage [of total wages and salary]
10 required to be paid by the member also changes, so that the amount
11 paid by the member in accordance with this section always equals the
12 amount that would have been contributed by the member, and by the
13 city on the member's behalf had the member remained on active
14 service [~~, and in no event is the city required to pay into the fund~~
15 ~~any contributions that would have been made on behalf of a member~~
16 ~~had the member remained on active service during the period of an~~
17 ~~authorized leave of absence];~~~~

18 (2) [(5)] payment of contributions as set forth in
19 Subsection (b) of this section [~~Subdivisions (3) and (4) of this~~
20 ~~subsection]~~ shall begin coincident with the beginning of the
21 applicable authorized non-uniformed leave of absence and shall be
22 made monthly to the executive director [~~administrator]~~ for deposit
23 in the fund, unless the board authorizes the deferment of the
24 payments, in which case the payments must include interest
25 calculated in accordance with Subsection (b-4) of this section
26 [~~until the member has returned to active service];~~

27 (3) no pension service will be granted to the member

1 until the member returns to active service, and if the member does
2 not return to active service, the contributions paid, including any
3 interest paid, will be returned to the member except as provided by
4 Subsection (c) of this section;

5 (4) if the board authorizes the deferment of the
6 payments under Subdivision (2) of this subsection, the payment must
7 [~~may~~] be made either by authorizing the deduction of pro rata
8 portions of the total amount due from the member's salary over a
9 one-year period, or by cash payment made to the executive director
10 [~~administrator~~] within one year after the date of the member's
11 return to active service, except that the board may approve a longer
12 period for making the payment if it finds that the one-year limit
13 would work a financial hardship on the member;

14 (5) [~~(6)~~] the member must return to active service
15 within 90 days after the date the member's authorized non-uniformed
16 leave of absence expires, or if the member's authorized
17 non-uniformed leave of absence does not have a fixed expiration
18 date, within a reasonable time to be determined by the board, or the
19 member forfeits the right to pay for the leave time; and

20 (6) [~~(7)~~] no member may ever be allowed to pay leave of
21 absence contributions under this section for any time in excess of
22 the time actually spent on an authorized non-uniformed leave of
23 absence.

24 **(b-4) For purposes of Subsection (b-3)(2) of this section,**
25 **interest is calculated from the date the member's payment was first**
26 **due, at the interest rate from time to time used in the pension**
27 **system's actuarial rate of return assumptions, compounded annually**

1 until the date the principal and accrued interest are repaid in
2 full.

3 (c)(1) If a member of the combined pension plan is disabled
4 or dies while on an authorized non-uniformed leave of absence, the
5 member or the member's designee is [~~heirs are~~] entitled to [~~either~~]
6 a refund of contributions pursuant to Section 4.04 of this article
7 or the member or the member's qualified survivors are entitled to
8 benefits under the provisions of this article, to the extent
9 applicable.

10 (2) A member who is disabled or dies while on an
11 authorized non-uniformed leave of absence pursuant to this section
12 may receive no pension service for any portion of the period of the
13 leave, [+] except that if the member had, before the member's
14 disability or death, paid for contributions while on an authorized
15 non-uniformed leave of absence in accordance with [~~Subsection (a)~~
16 ~~of~~] this section, the member shall receive pension service for the
17 leave time actually paid for at the time of the member's disability
18 or death. The [~~but the~~] member may receive no pension service for
19 any portion of the period of leave for which contributions were
20 [~~have~~] not [~~been~~] paid to the executive director [~~administrator~~]
21 for deposit in the fund.

22 SECTION 1.27. Section 6.01, Article 6243a-1, Revised
23 Statutes, is amended by amending Subsections (a), (b), (d), (e),
24 (f), (g), and (h) and adding Subsections (a-1) and (a-2) to read as
25 follows:

26 (a) A Group A member [~~or former Group A member~~] must have 20
27 years of pension service to be eligible for a Group A retirement

1 pension under this section. A member's benefit election
2 [~~application~~] under this section, once approved [~~made~~], is
3 irrevocable.

4 (a-1) If a Group A pensioner returns to active service as a
5 police officer or fire fighter with the city, the person's Group A
6 retirement pension ceases until [~~the time~~] that [~~the~~] person again
7 leaves active service with the city.

8 (a-2) If a Group A pensioner resumes employment with the
9 city in a capacity other than as a police officer or fire fighter,
10 the pensioner's Group A retirement pension continues during the
11 period of employment, except the pensioner may not accrue
12 additional credit for pension service during this period.
13 Additional credit for pension service does not accrue during any
14 period in which a Group A pensioner becomes employed by the city
15 unless the additional credit is attributable to active service as a
16 police officer or fire fighter with the city.

17 (b) At age 50 a Group A member [~~or former Group A member~~] is
18 eligible to begin drawing a monthly Group A retirement pension. A
19 monthly Group A retirement pension equals 50 percent of the base pay
20 per month, plus 50 percent of any longevity pay the Group A member
21 was receiving at the time the member left active service. Although
22 the number of years used in the computation of longevity pay remains
23 fixed at the earlier of the time a Group A member [~~or former Group A~~
24 ~~member~~] leaves active service or begins participation in DROP, the
25 monthly rate of longevity pay used in this computation is subject to
26 change in the event of an amendment to the state law governing
27 longevity pay. The monthly Group A retirement pension benefits of

1 Group A pensioners shall be adjusted from time to time in a like
2 manner.

3 (d) The element of annual retirement pension computed under
4 Subsection (c)(1) of this section is subject to the following
5 limitations:

6 (1) it shall be prorated for the year in which the
7 pensioner begins receiving a retirement pension;

8 (2) it shall be payable only to those Group A
9 pensioners who, as [a] Group A members [~~member~~] on active service,
10 received city service incentive pay and who receive a monthly Group
11 A retirement pension as determined under Subsection (b) of this
12 section on the last day of September of each year; and

13 (3) it shall be paid to Group A pensioners as long as
14 the city continues to pay city service incentive pay to Group A
15 members on active service.

16 (4) Notwithstanding Subsections (b) and (c) of this
17 section, a Group A member with a minimum of 20 years of pension
18 service may apply for an actuarially reduced retirement pension to
19 begin no earlier than when the member attains age 45 but before the
20 member attains age 50. The Group A member [~~or a former Group A~~
21 ~~member~~] who has made an application may receive a retirement
22 pension calculated under Subsections (b) and (c) of this section
23 reduced by two-thirds of one percent per month for each whole
24 calendar month the benefit is payable before the month in which the
25 Group A member [~~or former Group A member~~] attains age 50.

26 (e) At age 55 a Group A member [~~or former Group A member~~] is
27 eligible to begin drawing a monthly retirement pension computed as

1 follows:

2 (1)(A) at the rate of three percent of base pay for
3 each year, prorated for fractional years, of pension service, with
4 a maximum of 32 years of pension service, or 96 percent of base pay;
5 or

6 (B) if the Group A member [~~or former Group A~~
7 ~~member~~] had 34 or more years of pension service as of April 30,
8 1990, then the member's retirement pension is calculated at the
9 rate calculated under the terms of the combined pension plan in
10 effect on April 30, 1990, if the resulting amount would be greater
11 than the amount calculated under Paragraph (A) of this subdivision;
12 plus

13 (2) one-half of the longevity pay the Group A member
14 [~~or former Group A member~~] was receiving at the time the person left
15 active service; plus

16 (3) 1/24th, without subsequent adjustment, of the
17 annualized amount of the city service incentive pay the Group A
18 member [~~or former Group A member~~] received at the time the person
19 left active service.

20 (f) [~~Notwithstanding Subsection (e) of this section, Group~~
21 ~~A pensioners payments under Subsection (e)(3) of this section are~~
22 ~~contingent on the city's continuing payment of city service~~
23 ~~incentive pay to Group A members on active service.] For purposes~~

24 of Subsection (e) of this section, base pay and longevity pay are
25 the amounts in effect on the earlier of the date the member begins
26 participation in DROP or the date benefits are to begin, without
27 subsequent adjustment.

1 (g) Notwithstanding Subsection (e) of this section, a Group
2 A member [~~or former Group A member~~] with 20 or more years of pension
3 service may apply for an actuarially reduced Group A retirement
4 pension beginning on or after the date the Group A member [~~or former~~
5 ~~Group A member~~] attains age 50 but before the person attains age 55.
6 The Group A member [~~or former Group A member~~] may receive a
7 retirement pension calculated under Subsection (e) of this section
8 reduced by two-thirds of one percent per month for each whole
9 calendar month the benefit is payable before the month in which the
10 Group A member [~~or former Group A member~~] attains age 55.

11 (h) Entitlement to the Group A retirement pension described
12 by this section is subject to the following conditions:

13 (1) a written application must be filed with the
14 executive director [~~administrator~~];

15 (2) the grant of a Group A retirement pension by the
16 board must be made at a meeting of the board held during the month
17 the [~~Group A~~] retirement pension is to become effective, or as soon
18 after that as administratively possible; and

19 (3) the Group A member must no longer be on active
20 service.

21 SECTION 1.28. Section 6.02, Article 6243a-1, Revised
22 Statutes, is amended to read as follows:

23 Sec. 6.02. GROUP B RETIREMENT PENSION. (a) If a [A] Group B
24 member [~~or former Group B member who~~] has accrued five or more years
25 of pension service, is no longer on active service with the
26 department, has not withdrawn the member's contributions, and
27 otherwise meets the age and pension service requirements under the

1 applicable provision of this section, the member may apply [~~may~~
2 ~~make application~~] for a Group B retirement pension under this
3 section. A member's benefit election application under a provision
4 of this section, once approved, is irrevocable.

5 (a-1) If a Group B pensioner returns to active service as a
6 police officer or fire fighter with the city, the person's [~~on~~
7 ~~reaching 50 years of age, or for an actuarially reduced~~] Group B
8 retirement pension ceases until that person again leaves active
9 service with the city.

10 (a-2) If a Group B pensioner resumes employment with the
11 city in a capacity other than as a police officer or fire fighter,
12 the pensioner's Group B retirement pension continues during the
13 period of employment except the pensioner may not accrue additional
14 credit for pension service during this period. Additional credit
15 for pension service does not accrue during any period in which a
16 Group B pensioner becomes employed by the city unless the
17 additional credit is attributable to active service as a police
18 officer or fire fighter with the city [~~on reaching 45 years of age~~].

19 (b) A [~~former~~] Group B member who began active service
20 before March 1, 2011, and who has attained at least 50 years of age,
21 or who began active service on or after March 1, 2011, and has
22 attained at least 58 years of age, and who otherwise meets the
23 requirements of Subsection (a) of this section may elect to receive
24 a Group B retirement pension that shall be calculated as follows:

25 (1) for a member who began active service before March
26 1, 2011, the member's retirement pension shall be the sum of:

27 (A) the number of years of pension service before

1 September 1, 2017, prorated for fractional years, times three
2 percent of the average computation pay determined over the 36
3 consecutive months of pension service in which the Group B member
4 received the highest computation pay; plus

5 (B) the number of years of pension service on or
6 after September 1, 2017, prorated for fractional years, times the
7 applicable percentage prescribed by Subsection (b-1) of this
8 section of the average computation pay determined over the 60
9 consecutive months of pension service in which the Group B member
10 received the highest computation pay; or

11 (2) for a member who began active service on or after
12 March 1, 2011, the member's retirement pension shall be the number
13 of years of pension service, prorated for fractional years, times
14 2.5 percent of the average computation pay determined over the 60
15 consecutive months of pension service in which the member received
16 the highest computation pay.

17 (b-1) For purposes of Subsection (b)(1)(B) of this section,
18 the applicable percentage is based on the age of the Group B member
19 when the member's retirement pension begins as set forth below:

<u>Age of Member When Retirement Pension Begins</u>	<u>Percent</u>
<u>58 and older</u>	<u>2.5%</u>
<u>57</u>	<u>2.4%</u>
<u>56</u>	<u>2.3%</u>
<u>55</u>	<u>2.2%</u>
<u>54</u>	<u>2.1%</u>
<u>53 and younger</u>	<u>2.0%</u>

27 (b-2) Days during which the member earned no pension service

1 due to a termination of active service or otherwise must be
2 disregarded in determining the 36 or 60 consecutive months of
3 highest computation pay under Subsection (b)(1) or (2) of this
4 section, as appropriate. The pension benefit calculated under
5 Subsection (b) of this section may not exceed the greater of:

6 (1) 90 percent of the member's average computation pay
7 determined under the applicable subsection; or

8 (2) the vested and accrued benefit of a member as
9 determined on August 31, 2017. [~~or Group B pensioner who withdrew~~
10 ~~any of the person's Plan B or Group B contributions and who on again~~
11 ~~becoming a Group B member does not replace such previously~~
12 ~~withdrawn contributions with interest thereon as provided by~~
13 ~~Section 4.04 of this article must earn at least five years of~~
14 ~~pension service after the time the person returns to active service~~
15 ~~to be eligible for a Group B retirement pension.]~~

16 (c) Except as provided by Subsection (c-2) of this section,
17 [~~Entitlement to~~] a Group B member who has either attained at least
18 45 years of age on September 1, 2017, or who attains at least 53
19 years of age after September 1, 2017, and who otherwise meets the
20 requirements of Subsection (a) of this section may elect to receive
21 an actuarially reduced Group B retirement pension calculated in
22 accordance with Subsection (c-1) of this section:

23 (1) not earlier than the member's 45th or 53rd
24 birthday, as applicable; and

25 (2) not later than the member's 50th or 58th birthday,
26 as applicable.

27 (c-1) Except as provided by Subsection (c-2) of this section

1 and subject to Section 6.021 of this article, a Group B member who
2 applies for an actuarially reduced Group B retirement pension under
3 Subsection (c) of this section shall receive a pension calculated
4 under Subsection (b) of this section, reduced by two-thirds of one
5 percent per month, for each whole calendar month the benefit is
6 payable before the month in which the member attains:

7 (1) for members who attained at least 45 years of age
8 on September 1, 2017, 50 years of age; or

9 (2) for members not described by Subdivision (1) of
10 this subsection who attain at least 53 years of age after September
11 1, 2017, 58 years of age.

12 (c-2) Subject to Subsection (d-3) of this section and for
13 purposes of Subsection (c-1) of this section, if a Group B member's
14 pension benefit calculated under Subsection (b) of this section is
15 equal to 90 percent of the member's average computation pay, the
16 member is entitled to a Group B retirement pension under Subsection
17 (c) of this section at 45 or 53 years of age, as applicable, that is
18 not actuarially reduced as provided under Subsection (c-1) of this
19 section [~~retirement pension as described by Subsection (a) or (b)~~
20 ~~of this section is subject to the following conditions:~~

21 [~~(1) written application must be filed with the~~
22 ~~administrator,~~

23 [~~(2) the grant of the Group B retirement pension by the~~
24 ~~board must be made at a meeting of the board held during the month~~
25 ~~the Group B retirement pension is to become effective, or as soon~~
26 ~~after that as possible, and~~

27 [~~(3) the Group B member may no longer be on active~~

1 ~~service~~].

2 (d) Except as provided by Subsection (d-2) of this section,
 3 a [A] Group B member who has accrued 20 or more years of pension
 4 service and has been on active service at any time on or after
 5 January 1, 1999, may elect to apply for a Group B retirement pension
 6 beginning at any time after the Group B member leaves active
 7 service, regardless of age. A Group B member may elect a Group B
 8 retirement pension under this subsection as follows:

9 (1) if the member accrued 20 or more years of pension
 10 service on or before September 1, 2017, the member may elect a
 11 pension under this subsection that is computed in the same manner as
 12 the Group B retirement pension under Subsection (b)(1) of this
 13 section except that the percentage set forth below must be used
 14 instead of the three percent multiplier prescribed by Subsection
 15 (b)(1)(A) of this section:

<u>Age of Member When Retirement Pension Begins</u>	<u>Percent</u>
<u>48 and 49</u>	<u>2.75%</u>
<u>47</u>	<u>2.5%</u>
<u>46</u>	<u>2.25%</u>
<u>45 and younger</u>	<u>2%; and</u>

21 (2) except as provided by Subsection (d-2) of this
 22 section and subject to Section 6.021 of this article, if the member
 23 accrued 20 or more years of pension service after September 1, 2017,
 24 the member may elect a pension under this subsection computed in the
 25 same manner as the Group B retirement pension under Subsection
 26 (b)(2) of this section except that the percentage set forth below
 27 must be used instead of the 2.5 percent multiplier prescribed by

1 Subsection (b)(2) of this section:

<u>Age of Member When Retirement Pension Begins</u>	<u>Percent</u>
3 <u>57</u>	<u>2.4%</u>
4 <u>56</u>	<u>2.3%</u>
5 <u>55</u>	<u>2.2%</u>
6 <u>54</u>	<u>2.1%</u>
7 <u>53 and younger</u>	<u>2.0%</u>

8 (d-1) A member who elects a pension under Subsection (d) of
 9 this section is not entitled to:

10 (1) minimum benefits under either Section 6.10A or
 11 6.11 of this article; or

12 (2) benefits under Subsection (g) of this section.

13 (d-2) Subject to Subsection (d-3) of this section and for
 14 purposes of Subsection (d) of this section, if a Group B member's
 15 pension benefit calculated under Subsection (b) of this section is
 16 equal to 90 percent of the member's average computation pay, the
 17 member is entitled to a Group B retirement pension under Subsection
 18 (d) of this section that is not reduced as provided under Subsection
 19 (d)(1) or (2) of this section [~~retirement pension shall be computed~~
 20 ~~at the rate of three percent of the average computation pay~~
 21 ~~determined over the 60 consecutive months in which the Group B~~
 22 ~~member received the highest computation pay, multiplied by the~~
 23 ~~number of years, prorated for fractional years, of pension service~~
 24 ~~to a maximum of 32 years of pension service or 96 percent of the~~
 25 ~~computation pay as determined under this subsection].~~

26 (d-3) For purposes of Subsections (c-2) and (d-2) of this
 27 section, a Group B member's pension benefit calculated under

1 Subsection (b) of this section shall be calculated without
2 application of any reduction under Subsection (b-1) of this
3 section.

4 (e) A [~~However, a~~] Group B member or former Group B member
5 with 34 or more years of pension service as of April 30, 1990, is
6 entitled to [~~shall~~] receive the greater of a Group B retirement
7 pension calculated under the terms of Plan B as in effect on that
8 date or a Group B retirement pension calculated pursuant to
9 Subsection (b) [~~(d)~~] of this section.

10 [~~(f) A Group B member, or any former Group B member who was a~~
11 ~~Group B member as of any date after April 30, 1990, may apply for an~~
12 ~~actuarially reduced Group B retirement pension beginning no earlier~~
13 ~~than the person's 45th birthday but before the person's 50th~~
14 ~~birthday. A Group B member or former Group B member who applies for~~
15 ~~an actuarially reduced Group B retirement pension beginning on or~~
16 ~~after the person's 45th birthday shall receive a pension calculated~~
17 ~~under Subsection (d) of this section, reduced by two-thirds of one~~
18 ~~percent per month for each whole calendar month the pension would be~~
19 ~~payable before the month in which the Group B member or former Group~~
20 ~~B member attains age 50.]~~

21 (g) In no event may any Group B member [~~or former Group B~~
22 ~~member~~] who was at any time a Group A member or a contributing
23 member of the old plan or Plan A, and who satisfied the applicable
24 age and length-of-service requirements of the applicable plan at
25 the time the person left active service, receive a retirement
26 pension in an amount less than the amount the person would be
27 entitled to receive as a Group A member.

1 (h) Notwithstanding any other provision of this section, a
2 ~~[A former]~~ Group B member who was not a Group B member on or after
3 January 1, 1993 ~~[May 1, 1990]~~, shall receive a retirement pension
4 calculated under the applicable provisions of Plan B ~~[this plan]~~ as
5 that plan existed ~~[in effect]~~ on the date the member terminated
6 ~~[person left]~~ active service.

7 (i) Entitlement to a Group B retirement pension under
8 Subsection (b), (c), (d), or (e) of this section is subject to the
9 following conditions:

10 (1) a written application must be filed with the
11 executive director;

12 (2) the grant of the Group B retirement pension by the
13 board must be made at a meeting of the board held during the month
14 the retirement pension is to become effective, or as soon after as
15 administratively possible; and

16 (3) the Group B member may no longer be on active
17 service ~~[A former Group B member who was not a Group B member after~~
18 ~~April 30, 1990, may request an actuarially reduced retirement~~
19 ~~pension beginning no earlier than the person's 45th birthday but~~
20 ~~before the person's 50th birthday].~~ ~~[A former Group B member~~
21 ~~described by this subsection shall receive a retirement pension~~
22 ~~under the applicable provisions of Plan B as in effect on the date~~
23 ~~the person left active service, reduced by two-thirds of one~~
24 ~~percent per month for each whole calendar month the pension would be~~
25 ~~payable before the month in which the former Group B member attains~~
26 ~~age 50.]~~

27 SECTION 1.29. Part 6, Article 6243a-1, Revised Statutes, is

1 amended by adding Sections 6.021 and 6.022 to read as follows:

2 Sec. 6.021. AUTHORITY TO ADOPT ALTERNATIVE MULTIPLIERS FOR
3 COMPUTATION OF CERTAIN GROUP B BENEFITS. (a) For purposes of
4 Section 6.02(c-1) or (d)(2) of this article, the board by rule may
5 adopt alternative multipliers, including an alternative table
6 prescribing actuarially appropriate multipliers. In adopting
7 rules under this subsection, the board shall designate the date on
8 which the alternative multiplier shall take effect.

9 (b) Copies of any alternative multipliers adopted under
10 this section must be maintained at the principal office of the
11 pension system and published on the pension system's publicly
12 available Internet website.

13 Sec. 6.022. AUTHORITY TO REDUCE RETIREMENT AGE.
14 Notwithstanding any other law, the board may reduce the age at which
15 a Group B member is eligible to begin receiving a retirement
16 pension, including an actuarially reduced retirement pension,
17 under Section 6.02 of this article if the board determines that the
18 reduction will not cause the amortization period of the unfunded
19 actuarial accrued liability of the pension system to exceed 25
20 years, after taking into account the impact of the reduction. A
21 board action under this section may not take effect until the State
22 Pension Review Board reviews the board's determination described by
23 this section.

24 SECTION 1.30. Section 6.03, Article 6243a-1, Revised
25 Statutes, is amended by amending Subsections (a), (d), (f), and (g)
26 and adding Subsections (k) and (l) to read as follows:

27 (a) If a member who is on active service, other than a member

1 participating in DROP, becomes disabled to the extent that the
2 member cannot perform the member's duties with the member's
3 department, the member may apply for a disability pension, subject
4 to [~~in accordance with~~] any uniform and nondiscriminatory
5 disability application procedure and recall and review procedure
6 adopted by the board and in effect from time to time.

7 (d) No disability pension may be paid to a member for any
8 disability if the disability was a result of an intentionally
9 self-inflicted injury or a chronic illness resulting from an
10 addiction by the member through a protracted course of [~~noncoerced~~]
11 indulgence in alcohol, narcotics, or other substance abuse that was
12 not coerced.

13 (f) No disability pension may be paid if the chief of the
14 member's department is able to provide the member with duties that
15 are within the member's physical or mental capabilities, [~~as long~~
16 ~~as the board agrees that the duties are within the member's~~
17 ~~capabilities,~~] even though the duties are different from the duties
18 the member performed before the disability.

19 (g) Written application for a disability pension must be
20 filed with the executive director not later than the 180th day after
21 the date the member leaves active service [~~administrator~~]. The
22 application must be accompanied by a recommendation from the health
23 director. This recommendation shall contain a statement indicating
24 whether the member became disabled while the member was on duty or
25 off duty and whether the disability was service-connected or was
26 not service-connected [~~nonservice-connected~~].

27 (k) For purposes of Sections 6.04 and 6.05 of this article

1 and this section:

2 (1) longevity pay and incentive pay are the amounts in
3 effect on the date the benefits are to begin, without subsequent
4 adjustment; and

5 (2) except as provided by Section 6.05(b-1) of this
6 article, base pay is the amount in effect on the date benefits are
7 to begin, without subsequent adjustment.

8 (1) Notwithstanding any other law, Subchapter B, Chapter
9 607, Government Code, applies to all members without regard to the
10 employing department or job assignment.

11 SECTION 1.31. Part 6, Article 6243a-1, Revised Statutes, is
12 amended by adding Section 6.035 to read as follows:

13 Sec. 6.035. DISABILITY BENEFITS FOR CERTAIN PERSONS IN
14 UNIFORMED SERVICES. (a) In this section, "uniformed services" has
15 the meaning assigned by the federal Uniformed Services Employment
16 and Reemployment Rights Act of 1994 (38 U.S.C. Section 4301 et
17 seq.).

18 (b) This section applies to a person who was released from
19 the uniformed services after December 17, 2001, under conditions
20 that would have made the person eligible for benefits under Section
21 414(u) of the code if the person could have returned to active
22 service.

23 (c) If a person subject to this section was unable to return
24 to active service by reason of disability incurred while on a leave
25 of absence due to service in the uniformed services, that person is
26 entitled to a regular disability pension in accordance with Section
27 6.03 of this article, calculated in accordance with Section 6.04 of

1 this article.

2 (d) Notwithstanding Section 6.03(g) of this article, a
3 written application for a disability pension must be filed not
4 later than the 180th day after the date of the person's release from
5 the uniformed services.

6 (e) A person subject to this section is entitled to receive
7 pension service for the period of service with the uniformed
8 services only to the extent that contributions are made for that
9 period in accordance with this article.

10 SECTION 1.32. Section 6.04, Article 6243a-1, Revised
11 Statutes, is amended to read as follows:

12 Sec. 6.04. CALCULATION OF REGULAR [~~GROUP A~~] DISABILITY
13 BENEFITS [~~PENSION~~]. (a) Subject to Subsection (g) of this section,
14 if [~~If~~] a Group A member's application for a Group A disability
15 pension has been approved by the board pursuant to Section 6.03 of
16 this article, including any procedures adopted under that section,
17 the Group A member may elect to receive a Group A disability pension
18 calculated:

19 (1) in the same manner as the benefit under Sections
20 6.01(b) and (c) of this article; or

21 (2) under Subsection (c) [~~(b)~~] of this section.

22 (b) An election under Subsection (a) of this section, once
23 approved by the board [~~made~~], is irrevocable.

24 [~~(b) When a Group A member elects to accept a Group A~~
25 ~~disability pension under this section, it shall be calculated as~~
26 ~~provided by Subsections (c), (d), and (e) of this section.~~]

27 (c) Subject to Subsection (g) of this section, [~~If~~] a Group

1 A ~~[member's disability results during the performance of duties~~
2 ~~with either department, the]~~ member who elects to have benefits
3 determined under this subsection is entitled to a monthly
4 disability pension calculated as follows:

5 (1) at a rate of three percent of base pay for each
6 year, prorated for fractional years, of pension service, with a
7 ~~[minimum of 20 years of pension service being deemed credited and a]~~
8 maximum of 32 years of pension service being credited, or 96 percent
9 of base pay ~~[or]~~, except that if the Group A member had 34 or more
10 years of pension service as of April 30, 1990 ~~[May 1, 1990]~~, the
11 member is entitled to ~~[shall]~~ receive the greater of a disability
12 pension calculated under the terms of the combined pension plan in
13 effect on that date or as calculated under this subdivision; plus

14 (2) one-half of the longevity pay the Group A member
15 was receiving at the time the member left active service; plus

16 (3) subject to Subsection (d) of this section,
17 1/24th~~[, without subsequent adjustment,]~~ of the annualized amount
18 of city service incentive pay the Group A member received at the
19 time the member left active service.

20 (c-1) The disability pension calculated under Subsection
21 (c) of this section may not exceed the greater of:

22 (1) 90 percent of the member's average base pay
23 determined under the applicable subsection; or

24 (2) the vested and accrued disability pension of the
25 member as determined on August 31, 2017.

26 (d) Payments of the amounts described by ~~[Notwithstanding~~
27 ~~Subsection (c) of this section, the amount of a disability~~

1 ~~retirement benefit of a Group A pensioner who is on disability~~
2 ~~retirement under]~~ Subsection (c)(3) of this section are ~~is]~~
3 contingent on the city's continuing payment of city service
4 incentive pay to Group A members on active service. ~~[For purposes~~
5 ~~of this subsection, base pay and longevity pay are the amounts in~~
6 ~~effect on the date the benefits are to begin, without subsequent~~
7 ~~adjustment.]~~

8 (e) If a Group B ~~[A]~~ member's application for a Group B
9 disability pension has been approved by the board under Section
10 6.03 of this article, including any procedures adopted under that
11 section, the Group B member may elect to receive a Group B
12 disability pension calculated in the manner described by Subsection
13 (f) or (f-1) of this section, subject to Subsection (g) of this
14 section ~~[disability does not result during the performance of the~~
15 ~~member's duties with either department, the member is entitled to a~~
16 ~~monthly disability pension calculated:~~

17 [~~(1) at a rate of three percent of base pay for each~~
18 ~~year, prorated for fractional years, of pension service, with a~~
19 ~~maximum of 32 years of pension service, or 96 percent of base pay,~~
20 ~~except that if the Group A member had 34 or more years of pension~~
21 ~~service as of April 30, 1990, the member shall receive the greater~~
22 ~~of a disability pension calculated under the combined pension plan~~
23 ~~in effect on that date or as calculated under this subdivision, plus~~

24 [~~(2) one-half of the longevity pay the Group A member~~
25 ~~was receiving at the time the member left active service, plus~~

26 [~~(3) 1/24th of the annualized amount of city service~~
27 ~~incentive pay the Group A member received at the time the member~~

1 ~~left active service, without regard to any subsequent adjustment].~~

2 (f) Subject to Subsections (f-1), (f-3), and (g) of this
3 section, the disability pension of a Group B member shall be
4 calculated as follows:

5 (1) for a member who began active service before March
6 1, 2011, the member's disability pension shall be the sum of:

7 (A) the member's number of years of pension
8 service earned before September 1, 2017, prorated for fractional
9 years, times three percent of the average computation pay
10 determined over the 36 consecutive months of pension service in
11 which the member received the highest computation pay; plus

12 (B) the number of years of pension service,
13 including pension service credit imputed under Section 6.05(c) of
14 this article, earned on or after September 1, 2017, prorated for
15 fractional years, times the applicable percentage prescribed by
16 Section 6.02(b-1) of this article of the average computation pay
17 determined over the 60 consecutive months of pension service in
18 which the member received the highest computation pay; or

19 (2) for a member who began active service on or after
20 March 1, 2011, the member's disability pension shall be the number
21 of years of pension service, including pension service credit
22 imputed under Section 6.05(c) of this article, prorated for
23 fractional years, times 2.5 percent of the average computation pay
24 determined over the 60 consecutive months of pension service in
25 which the member received the highest computation pay.

26 (f-1) Notwithstanding Subsection (f) of this section, for a
27 Group B member who had 34 or more years of pension service as of

1 April 30, 1990, the member is entitled to receive the greater of a
2 disability pension calculated under the terms of Plan B in effect on
3 April 30, 1990, or calculated under Subsection (f) of this section.

4 (f-2) For purposes of Subsections (f) and (f-1) of this
5 section:

6 (1) any partial year of pension service for a Group B
7 member's first 20 years of pension service is counted as a full year
8 of pension service, if the member was considered by the member's
9 department to have worked a normal full-time schedule at the time of
10 the disability;

11 (2) if the member has less than 36 or 60 consecutive
12 months of pension service, as applicable, the member's average
13 computation pay will be computed based on the member's entire
14 pension service; and

15 (3) days during which the member earned no pension
16 service due to a termination of active service or otherwise must be
17 disregarded in determining the 36 or 60 consecutive months of
18 highest computation pay.

19 (f-3) The disability pension calculated under Subsection
20 (f) or (f-1) of this section may not exceed the greater of:

21 (1) 90 percent of the member's average computation pay
22 determined under the applicable subsection; or

23 (2) the vested and accrued disability pension of the
24 member as determined on August 31, 2017 [~~Payments of the amounts~~
25 ~~described by Subsection (e)(3) of this section are contingent on~~
26 ~~the city's continuing payment of city service incentive pay to~~
27 ~~Group A members on active service].~~

1 (g) The disability pension calculated in accordance with
 2 this section, including both a Group A benefit described by
 3 Subsection (a) of this section and a Group B benefit described by
 4 Subsection (f) of this section, shall be reduced dollar-for-dollar
 5 by any monthly disability compensation benefit received under
 6 Section 6.05 of this article. If the monthly disability
 7 compensation benefit provided to a member under Section 6.05 of
 8 this article equals or exceeds any benefit the member is entitled to
 9 under this section or Section 6.01(b) or (c) of this article, the
 10 member may not receive the benefit under this section [~~For purposes~~
 11 ~~of Subsection (e)(3) of this section, base pay and longevity pay are~~
 12 ~~the amounts in effect on the date the benefits are to begin, without~~
 13 ~~subsequent adjustment~~].

14 SECTION 1.33. The heading to Section 6.05, Article 6243a-1,
 15 Revised Statutes, is amended to read as follows:

16 Sec. 6.05. COMPENSATION BENEFITS FOR SERVICE-CONNECTED
 17 [~~CALCULATION OF GROUP B~~] DISABILITY [~~BENEFITS~~].

18 SECTION 1.34. Section 6.05, Article 6243a-1, Revised
 19 Statutes, is amended by amending Subsections (a), (b), and (c) and
 20 adding Subsection (b-1) to read as follows:

21 (a) If a member leaves active service at any time due to
 22 disability and the board determines that the member with the
 23 disability became unable to perform the member's duties with the
 24 member's department due to an injury or sickness incurred in the
 25 performance of the member's duties, the member is entitled to
 26 periodic disability compensation benefits in accordance with this
 27 section [~~Group B member's application for a Group B disability~~]

1 ~~pension has been approved by the board pursuant to Section 6.03 of~~
2 ~~this article, including any procedures adopted under that section,~~
3 ~~the Group B member may, depending on the circumstances, elect to~~
4 ~~receive a Group B disability pension calculated in the manner~~
5 ~~described by Subsection (b) or (c) of this section].~~

6 (b) Subject to Subsection (b-1), [If] a Group A [B] member
7 whose disability, as determined by the board, was caused by an
8 injury or sickness incurred in the performance of the member's duty
9 shall receive a monthly benefit equal to 60 percent of the member's
10 base pay. For purposes of this subsection, "base pay" is the amount
11 in effect on the date compensation benefits under this section are
12 to begin, without subsequent adjustment.

13 (b-1) Instead of receiving a periodic disability
14 compensation benefit under Subsection (b) of this section, a Group
15 A member who is entitled to periodic disability compensation
16 benefits under this section may elect, before the benefits begin,
17 to receive those benefits as a monthly benefit equal to 50 percent
18 of the member's base pay adjusted from time to time to reflect
19 changes in base pay that occur after the member began receiving a
20 monthly compensation benefit under this section [becomes disabled
21 during the performance of the member's duties with either
22 department, the member is entitled to a monthly disability pension
23 calculated at a rate of three percent of the average computation pay
24 determined over the 60 consecutive months in which the Group B
25 member received the member's highest computation pay multiplied by
26 the number of years, prorated for fractional years, of the member's
27 pension service with a minimum of 20 years of pension service being

1 ~~deemed credited, or 60 percent of average computation pay~~
2 ~~determined over the 60 consecutive months in which the Group B~~
3 ~~member received the member's highest computation pay, except that~~
4 ~~if the Group B member has less than five years of pension service,~~
5 ~~the Group B member's average computation pay will be computed based~~
6 ~~on the member's entire pension service. If a Group B member had 34~~
7 ~~or more years of pension service as of April 30, 1990, the Group B~~
8 ~~member is entitled to receive the greater of a Group B disability~~
9 ~~pension calculated under the terms of Plan B in effect on that date~~
10 ~~or calculated pursuant to this subsection].~~

11 (c) A [The Group B disability pension for any] Group B
12 member whose disability, as determined by the board, was caused by
13 an injury or sickness incurred in the performance of the member's
14 duty shall receive a monthly benefit equal to the disability
15 pension under Sections 6.04(f), (f-1), (f-2), and (f-3) of this
16 article except that if the member:

17 (1) does not have 20 years of pension service, the
18 member is considered to have 20 years of pension service for the
19 purposes of calculating the disability pension under that section;
20 and

21 (2) has less than 36 or 60 consecutive months, as
22 applicable, of employment with the department, the member's average
23 computation pay will be computed based on all the member's
24 computation pay, and days during which the member earned no pension
25 service due to a termination of active service or otherwise must be
26 disregarded in determining either the 36 or 60 consecutive months
27 of highest computation pay [does not result during the performance

1 ~~of the member's duties with either department shall be computed at a~~
 2 ~~rate of three percent of the average computation pay determined~~
 3 ~~over the 60 consecutive months in which the Group B member received~~
 4 ~~the member's highest computation pay multiplied by the number of~~
 5 ~~years, prorated for fractional years, of the member's pension~~
 6 ~~service, except that any partial year of pension service for the~~
 7 ~~first 20 years of pension service shall be counted as a full year of~~
 8 ~~pension service. If the Group B member has less than five years of~~
 9 ~~pension service, the Group B member's average computation pay will~~
 10 ~~be computed based on the member's entire pension service, and if a~~
 11 ~~Group B member had 34 or more years of pension service as of April~~
 12 ~~30, 1990, the Group B member is entitled to receive the greater of a~~
 13 ~~disability pension calculated under the terms of Plan B in effect on~~
 14 ~~that date or calculated pursuant to this subsection].~~

15 SECTION 1.35. Section 6.05(d), Article 6243a-1, Revised
 16 Statutes, is redesignated as Section 6.055, Article 6243a-1,
 17 Revised Statutes, and amended to read as follows:

18 Sec. 6.055. REDUCTION IN DISABILITY OR COMPENSATION
 19 BENEFITS FOR CERTAIN PERSONS. (a) In this section, "earned income"
 20 means income earned by a Group B pensioner in the form of wages,
 21 salaries, commissions, fees, tips, unemployment benefits, and
 22 other amounts received by virtue of employment or self-employment
 23 but paid before any deduction for taxes or insurance. In addition,
 24 earned income also includes those amounts contributed on a
 25 before-tax basis to any retirement plan or employee health and
 26 welfare benefit plan.

27 (b) [(d)] The board shall require any Group B pensioner who

1 became a member of Plan B or the combined pension plan on or after
2 May 1, 1990, and who is receiving a Group B disability pension under
3 Section 6.04 of this article or a periodic disability compensation
4 under Section 6.05 of this article [~~in accordance with Subsection~~
5 ~~(b) or (c) of this section~~] to provide the board annually, on or
6 before July 1 [~~May 1~~] of each year, with a true and complete copy of
7 those portions of the person's federal and, if applicable, state
8 tax return, including appropriate schedules, for the previous
9 calendar year that indicate the person's occupations, if any, and
10 earned income for the previous calendar year. If the pensioner did
11 not file a tax return for the previous calendar year, the board may
12 require other documentation reflecting the pensioner's occupation
13 or earned income that the board determines appropriate.

14 (c) The pension system [~~However, the board~~] may waive the
15 July 1 [~~May 1~~] date under Subsection (b) of this section in lieu of
16 one later in the same calendar year if the Group B pensioner
17 provides the board with a true and complete copy of a grant of an
18 extension of time for the filing of the person's tax return from the
19 appropriate governmental agency or a true and complete copy of an
20 extension request that results in any automatic extension.

21 (d) If, after evaluating the information received under
22 Subsection (b) of this section, the board finds the Group B
23 pensioner is or has been receiving earned income from one or more
24 employments, including self-employment, during the preceding year,
25 the board shall reduce future disability retirement [~~pension~~]
26 payments to the Group B pensioner in accordance with the following
27 formula: \$1 for each \$1 that the sum of "a" + "b" is greater than

1 "c," where "a" is the earned income of the Group B pensioner
 2 attributable to the previous calendar year from the person's
 3 employments, "b" is the total amount of Group B disability
 4 retirement payments [~~pension~~] received by the Group B pensioner the
 5 previous calendar year, and "c" is the annualized amount of the
 6 average computation pay the Group B pensioner received as of the
 7 date the person left active service.

8 (e) For purposes of the [~~this~~] computation under Subsection
 9 (d) of this section, the average computation pay shall be deemed
 10 increased at a rate of 2.75 percent [~~of four percent simple~~
 11 ~~interest~~], without compounding during the year, as of each January
 12 1 that the Group B pensioner receives a Group B disability
 13 retirement payment [~~pension~~].

14 SECTION 1.36. Section 6.06, Article 6243a-1, Revised
 15 Statutes, is amended by amending Subsections (b), (e); (f), (g),
 16 (h), (j), (k), (l), (m), (n), (o), (p), (q), (r), and (t) and adding
 17 Subsections (e-1), (e-2), (j-1), (o-1), (o-2), (u), and (v) to read
 18 as follows:

19 (b) A written application for benefits must be filed with
 20 the executive director [~~administrator~~].

21 (e) If [~~the qualified~~] surviving children of a primary party
 22 are not qualified survivors entitled to death benefits, the
 23 [~~qualified surviving~~] spouse of the primary party who is a
 24 qualified survivor is entitled only to receive a share of the death
 25 benefits in the amount calculated under Section 6.07(a) [~~or (b)~~] or
 26 Section 6.08(b)(1), (c)(1), (d)(1), or (e)(1) of this article,
 27 whichever is applicable, and is not entitled to what otherwise

1 would be the ~~[qualified]~~ surviving children's share.

2 (e-1) If a primary party had ~~[there is]~~ no ~~[qualifying]~~
3 surviving spouse, any ~~[qualified]~~ surviving child who is a
4 qualified survivor ~~[children]~~ shall receive only the amount
5 calculated under Section 6.07(a) ~~[or (b)]~~ or Section 6.08(b)(2),
6 (c)(2), (d)(2), or (e)(2) of this article, whichever is applicable,
7 and is ~~[are]~~ not entitled to what otherwise would be the ~~[qualified]~~
8 surviving spouse's share.

9 (e-2) If a primary party does not have a ~~[there is no~~
10 ~~qualified surviving]~~ spouse or ~~[qualified surviving]~~ children who
11 are qualified survivors, any ~~[qualified]~~ dependent parent of the
12 primary party who is a qualified survivor shall receive only the
13 amount calculated under Section 6.07(c) or Section 6.08(b)(3),
14 (d)(3), or (e)(3) of this article, whichever is applicable, and is
15 not entitled to what otherwise would be the ~~[qualified]~~ surviving
16 spouse's or ~~[qualified]~~ surviving children's share.

17 (f) The total monthly death benefits ~~[benefit]~~ received by
18 the qualified survivors of a primary party under this article,
19 including the primary party's ~~[surviving]~~ spouse, ~~[qualified~~
20 ~~surviving]~~ children, or ~~[qualified]~~ dependent parents, ~~[parent]~~
21 may not exceed the pension to which the deceased primary party was
22 entitled per month.

23 (g) If there is no surviving spouse or legal guardian for
24 the ~~[qualified]~~ surviving children of a primary party who are
25 qualified survivors and if the board determines that the
26 ~~[qualified]~~ surviving children lack the discretion to handle money,
27 or in other appropriate circumstances, notwithstanding any other

1 provision of this section, the board may request a court of
2 competent jurisdiction to appoint a suitable person to receive and
3 administer the ~~[qualified]~~ surviving children's money or in those
4 circumstances described in Subsection (n) of this section, appoint
5 a new trustee to administer the ~~[qualified]~~ surviving children's
6 ~~[support]~~ trust.

7 (h) With the exception of a ~~[support]~~ trust described in
8 Subsection (n) of this section, no death benefits awarded to
9 ~~[qualified]~~ surviving children may be used for any purpose other
10 than to benefit the ~~[qualified]~~ surviving children. ~~[The board may~~
11 ~~withhold payment of benefits if it has reason to believe the~~
12 ~~benefits are not being properly applied.]~~

13 (j) With the exception of those circumstances described in
14 Subsection (n) of this section, death benefits payable ~~[paid]~~ to
15 ~~[qualified]~~ surviving children ~~[living with a person other than the~~
16 ~~surviving spouse]~~ shall be delivered to the legal guardian of the
17 estate of the surviving children if one has been appointed and the
18 pension system has been provided proof of the appointment. If no
19 legal guardian has been appointed, death benefits shall be
20 delivered to one of the following persons, provided there is
21 evidence that the person is ~~[person with whom the qualified~~
22 ~~surviving children are living, if the board has designated the~~
23 ~~person as being]~~ a suitable person to receive and administer the
24 benefits:

25 (1) the surviving spouse with whom the child resides;

26 or

27 (2) the adult head of the household with whom the child

1 resides, if the child does not reside with the surviving spouse.

2 (j-1) In accordance with Subsection (h) of this section, the
3 recipient of a surviving child's death benefits under Subsection
4 (j) of this section must use the death benefits to benefit the
5 child. The board may~~[, however,]~~ withhold payment of benefits to
6 anyone, if presented with evidence that the death benefits are not
7 being used to benefit the surviving child ~~[but the legal guardian of~~
8 ~~the qualified surviving children and may require proof that a~~
9 ~~person has been appointed legal guardian of the qualified surviving~~
10 ~~children before authorizing any benefits to be delivered to that~~
11 ~~person].~~

12 (k) Dependent ~~[The qualified surviving dependent]~~ parents
13 of a primary party ~~[member]~~ who are entitled to receive death ~~[any~~
14 ~~survivor]~~ benefits provided by this article may only receive the
15 benefits for the remainder of the dependent parents' ~~[their]~~ lives.

16 (l) The pension system ~~[board]~~ may require all qualified
17 survivors ~~[persons]~~ receiving death benefits~~[, including qualified~~
18 ~~surviving spouses, qualified surviving children or their~~
19 ~~guardians, and qualified surviving dependent parents,]~~ to file
20 ~~[with the administrator, at least once every two years,]~~ a sworn
21 statement with the executive director concerning the qualified
22 survivor's ~~[their]~~ eligibility to continue to receive death
23 benefits at least once every two years, or at any other time the
24 executive director considers a sworn statement to be appropriate to
25 evidence the continued eligibility of the qualified survivor. ~~[The~~
26 ~~board may also require a sworn statement from any person receiving~~
27 ~~death benefits at any time.]~~ The board may withhold death benefits

1 from any person who fails or refuses to file a statement when
2 requested to do so.

3 (m) When the last qualified survivor of any primary party
4 becomes ineligible to continue to receive death benefits, [~~that~~
5 ~~survivor shall be paid in a lump sum~~] an amount equal to the excess
6 [difference], if any, of [~~between~~] the total amount of all
7 contributions made to the fund by the primary party while a member
8 over [~~and~~] the sum of all benefits paid to the primary party and
9 all of the primary party's [~~his~~] qualified survivors shall be paid
10 in a lump sum to the last person to receive benefits as a qualified
11 survivor or, if none exists, to the member's designee. The total
12 amount to be paid in benefits to the primary party and all qualified
13 survivors shall never be less than the total amount of
14 contributions the primary party made to the fund while a member.

15 (n) Notwithstanding any other provision of this section:

16 (1) [~~7~~] death benefits awarded to an unmarried child
17 who is a qualified survivor [~~surviving child of a primary party~~] who
18 is determined by the board to be disabled [~~handicapped~~] under the
19 terms of Subsection (o-2) [~~o~~] of this section may be paid to the
20 trustee of a management trust, supplemental needs or special needs
21 trust, or comparable trust [~~support trust~~] established for the
22 benefit of the child, if the trust meets the requirements set forth
23 in a procedure adopted from time to time by the board [~~qualified~~
24 ~~surviving child if~~].

25 [~~(1) an opinion of counsel of the trustee of the~~
26 ~~support trust is furnished to the board indicating that payments~~
27 ~~made to the support trust will not, under existing law, be~~

1 ~~considered a resource of the qualified surviving child under Title~~
2 ~~42, Section 1396(a)(17), of the United States Code or any successor~~
3 ~~statute, as well as applicable state law or regulations governing~~
4 ~~the situation]; and~~

5 (2) as soon as practicable after the pension system
6 has knowledge of an event listed in this subdivision, the pension
7 system shall terminate payment of death benefits to a [~~coincident~~
8 ~~with the furnishing of the opinion of counsel, the board is provided~~
9 ~~with an executed original of the support trust document for the~~
10 ~~records of the pension system,~~

11 [~~(3) the terms of the trust provide that the board will~~
12 ~~receive an annual accounting of the support trust from its trustee,~~
13 ~~although the board has no legal responsibility to oversee the~~
14 ~~support trust, and~~

15 [~~(4) the support~~] trust described by Subdivision (1) of
16 this subsection effective [~~will terminate as soon as practicable~~]
17 on the earlier occurrence of the following events:

18 (A) the date as of [~~on~~] which the [~~qualified~~
19 ~~surviving~~] child is determined by the board to no longer be disabled
20 [~~handicapped~~] under the terms of this section;

21 (B) the date on which the [~~qualified surviving~~]
22 child is lawfully married;

23 (C) the date on which the [~~qualified surviving~~]
24 child is deceased;

25 (D) the date on which the pension system becomes
26 aware that the assets of the [~~support~~] trust are deemed to be the
27 resources of the child under applicable federal or state laws or

1 regulations; or

2 (E) if [~~unless otherwise excused by the board,~~]
3 the trustee of the child's [~~support~~] trust fails to provide a court
4 of competent jurisdiction [~~the board~~] with an annual accounting of
5 the child's trust, the date occurring [~~within~~] six months after the
6 date of the close of the [~~support~~] trust's fiscal year.

7 (o) When a child who, as a qualified survivor, [~~surviving~~
8 ~~child who~~] is entitled to receive death benefits under this article
9 reaches the age of 19, the [~~qualified surviving~~] child may no longer
10 participate in the division of the benefits, but the same
11 undiminished [~~qualified surviving~~] child's share as determined by
12 this section shall be paid to any remaining [~~qualified surviving~~]
13 children who are qualified survivors who remain eligible to
14 continue to receive death benefits.

15 (o-1) If benefits are no longer payable to the trust
16 described in Subsection (n)(1) of this section in accordance with
17 Subsection (n)(2) of this section, the benefits are divisible and
18 payable to any remaining children who are qualified survivors who
19 remain eligible to receive death benefits.

20 (o-2) If an unmarried child [~~under 19 years of age,~~
21 ~~However, a handicapped qualified surviving child may not be removed~~
22 ~~from participation in the division of benefits on reaching the age~~
23 ~~of 19 nor may the child be barred from original participation at any~~
24 ~~time after reaching the age of 19, and the payments shall continue~~
25 ~~for the duration of the handicap. If a qualified surviving child is~~
26 ~~not married and~~], after cessation of entitlement to death benefits
27 [~~(+)because of attainment of age 19[) but before age 23]~~, becomes

1 disabled before age 23 [~~handicapped~~], the child is entitled to
2 participate in the division of death benefits under this article.
3 Notwithstanding the preceding, all death benefits granted under
4 this subsection are conditioned on the board finding that:

5 (1) the [~~qualified surviving~~] child is so physically
6 or mentally disabled [~~handicapped~~], either congenitally or through
7 injury suffered or disease contracted, as to be unable to be
8 self-supporting or to secure and hold gainful employment or pursue
9 an occupation;

10 (2) the [~~qualified surviving~~] child is not married;

11 (3) the disability [~~handicap~~] was not the result of an
12 occupational injury for which the [~~qualified surviving~~] child
13 received compensation equal to or greater than that provided under
14 this article;

15 (4) the disability [~~handicap~~] was not the result of an
16 intentional self-inflicted injury or a chronic illness itself
17 resulting from an addiction of the [~~qualified surviving~~] child
18 through a protracted course of [~~noncoerced~~] indulgence in alcohol,
19 narcotics, or other substance abuse that was not coerced; and

20 (5) the disability [~~handicap~~] did not occur as a
21 result of the [~~qualified surviving~~] child's participation in the
22 commission of a felony.

23 (p) If a [~~handicapped qualified surviving~~] child with a
24 disability received or is receiving workers' compensation
25 resulting from an occupational injury equal to an amount less than
26 the death benefit to be provided under this section, the difference
27 shall be paid out of the assets of the fund in the form otherwise

1 payable as monthly benefits. For purposes of Subsections
 2 [~~Subsection~~] (o), (o-1), and (o-2) of this section, if a lump sum is
 3 awarded for an injury, the fund's actuary may compute a
 4 corresponding monthly equivalent. A finding relating to a
 5 [~~qualified surviving~~] child's disability [~~handicap~~] is subject to
 6 periodic review and modification by the board.

7 (q) On the death or marriage of a [~~qualified surviving~~]
 8 child granted death benefits under this article, the death benefits
 9 shall cease being paid to that child; however, the same
 10 undiminished [~~qualified surviving~~] child's share as determined by
 11 this section shall be uniformly distributed among any remaining
 12 unmarried [~~qualified surviving~~] children who are:

- 13 (1) under 19 years of age; or
 14 (2) disabled [~~and any unmarried qualified surviving~~
 15 ~~children who are handicapped~~] as described by Subsection (o-2)
 16 [~~(o)~~] of this section and entitled to death benefits as qualified
 17 survivors.

18 (r) A spouse of a primary party who married the primary
 19 party [~~resulting from any marriage to a former member or pensioner~~]
 20 after the date the primary party terminated [~~member or pensioner~~
 21 ~~leaves~~] active service is not a qualified survivor [~~surviving~~
 22 ~~spouse~~] and is [~~not~~] entitled only to those death benefits, if
 23 applicable, provided under Section 6.063 of this article.

24 (t) A [~~qualified~~] surviving spouse who first remarried on or
 25 after April 21, 1988, is eligible to receive death benefits for the
 26 remainder of the [~~qualified surviving~~] spouse's life provided the
 27 surviving spouse is a qualified survivor. This subsection may not

1 be applied retroactively.

2 (u) The eligibility of a surviving spouse who first
3 remarried before April 21, 1988, is governed by Section 6.061 of
4 this article.

5 (v) The qualified survivors of a member who dies while
6 performing qualified military service are entitled to any
7 additional benefits, other than benefits relating to the qualified
8 military service, that qualified survivors would have received if
9 the member had returned from qualified military service the day
10 before death, resumed employment, and then died.

11 SECTION 1.37. Part 6, Article 6243a-1, Revised Statutes, is
12 amended by adding Sections 6.061, 6.062, 6.063, and 6.064 to read as
13 follows:

14 Sec. 6.061. PROSPECTIVE REINSTATEMENT OF CERTAIN DEATH
15 BENEFITS. (a) Subject to Subsection (c) of this section, the
16 surviving spouse of a primary party who was a member of the old
17 plan, Plan A, or Plan B whose death benefits, also referred to as
18 "survivor benefits" or "widow benefits," terminated because of a
19 remarriage of the surviving spouse that occurred before April 21,
20 1988, is entitled to receive death benefits, on a prospective basis
21 only, as of the first day of the month following the month in which
22 the executive director receives the application.

23 (b) The board shall make reasonable efforts to notify all
24 known living surviving spouses who may be entitled to a
25 reinstatement of benefits under this section.

26 (c) A surviving spouse's properly completed, board-approved
27 application for reinstatement of death benefits under this section

1 must be received by the executive director not later than the 180th
2 day after the date the board completes, as determined by the board,
3 the reasonable efforts required by Subsection (b) of this section.

4 (d) A surviving spouse's application for reinstatement of
5 death benefits under this section constitutes the spouse's waiver
6 of any claims against the pension system, the board, the executive
7 director, or any other employee of the board or the pension system
8 arising out of any claim for death benefits.

9 (e) This section may not be applied retroactively. A
10 surviving spouse may not receive death benefits attributable to
11 periods before the executive director's receipt of a properly
12 completed and board-approved application, and any benefit provided
13 to a surviving spouse described in this section must be calculated
14 as if the benefits had not terminated on the surviving spouse's
15 remarriage notwithstanding the fact the reinstatement of benefits
16 is not retroactive.

17 Sec. 6.062. LUMP-SUM PAYMENT ON DEATH OF CERTAIN MEMBERS.

18 (a) If an unmarried member dies while on active service and before
19 beginning participation in DROP, the last person to receive
20 benefits as the member's qualified survivor or, if the member does
21 not have a qualified survivor living, the member's designee, shall
22 be paid a lump-sum payment determined in accordance with this
23 section if, at the time of the member's death, the member:

24 (1) had no qualified survivors; or

25 (2) only had qualified survivors who are children who
26 become ineligible to receive death benefits before the benefits
27 were paid for at least 120 consecutive months.

1 (b) The amount of the lump-sum payment under this section is
2 the greater of:

3 (1) the payment that could have been provided under
4 Section 6.06(m) of this article; or

5 (2) an amount equal to the actuarial equivalent of the
6 remainder of the monthly benefits that would have been paid for the
7 period from the last monthly benefit payment to the end of the 120
8 months, starting with the date of the first monthly benefit
9 payment, if any.

10 (c) If no death benefit payments have been made with respect
11 to the member, the amount of a monthly death benefit payment shall
12 be considered to be the monthly death benefit that would have been
13 paid if the member had died leaving only one dependent parent who
14 was a qualified survivor.

15 (d) If a qualified survivor or designee is entitled to
16 payment under both this section and Section 6.06(m) of this
17 article, payments shall be made only under this section.

18 (e) The payment required under this section shall be made as
19 soon as practicable after the later of the date:

20 (1) of the death of the member; or

21 (2) the last qualified survivor becomes ineligible to
22 receive monthly death benefit payments.

23 Sec. 6.063. AUTHORITY TO ELECT CERTAIN ACTUARIALLY REDUCED
24 BENEFITS. (a) The board shall adopt policies under which a member
25 who is leaving active service or a pensioner may elect to accept
26 actuarially reduced benefits to provide the following optional
27 benefits:

1 (1) a 100 percent joint and survivor annuity with the
2 member's or pensioner's spouse;

3 (2) a 50 percent joint and survivor annuity with a
4 spouse who is not a qualified survivor because the marriage to the
5 pensioner occurred after the pensioner terminated active service,
6 provided the election is made not later than one year after the date
7 of the marriage; or

8 (3) a death benefit for a child who is not a qualified
9 survivor because the child was born or adopted after the member left
10 active service, but only if the child:

11 (A) is a dependent of the pensioner, within the
12 meaning of Section 152(a)(1) of the code; and

13 (B) has not attained 18 years of age at the time
14 of the election.

15 (b) An election under this section may not be revoked by the
16 member or pensioner after it is filed with the pension system.

17 (c) Notwithstanding any other provision of this article, an
18 election under this section shall result in benefits being paid as
19 prescribed by this section instead of as prescribed by Section
20 6.01, 6.02, 6.04, 6.05, 6.07, or 6.08 of this article, as
21 applicable.

22 (d) A pensioner who desires to make an election under
23 Subsection (a)(1) of this section after having made an election
24 under Subsection (a)(2) of this section shall incur a second
25 actuarial reduction in benefits to pay for the increased survivor
26 annuity.

27 (e) Except as provided by Subsection (f) of this section, a

1 person is not entitled to the payment of benefits under this section
2 with respect to a pensioner who makes an election after termination
3 of active service and dies within one year after making the
4 election, except the amount by which the pensioner's benefits were
5 reduced are paid to the person who is entitled to receive payments
6 under Section 6.064 of this article.

7 (f) Subsection (e) of this section does not apply to a
8 person who makes an election under Subsection (a)(1) of this
9 section to receive a 100 percent joint and survivor annuity with a
10 spouse who is a qualified survivor at the time:

11 (1) the board grants a retirement pension; or
12 (2) a retirement pension would have been granted but
13 for the fact that the person elected to participate in DROP after
14 retirement.

15 (g) The actuarially reduced benefits being paid to the
16 pensioner under this section will not be increased if the spouse
17 dies before the pensioner, or if the child attains 19 years of age
18 before the pensioner dies.

19 (h) The joint and survivor annuity or the pensioner's
20 pension and child's death benefit payable under this section is the
21 actuarial equivalent of the pension and death benefits, if any,
22 that would have been payable, at the time of the election, if the
23 election had not been made. On the death of the pensioner:

24 (1) the surviving spouse of a pensioner who made an
25 election under Subsection (a)(1) of this section receives a pension
26 that is equal to the reduced pension being received by the pensioner
27 at the time of death; and

1 (2) a surviving spouse who is not a qualified survivor
2 of a pensioner who made an election under Subsection (a)(2) of this
3 section receives a pension that is 50 percent of the reduced pension
4 being received by the pensioner at the time of death.

5 (i) A pensioner and surviving spouse receiving a death
6 benefit payable under this section are eligible for adjustments
7 under Sections 6.12 and 6.13 of this article, if the pensioner or
8 surviving spouse, as applicable, is otherwise entitled to those
9 adjustments, except that in each case the adjustment shall be
10 calculated so that the total pension or death benefit paid is
11 reduced by the same percentage the pensioner's pension is otherwise
12 reduced under this section.

13 (j) A pensioner and surviving spouse receiving a death
14 benefit payable under this section are not entitled to the minimum
15 benefits provided under Section 6.10A, 6.10B, or 6.11 of this
16 article.

17 (k) A surviving spouse receiving a death benefit payable
18 under this section is not entitled to the special death benefit
19 provided under Section 6.09 of this article.

20 (l) During a period in which there are two or more qualified
21 survivors of a member who has made a joint and survivor annuity
22 election under this section, the spousal benefit will be divided
23 among the eligible survivors under Section 6.07 or 6.08 of this
24 article, as applicable.

25 (m) A child's death benefit elected under Subsection (a)(3)
26 of this section is treated the same way as a death benefit to a child
27 who is a qualified survivor, except that it is based on the

1 actuarially reduced pension.

2 Sec. 6.064. DESIGNEES. (a) A member, pensioner, or
3 qualified survivor may at any time designate, in writing, one or
4 more persons as a designee to receive any lump-sum payment due from
5 the pension system on the death of the member, pensioner, or
6 qualified survivor, as applicable.

7 (b) A designation under this section of a person other than
8 the spouse of the member, pensioner, or qualified survivor, as
9 appropriate, must be made with the written consent of the spouse, if
10 the individual has a spouse.

11 (c) A designation made under this section:

12 (1) may be revoked or changed at any time; and

13 (2) is void if the person designated dies or goes out
14 of existence before the payment is made.

15 (d) If a member, pensioner, or qualified survivor
16 designates a spouse to receive a payment and the parties are later
17 divorced, the designation is void at the time of the divorce unless
18 ratified in writing at the time of the divorce or after that time.

19 (e) A designation by a member under this section is void at
20 the time the member becomes a pensioner unless ratified in writing
21 at the time the member becomes a pensioner or after that time.

22 (f) If a member, pensioner, or qualified survivor does not
23 have a valid designee on file with the pension system at the time of
24 death, the designee is:

25 (1) the spouse;

26 (2) the qualified survivors, if any, if there is no
27 spouse;

1 (3) the estate of the person, if there is no spouse or
2 qualified survivors; or

3 (4) the heirs of the person, if there is no spouse,
4 qualified survivors, or estate.

5 SECTION 1.38. Sections 6.07, 6.08, 6.09, and 6.10A, Article
6 6243a-1, Revised Statutes, are amended to read as follows:

7 Sec. 6.07. GROUP A DEATH BENEFITS. (a)(1) If a Group A
8 member dies before leaving active service [~~retirement~~] and before
9 the Group A member had [~~has~~] 20 years of pension service, the Group
10 A member's [~~leaving both a qualified surviving~~] spouse and
11 [~~qualified surviving~~] children who are [~~, the~~] qualified [~~surviving~~
12 ~~spouse shall make an election for all~~] survivors shall, in the
13 aggregate, [~~to~~] receive a Group A death benefit [~~consisting in the~~
14 ~~aggregate of an amount~~] equal to a Group A retirement pension
15 computed under the terms of Section 6.01 of this article as if the
16 Group A member had completed 20 years of pension service. [~~An~~
17 ~~election under this subdivision, once made, is irrevocable. This~~
18 ~~Group A death benefit shall be divided one-half to the qualified~~
19 ~~surviving spouse and one-half to the qualified surviving children.~~]

20 (2) If a Group A [~~pensioner dies during disability~~
21 ~~retirement and before the Group A pensioner had 20 years of pension~~
22 ~~service, leaving both a qualified surviving spouse and qualified~~
23 ~~children, the survivors in the aggregate shall receive a Group A~~
24 ~~death benefit calculated either under Sections 6.01(b) and (c) of~~
25 ~~this article if the Group A pensioner's Group A disability pension~~
26 ~~was calculated under Section 6.04(a) of this article, or under~~
27 ~~Section 6.01(e) of this article if the Group A pensioner's Group A~~

1 ~~disability pension was calculated under Section 6.04(b) of this~~
2 ~~article. This Group A death benefit shall be divided one-half to~~
3 ~~the qualified surviving spouse and one-half to the qualified~~
4 ~~surviving children.~~

5 ~~[(b)(1) If a Group A member or former Group A] member dies~~
6 ~~before service retirement and after the Group A member has [ex~~
7 ~~former Group A member has] 20 years of pension service, the Group A~~
8 ~~member's [leaving both a qualified surviving] spouse and [qualified~~
9 ~~surviving] children[] who are [the] qualified [surviving spouse~~
10 ~~shall make an election for all] survivors shall, in the aggregate,~~
11 ~~[to] receive a Group A death benefit calculated under Section 6.01~~
12 ~~of this article as if the Group A member [of an amount equal to a~~
13 ~~Group A retirement pension the Group A member or former Group A~~
14 ~~member would have received] had [the person] left active service on~~
15 ~~the date of the [death, computed under the terms of Section 6.01 of~~
16 ~~this article. An election under this subdivision, once made, is~~
17 ~~irrevocable. This] Group A member's death [~~benefit shall be~~~~
18 ~~divided one-half to the qualified surviving spouse and one-half to~~
19 ~~the qualified surviving children].~~

20 (3) If a Group A pensioner dies during service
21 retirement, the Group A pensioner's spouse and children who are
22 qualified survivors shall, in the aggregate, receive a Group A
23 death benefit in an amount equal to the Group A retirement pension
24 being received by the Group A pensioner on the date of the
25 pensioner's death.

26 (4) If a Group A pensioner dies after November 25,
27 1996, while receiving periodic disability compensation under

1 Section 6.05 of this article or a disability pension under Section
2 6.04 of this article, and before the Group A pensioner has 20 years
3 of pension service, the Group A pensioner's spouse and children who
4 are qualified survivors shall, in the aggregate, receive a Group A
5 death benefit calculated under Section 6.04 or 6.05 of this
6 article, as applicable, in the same manner as the Group A
7 pensioner's periodic disability compensation or disability
8 pension, but as if the Group A pensioner had completed 20 years of
9 pension service.

10 (5) [~~(2)(A)~~] If a Group A pensioner who has 20 or more
11 years of pension service dies during disability retirement, the
12 Group A pensioner's spouse and children who are qualified survivors
13 shall, in the aggregate, [~~dies leaving both a qualified surviving~~
14 ~~spouse and qualified surviving children, the qualified surviving~~
15 ~~spouse shall make an election for all survivors to~~] receive a Group
16 A death benefit in an [~~the~~] amount equal to [~~of~~] the Group A
17 disability [~~retirement~~] pension being received by the Group A
18 pensioner on the date of the pensioner's death.

19 (b) [~~before the person's death. This~~] Group A death
20 benefits under Subsection (a) of this section [~~benefit~~] shall:

21 (1) be divided one-half to the [~~qualified surviving~~]
22 spouse and one-half to the [~~qualified surviving~~] children who are
23 qualified survivors; and [-]

24 (2) subject to [~~(B) With~~] the terms of Sections
25 [~~exception of those circumstances described by Section~~] 6.06(n),
26 (o), (o-1), and (o-2) of this article, be distributed in an equal
27 and uniform manner to the children described by Subdivision (1) of

1 this subsection [~~the Group A death benefits awarded to the~~
2 ~~qualified survivors under this subsection shall be paid entirely to~~
3 ~~the qualified surviving spouse and the qualified surviving~~
4 ~~children. The qualified surviving children's one-half share shall~~
5 ~~be equally and uniformly distributed by the qualified surviving~~
6 ~~spouse to them~~].

7 (c) [~~(c)(1)~~] If a Group A member or pensioner [~~former Group~~
8 ~~A member~~] dies leaving no [~~qualified surviving~~] spouse or
9 [~~qualified surviving~~] children who are qualified survivors, the
10 [~~but leaves surviving one or both qualified surviving dependent~~
11 ~~parents, the qualified surviving~~] dependent parents who are
12 qualified survivors shall [~~may elect to~~] receive a Group A death
13 benefit equal to the death benefit otherwise payable under
14 Subsection (a) of this section. The death benefit payable to the
15 dependent parents under this subsection shall be divided equally
16 between the parents regardless of whether the parents are married
17 or living at the same residence. [~~Group A retirement pension the~~
18 ~~Group A member or former Group A member would have been entitled to~~
19 ~~under Section 6.01 of this article after leaving active service. If~~
20 ~~there are two qualified dependent parents, the election must be~~
21 ~~mutual. An election under this subdivision, once made, is~~
22 ~~irrevocable. The qualified surviving dependent parents of a Group~~
23 ~~A pensioner shall receive a Group A death benefit equal to the~~
24 ~~amount of the actual Group A retirement pension being received at~~
25 ~~the time of the pensioner's death, divided equally between the~~
26 ~~qualified surviving dependent parents.~~

27 [(2) ~~If a Group A pensioner dies during disability~~

1 ~~retirement and before the Group A pensioner had 20 years of pension~~
2 ~~service, leaving no qualified surviving spouse or qualified~~
3 ~~surviving children, but leaves surviving one or both qualified~~
4 ~~surviving dependent parents, the qualified surviving dependent~~
5 ~~parents may elect to receive a Group A death benefit calculated~~
6 ~~either: under Sections 6.01(b) and (c) of this article if the Group~~
7 ~~A pensioner's Group A disability pension was calculated under~~
8 ~~Section 6.04(a) of this article, or under Section 6.01(e) of this~~
9 ~~article if the Group A pensioner's Group A disability pension was~~
10 ~~calculated under Section 6.04(b) of this article. An election~~
11 ~~under this subdivision, once made, is irrevocable.~~

12 [~~d~~] If there is only one [~~qualified surviving~~] dependent
13 parent, that [~~the~~] parent is entitled to one-half of the death
14 benefit described in [~~amount determined under Subsection (c)(1) or~~
15 ~~(c)(2) of~~] this subsection [~~section~~].

16 Sec. 6.08. GROUP B DEATH BENEFITS. (a) If a Group B member
17 dies while on active service, a [~~former~~] Group B member who left
18 active service and is vested under Section 5.06 of this article
19 dies, or a Group B pensioner dies while receiving [~~on~~] service or
20 disability retirement or while receiving periodic disability
21 compensation under Section 6.05 of this article, the person's
22 qualified survivors, or the person described in Section 6.06(g) or
23 (j) of this article as the recipient of the children's benefits
24 [~~guardian of the qualified surviving children if no qualified~~
25 ~~surviving spouse exists~~], may make application for Group B death
26 benefits. If the deceased [~~The qualified surviving spouse of a~~
27 ~~Group B member or former Group B member described by this~~

1 ~~subsection, the guardian of the qualified surviving children of the~~
2 ~~person if no qualified surviving spouse exists, or the qualified~~
3 ~~dependent parents if no qualified surviving spouse or qualified~~
4 ~~surviving children exist, have the option to select whether Group A~~
5 ~~or Group B death benefits are received, if the Group B member or~~
6 ~~former] Group B member was previously eligible to elect whether to~~
7 ~~receive either a Group A or Group B retirement pension, the option~~
8 ~~to elect whether Group A or Group B death benefits are received~~
9 ~~shall be exercised by one of the following:~~

10 (1) a qualified survivor who is the spouse of the
11 deceased Group B member described by this subsection;

12 (2) the person described in Section 6.06(g) or (j) of
13 this article as the recipient of benefits on behalf of the deceased
14 member's children who are qualified survivors, if no spouse is a
15 qualified survivor; or

16 (3) the qualified survivors who are dependent parents
17 of the deceased member, if there is neither a spouse nor children
18 who are qualified survivors.

19 (a-1) A qualified survivor who receives Group A death
20 benefits under Subsection (a) of this section [~~subsection~~] is
21 entitled to a ratable portion of a reimbursement from the fund in
22 the same amount and manner determined under Section 5.03(d) of this
23 article. A qualified survivor or guardian desiring a refund of
24 excess contributions must make application for the refund with the
25 executive director [~~administrator~~] within three years after the
26 date the qualified survivor or guardian makes application for Group
27 A death benefits. The option contained in this subsection is not

1 available to qualified survivors of a Group B member [~~or former~~
2 ~~Group B member~~] who had, at the time of death, already applied for a
3 retirement pension and selected a Group A retirement pension as
4 provided by Section 5.03(c) or (c-1) of this article, but the
5 qualified survivors are entitled to receive a Group A death
6 benefit.

7 (b) Subject to Subsection (b-2) of this section, death
8 [~~Death~~] benefits shall be computed as follows for the qualified
9 survivors of Group B members who die while on active service:

10 (1) the [A qualified surviving spouse's Group B] death
11 benefit of a qualified survivor who is the spouse of a member who
12 began active service:

13 (A) before March 1, 2011, shall be the sum of:

14 (i) the number of years of pension service
15 earned before September 1, 2017, prorated for fractional years,
16 times 1.5 percent of the [computed at the rate of 1.5 percent of the
17 Group B member's] average computation pay determined over the 36
18 [60] consecutive months of pension service in which the Group B
19 member received the highest computation pay; plus

20 (ii) the number of [, for each year, and
21 prorated for fractional years, of pension service with a minimum of
22 20] years of pension service, including pension service credit
23 imputed under Section 6.05(c) of this article, after September 1,
24 2017, prorated for fractional years, times the applicable
25 percentage rate set forth below [assumed, or 30 percent] of the
26 average computation pay determined over the 60 consecutive months
27 of pension service in which the Group B member received the highest

1 computation pay:

<u>Age of Member When Retirement Pension Begins</u>	<u>Percent</u>
3 <u>58 and older</u>	<u>1.25%</u>
4 <u>57</u>	<u>1.2%</u>
5 <u>56</u>	<u>1.15%</u>
6 <u>55</u>	<u>1.10%</u>
7 <u>54</u>	<u>1.05%</u>
8 <u>53 and younger</u>	<u>1.0%; or</u>

9 (B) on or after March 1, 2011, shall be the number
 10 of years of pension service, including pension service imputed
 11 under Section 6.05(c) of this article, prorated for fractional
 12 years, times 1.25 percent of the average computation pay determined
 13 over the 60 consecutive months of pension service in which the Group
 14 B member received the highest computation pay;

15 (2) the death benefit of qualified survivors who are a
 16 member's children shall be computed in the same manner as a spouse's
 17 benefit is computed under Subdivision (1)(A) or (B) of this
 18 subsection, as applicable, and shall be divided equally among all
 19 of the children who are qualified survivors; and

20 (3) the death benefit of each qualified survivor who
 21 is a member's dependent parent shall be computed in the same manner
 22 as a spouse's Group B benefit is computed under Subdivision (1)(A)
 23 or (B) of this subsection, as applicable.

24 (b-1) Pension service for purposes of the calculation under
 25 Subsection (b) of this section may not be less than 20 years. Any
 26 partial year of pension service for the first 20 years of pension
 27 service is counted as a full year of pension service, if the member

1 was considered by the member's department to have worked a normal
2 full-time schedule at the time of the member's death.

3 (b-2) The death benefit calculated under Subsection (b) of
4 this section may not exceed the greater of:

5 (1) 45 ~~[a computation for 32 years of pension service,~~
6 ~~or 48]~~ percent of the member's average computation pay determined
7 over the 36 or 60 consecutive months, as applicable, in which the
8 Group B member received the highest computation pay; or

9 (2) the vested and accrued death benefit as determined
10 on August 31, 2017.

11 (b-3) For purposes of Subsections (b) through (b-2) of this
12 section:

13 (1) if ~~[if]~~ the Group B member had less than 36 or 60
14 consecutive months, as applicable, ~~[five years]~~ of pension service,
15 the average computation pay will be computed based on the person's
16 entire pension service; and

17 (2) days during which the member earned no pension
18 service due to a termination of active service or otherwise must be
19 disregarded in determining the 36 or 60 consecutive months of
20 highest computation pay.

21 ~~[(2) A qualified surviving child's Group B death~~
22 ~~benefit shall be computed in the same manner as a qualified~~
23 ~~surviving spouse's benefit is computed under Subdivision (1) of~~
24 ~~this subsection and shall be divided equally among all of the~~
25 ~~qualified surviving children.~~

26 ~~[(3) Each qualified surviving dependent parent's Group~~
27 ~~B death benefit shall be computed in the same manner as a qualified~~

1 ~~surviving spouse's Group B benefit is computed under Subdivision~~
2 ~~(1) of this subsection.]~~

3 (c) Group B death benefits shall be computed as follows for
4 the qualified survivors of any ~~[former]~~ Group B member who died
5 after leaving active service and who had vested rights under
6 Section 5.06 of this article but who had not received ~~[Group B]~~
7 retirement benefits ~~[under Section 6.02 of this article]~~ at the
8 time of death:

9 (1) the death benefit of a [The] qualified survivor
10 who is the member's [surviving] spouse [of the former Group B
11 member] is ~~[entitled to a Group B death benefit]~~ equal to 50 percent
12 of any ~~[Group B]~~ retirement pension the ~~[former Group B]~~ member
13 would have been entitled to ~~[under Section 6.02 of this article]~~ as
14 of the date the ~~[former Group B]~~ member left active service; ~~[-]~~

15 (2) the death benefits of [The] qualified survivors
16 who are the member's [surviving] children [of the former Group B
17 member] are ~~[entitled to a Group B benefit]~~ calculated in the same
18 manner as the spouse's benefit is computed under Subdivision (1) of
19 this subsection ~~[Group B death benefit of a qualified surviving~~
20 ~~spouse]~~, to be divided equally between the ~~[qualified surviving]~~
21 children; and[-]

22 (3) the death benefit of each [Each of the] qualified
23 survivor who is the member's [surviving] dependent parent [parents
24 of the former Group B member] is ~~[entitled to a Group B death~~
25 ~~benefit]~~ equal to 50 percent of any ~~[Group B]~~ retirement pension the
26 ~~[former Group B]~~ member would have been entitled to ~~[under the~~
27 ~~provisions of Section 6.02 of this article]~~ as of the date the

1 ~~[former Group B]~~ member left active service.

2 (d) Group B death benefits shall be computed as follows for
3 the qualified survivors of any Group B pensioner ~~[of this plan]~~ who
4 dies while receiving service ~~[a Group B]~~ retirement ~~[pension]~~:

5 (1) the death benefit of a ~~[The]~~ qualified ~~[surviving]~~
6 survivor who is the pensioner's spouse ~~[of a Group B pensioner]~~ is
7 ~~[entitled to Group B death benefits]~~ equal to 50 percent of any
8 retirement pension the Group B pensioner was receiving at the time
9 of death; ~~[and]~~

10 (2) the death benefits of qualified survivors who are
11 the pensioner's ~~[The qualified surviving]~~ children ~~[of a Group B~~
12 ~~pensioner]~~ are ~~[entitled to a Group B death benefit]~~ calculated in
13 the same manner as the spouse's benefit is computed under
14 Subdivision (1) of this subsection ~~[Group B death benefit of a~~
15 ~~qualified surviving spouse]~~, to be divided equally between the
16 ~~[qualified surviving]~~ children; ~~and~~ ~~[and]~~

17 (3) the death benefit of each ~~[Each of the]~~ qualified
18 survivor who is the pensioner's ~~[surviving]~~ dependent parent
19 ~~[parents of a Group B pensioner]~~ is ~~[entitled to a Group B death~~
20 ~~benefit]~~ equal to 50 percent of any retirement pension the Group B
21 pensioner was receiving at the time of death.

22 (e) Group B death benefits shall be computed as follows for
23 the qualified survivors of any Group B pensioner who dies while
24 receiving disability retirement or while receiving periodic ~~[a~~
25 ~~Group B]~~ disability compensation under Section 6.05 of this article
26 ~~[pension due to either a service-connected or nonservice-connected~~
27 ~~disability]~~:

1 (1) the death benefit of a [~~The~~] qualified survivor
2 who is the pensioner's [~~surviving~~] spouse [~~of the Group B~~
3 ~~pensioner~~] is [~~entitled to the greater of a Group B death benefit~~]
4 equal to 50 percent of any Group B periodic disability compensation
5 or disability pension the Group B pensioner would have been
6 entitled to [~~under Section 6.05 of this article~~] as of the date the
7 Group B pensioner left active service because of disability, or a
8 Group B death benefit equal to 50 percent of any periodic disability
9 compensation or [~~Group B~~] disability pension the Group B pensioner
10 was receiving at the time of death; [~~-~~]

11 (2) the death benefits of [~~The~~] qualified survivors
12 who are the pensioner's [~~surviving~~] children [~~of the Group B~~
13 ~~pensioner~~] are [~~entitled to a Group B death benefit~~] calculated in
14 the same manner as the spouse's [~~Group B death~~] benefit is computed
15 under Subdivision (1) of this subsection [~~of a qualified surviving~~
16 ~~spouse~~], to be divided equally between the [~~qualified surviving~~]
17 children; and [~~-~~]

18 (3) the death benefit of each [~~Each of the~~] qualified
19 survivor who is the pensioner's [~~surviving~~] dependent parent
20 [~~parents of the Group B pensioner~~] is [~~entitled to the greater of a~~
21 ~~Group B death benefit~~] equal to 50 percent of any periodic
22 disability compensation or disability pension the Group B pensioner
23 would have been entitled to [~~under Section 6.05 of this article~~] as
24 of the date the Group B pensioner left active service because of
25 disability, or a Group B death benefit equal to 50 percent of any
26 periodic disability compensation or [~~Group B~~] disability pension
27 the Group B pensioner was receiving at the time of death.

1 Sec. 6.09. QUALIFIED SURVIVING SPOUSE SPECIAL DEATH
2 BENEFIT. (a) A person who is the [~~Notwithstanding Sections 6.06~~
3 ~~and 6.07 of this article, the qualified surviving~~] spouse of a Group
4 A primary party, who is a qualified survivor, and who is entitled to
5 death benefits under Sections 6.06, 6.061, 6.062, 6.063, and 6.07
6 of this article is also entitled to a special death benefit under
7 this section if:

8 (1) the Group A primary party:

9 (A) [~~elected to receive a Group A retirement~~
10 ~~pension and later died, was receiving a disability or retirement~~
11 ~~pension either under the terms of Plan A before the original~~
12 ~~enactment of this article or elected to receive a Group A retirement~~
13 ~~pension under Sections 6.01(c), (f), and (g) of this article and~~
14 ~~later died, or was receiving a Group A disability pension under~~
15 ~~Section 6.04(c) of this article and later died,~~

16 [~~(2) the Group A primary party (i)~~] had at least 20
17 years of pension service, [~~and~~] left active service after October
18 1, 1985, and was at least 55 years of age on the earlier of the date
19 the primary party:

20 (i) left active service; or

21 (ii) began participation in DROP [~~or~~
22 ~~older~~]; or

23 (B) had [~~(ii) on or after May 1, 1990, the Group A~~
24 ~~primary party, after accruing~~] at least 20 years of pension
25 service, left active service on or after May 31, 2000, and on the
26 earlier of the date the primary party left active service or began
27 participation in DROP, [~~and~~] had a total of at least 78 [~~80~~]

1 credits, with each year of pension service, prorated for fractional
2 years, equal to one credit and with each year of age, prorated for
3 fractional years, equal to one credit; or [~~and~~]

4 (2) the [~~(3) the qualified surviving~~] spouse has
5 attained 55 years of age and there are no [~~qualified surviving~~]
6 children who are qualified survivors eligible for death benefits.

7 (b) Until the requirements of Subsection (a) of this section
8 are satisfied, a qualified survivor who is the spouse of a Group A
9 primary party [~~surviving spouse~~] shall receive a Group A death
10 benefit in accordance with Section 6.07 of this article.

11 (c) The special Group A death benefit under Subsection (a)
12 of this section is calculated based on the following formula:

13 $(P \times P \times A) + (P \times C) + D$, where

14 A = base pay at the time the Group A primary party began
15 participation in DROP, begins service retirement, dies, or becomes
16 disabled, plus longevity pay, plus one-twelfth of last-received
17 city service incentive pay;

18 B = Group A primary party's benefit calculated at the time the
19 Group A primary party began participation in DROP, begins service
20 retirement, dies, or becomes disabled;

21 P = B/A (expressed as a percentage or a decimal);

22 C = the number of adjustments made to a Group A primary
23 party's [~~Group A~~] retirement pension, disability pension, or
24 periodic [~~Group A~~] disability compensation, [~~pension under Section~~
25 ~~6.04 of this article~~] multiplied by the amount of the adjustments;

26 and

27 D = the number of adjustments made under this article to the

1 ~~[a qualified surviving spouse's]~~ Group A death benefit of a spouse
 2 who is a qualified survivor under Section 6.07 of this article,
 3 multiplied by the amount of the adjustments.

4 (d) A person who is the ~~[Notwithstanding Sections 6.03 and~~
 5 ~~6.05 of this article, a qualified surviving]~~ spouse of a Group B
 6 primary party, who is a qualified survivor, and who is entitled to
 7 any death benefits under Sections 6.06, 6.061, 6.062, 6.063, and
 8 ~~[or]~~ 6.08 of this article is also entitled to a special benefit
 9 under this section if:

10 (1) the Group B primary party ~~[elected to receive a~~
 11 ~~Group B retirement pension and later died, or was receiving a Group~~
 12 ~~B disability or retirement pension under this article and died,~~

13 ~~[(2) the Group B primary party]:~~

14 (A) had at least 20 years of pension service,
 15 left active service after October 1, 1985, and was at least 55 years
 16 of age at the earlier of the date the primary party left ~~[time of~~
 17 ~~leaving]~~ active service or began participation in DROP; or

18 (B) on or after May 31, 2000 ~~[1, 1990]~~, ~~[the Group~~
 19 ~~B primary party]~~ left active service or began participation in
 20 DROP, whichever was earlier, having a total of at least 78 ~~[80]~~
 21 credits, with each year of pension service, prorated for fractional
 22 years, equal to one credit and with each year of age, determined at
 23 the time the Group B primary party left active service or began
 24 participation in DROP, prorated for fractional years, equal to one
 25 credit; or ~~[and]~~

26 (2) ~~[(3)]~~ the ~~[qualified surviving]~~ spouse has
 27 attained 55 years of age, and there are no ~~[qualified surviving]~~

1 children of the primary party who are qualified survivors.

2 (d-1) Until the requirements of Subsection (d) [~~(c)~~] of this
 3 section are satisfied, a spouse who is a qualified survivor
 4 [~~surviving spouse~~] may only receive a Group B death benefit in
 5 accordance with Sections 6.06, 6.061, 6.062, 6.063, [6.03] and 6.08
 6 [~~6.05~~] of this article.

7 (e) The [This] special Group B death [survivor] benefit
 8 under Subsection (d) of this section is calculated based on the
 9 following formula:

$$(P \times P \times A) + (P \times C) + D, \text{ where}$$

11 A = average monthly computation pay at the time the Group B
 12 primary party begins service retirement, dies, [~~or~~] becomes
 13 disabled, or begins participation in DROP;

14 B = the Group B primary party's benefit [Group B retirement or
 15 Group B disability pension] calculated at the time the Group B
 16 primary party begins participation in DROP, begins to receive
 17 service [or disability] retirement, [or] dies, or becomes disabled;

18 P = B/A (expressed as a percentage or a decimal);

19 C = the number of post-retirement [postretirement]
 20 adjustments made to a Group B primary party's [Group B] retirement
 21 pension, disability pension, or periodic [Group B] disability
 22 compensation [pension under Section 6.05 of this article]
 23 multiplied by the amount of the adjustments; and

24 D = the number of adjustments made to the [a qualified
 25 surviving spouse's] Group B death benefit of a qualified survivor
 26 who is the primary party's spouse under Section 6.08 of this article
 27 multiplied by the amount of the adjustments.

1 Sec. 6.10A. MINIMUM BENEFITS TO CERTAIN GROUP A PRIMARY
2 PARTIES WHO WERE GROUP A, OLD PLAN, OR COMBINED PENSION PLAN MEMBERS
3 ~~[ELECT TO RECEIVE RETIREMENT PENSION UNDER SECTIONS 6.01(B) AND~~
4 ~~(C)]~~ AND THEIR QUALIFIED SURVIVORS. (a) Except as provided by
5 Section 6.063 of this article or Subsections (b) and (h) of this
6 section and notwithstanding any benefit computation and
7 determination to the contrary contained in this article, the
8 minimum Group A benefits provided by this section shall be paid to
9 any Group A primary party who elects to receive a Group A retirement
10 pension under Sections 6.01(b) and (c) of this article, the old
11 plan, or former Section 14(a) of this article, or to the primary
12 party's qualified survivors [~~. The benefits under this section~~
13 ~~shall be distributed in accordance with Sections 6.01(b) and (c),~~
14 ~~6.04(a), or 6.07 of this article, as applicable]~~, except that a
15 Group A primary party who elects to receive an actuarially reduced
16 ~~[Group A retirement pension because of the primary party's request~~
17 ~~to receive a Group A]~~ retirement pension before 50 years of age and
18 the primary party's qualified survivors are not entitled to the
19 ~~[Group A]~~ minimum benefits specified under this section. An
20 alternate payee is not entitled to the Group A minimum benefits
21 specified in this section.

22 (b) A Group A primary party who elects to receive a Group A
23 retirement pension under Sections 6.01(b) and (c) of this article,
24 the old plan, or former Section 14(a) of this article and who left
25 active service with 20 or more years of pension service is entitled
26 to receive a minimum Group A retirement pension of \$2,200 [~~\$1,500~~] a
27 month. [~~If the Group A primary party's Group A retirement pension~~

1 ~~is subject to a qualified domestic relations order and the sum of~~
 2 ~~the actuarial equivalents of the monthly benefits payable to the~~
 3 ~~Group A primary party and the alternate payee is less than the~~
 4 ~~actuarial equivalent of the minimum monthly Group A retirement~~
 5 ~~pension described by this subsection, the Group A primary party's~~
 6 ~~monthly Group A retirement pension will be increased so that the sum~~
 7 ~~of the actuarial equivalents of the alternate payee's and the Group~~
 8 ~~A primary party's monthly Group A retirement pension equals the~~
 9 ~~actuarial equivalent of the minimum monthly Group A retirement~~
 10 ~~pension calculated under this subsection.]~~

11 (c) In the absence of children who are [A] qualified
 12 survivors, a [surviving] spouse who is a qualified survivor of a
 13 Group A primary party who elected to receive a Group A retirement
 14 pension under Sections 6.01(b) and (c) of this article, the old
 15 plan, or former Section 14(a) of this article will receive a minimum
 16 monthly Group A death benefit of \$1,200 [\$750].

17 (d) A spouse who is a qualified survivor [surviving spouse]
 18 of a Group A primary party who elected to receive a Group A
 19 retirement pension under Sections 6.01(b) and (c) of this article,
 20 the old plan, or former Section 14(a) of this article will receive,
 21 if there are children who are qualified survivors [surviving
 22 children], a minimum Group A death benefit of \$1,100 [\$750] a month.
 23 ~~[The qualified surviving children, as a group, will receive a~~
 24 ~~minimum Group A death benefit of \$750 a month, to be divided equally~~
 25 ~~among them.]~~

26 (e) In the absence of a spouse who is a qualified survivor
 27 ~~[surviving spouse]~~ of a Group A primary party who elected to receive

1 a Group A retirement pension under Section [~~Sections~~] 6.01(b),
2 [~~and~~] (c), or (e) of this article, the old plan, or former Section
3 14(a) of this article, the primary party's children who are
4 qualified survivors [~~surviving children~~], as a group, will receive
5 a minimum Group A death benefit of \$1,100 [~~\$750~~] a month, to be
6 divided equally among them.

7 (f) If there is neither a [~~In the absence of both a qualified~~
8 ~~surviving~~] spouse nor a child who is a [~~and~~] qualified survivor
9 [~~surviving children~~] of a Group A primary party who elected to
10 receive a Group A retirement pension under Sections 6.01(b) and (c)
11 of this article, the old plan, or former Section 14(a) of this
12 article, each [~~qualified surviving~~] dependent parent who is a
13 qualified survivor will receive a minimum Group A death benefit of
14 \$1,100 [~~\$750~~] a month. If only one of them is surviving, that [~~the~~
15 ~~qualified surviving~~] dependent parent will receive a minimum Group
16 A death benefit equal to \$1,100 [~~\$750~~] a month.

17 (g) Notwithstanding the minimum monthly benefit described
18 in other subsections of this section, a Group A primary party who
19 receives periodic disability compensation under Section 6.05(b) of
20 this article or a Group A disability pension under Section 6.04(a)
21 of this article, the old plan, or former Section 17(a) of this
22 article, [calculated in the same manner as a Group A retirement
23 pension under Sections 6.01(b) and (c) of this article,] shall
24 receive a minimum Group A disability pension equal to \$2,200
25 [~~\$1,500~~] a month.

26 (h) If a Group A pensioner who received a monthly benefit
27 under Section 6.05(b-1) of this article or a disability pension

1 under Section 6.04(a) of this article, calculated in the same
 2 manner as a Group A retirement pension under Sections 6.01(b) and
 3 (c) of this article, the old plan, or former Section 17(a) of this
 4 article [~~primary party's disability pension is subject to a~~
 5 ~~qualified domestic relations order and the sum of the actuarial~~
 6 ~~equivalents of the monthly benefits payable to the Group A primary~~
 7 ~~party and the alternate payee is less than the actuarial equivalent~~
 8 ~~of the minimum monthly Group A disability pension determined under~~
 9 ~~Subsection (g) of this section, the Group A primary party's minimum~~
 10 ~~monthly Group A disability pension will be increased so that the sum~~
 11 ~~of the actuarial equivalents of the alternate payee's and the Group~~
 12 ~~A primary party's minimum monthly Group A disability pension equals~~
 13 ~~the amount determined under Subsection (g) of this section.~~

14 [~~(i) If a Group A pensioner who received a disability under~~
 15 ~~Section 6.04(a) of this article, calculated in the same manner as a~~
 16 ~~Group A retirement pension under Sections 6.01(b) and (c) of this~~
 17 ~~article]~~ before the completion of 20 years of pension service dies,
 18 the qualified survivors will receive a minimum Group A death
 19 benefit as provided under Subsection (c), (d), (e), or (f) of this
 20 section, as applicable, whichever is greatest.

21 SECTION 1.39. The heading to Section 6.10B, Article
 22 6243a-1, Revised Statutes, is amended to read as follows:

23 Sec. 6.10B. MINIMUM BENEFITS TO CERTAIN GROUP A PRIMARY
 24 PARTIES WHO WERE GROUP A, PLAN A, OR COMBINED PLAN MEMBERS [~~ELECT TO~~
 25 ~~RECEIVE RETIREMENT PENSION UNDER SECTION 6.01(E)] AND THEIR
 26 QUALIFIED SURVIVORS.~~

27 SECTION 1.40. Sections 6.10B(a), (b), (c), (d), (e), (f),

1 (g), and (i), Article 6243a-1, Revised Statutes, are amended to
2 read as follows:

3 (a) Except as provided by Section 6.063 of this article and
4 Subsection [~~Subsections~~] (b) [~~and (h)~~] of this section and
5 notwithstanding any benefit computation and determination to the
6 contrary contained in this article, the minimum Group A benefits
7 provided by this section shall be paid to any Group A primary party
8 who elects to receive a Group A retirement pension under Section
9 6.01(e) of this article, Plan A, or former Section 14(b) of this
10 article or to the primary party's qualified survivors[~~.—The~~
11 ~~benefits under this section shall be distributed in accordance with~~
12 ~~Section 6.01(e), 6.04(b), or 6.07 of this article, as applicable)],
13 except that a Group A primary party who elects to receive an
14 actuarially reduced Group A retirement pension [~~because of the~~
15 ~~primary party's request to receive a Group A retirement pension]~~
16 before 55 years of age and the primary party's qualified survivors
17 are not entitled to the [~~Group A~~] minimum benefits specified in
18 [~~under~~] this section. An alternate payee is not entitled to the
19 Group A minimum benefits specified in this section.~~

20 (b) A Group A primary party who elects [~~elected~~] to receive
21 a Group A retirement pension under Section 6.01(e) of this article,
22 Plan A, or former Section 14(b) of this article and who left active
23 service with 20 or more years of pension service is entitled to
24 receive a minimum [~~Group A~~] retirement pension equal to the greater
25 of \$2,200 [~~(i) \$1,500~~] a month or [~~(ii)~~] \$1,000 a month adjusted, if
26 applicable, in the manner described by Section 6.12 [~~6.12(a)~~] of
27 this article. [~~If the Group A primary party's Group A retirement~~

1 ~~pension is subject to a qualified domestic relations order and the~~
 2 ~~sum of the actuarial equivalents of the monthly benefits payable to~~
 3 ~~the Group A primary party and the alternate payee is less than the~~
 4 ~~actuarial equivalent of the minimum monthly Group A retirement~~
 5 ~~pension described by this subsection, the Group A primary party's~~
 6 ~~monthly Group A retirement pension will be increased so that the sum~~
 7 ~~of the actuarial equivalents of the alternate payee's and the Group~~
 8 ~~A primary party's monthly Group A retirement pension equals the~~
 9 ~~actuarial equivalent of the minimum monthly Group A retirement~~
 10 ~~pension calculated under this subsection.]~~

11 (c) In the absence of children who are [A] qualified
 12 survivors, a [surviving] spouse who is a qualified survivor of a
 13 Group A primary party who elects [~~elected~~] to receive a Group A
 14 retirement pension under Section 6.01(e) of this article, Plan A,
 15 or former Section 14(b) of this article will receive a minimum
 16 monthly [Group A] death benefit equal to the greater of \$1,200
 17 [(i) \$750] a month or [(ii)] \$500 a month adjusted, if applicable,
 18 in the manner described by Section 6.12 [~~6.12(a)~~] of this article.

19 (d) A spouse who is a qualified survivor [~~surviving spouse~~]
 20 of a Group A primary party who elects to receive a Group A
 21 retirement pension under Section 6.01(e) of this article, Plan A,
 22 or former Section 14(b) of this article will receive, if there are
 23 children who are qualified survivors [~~surviving children~~], a
 24 minimum Group A death benefit equal to the greater of \$1,100 [(i)
 25 \$750] a month or [(ii)] \$500 a month adjusted, if applicable, in the
 26 manner described by Section 6.12 [~~6.12(a)~~] of this article. The
 27 children who are qualified survivors [~~surviving children~~], as a

1 group, will receive a minimum [~~Group A~~] death benefit equal to the
2 greater of \$1,100 [~~(iii) \$750~~] a month or [~~(iv)~~] \$500 a month
3 adjusted, if applicable, in the manner described by Section 6.12
4 [~~6.12(a)~~] of this article, to be divided equally among them.

5 (e) In the absence of a spouse who is a qualified survivor
6 [~~surviving spouse~~] of a Group A primary party who elected to receive
7 a Group A retirement pension under Section 6.01(e) of this article,
8 Plan A, or former Section 14(b) of this article, the [~~the qualified~~
9 ~~surviving children of a Group A~~] primary party's children who are
10 qualified survivors [~~party~~], as a group, will receive a minimum
11 Group A death benefit equal to the greater of \$1,100 [~~(i) \$750~~] a
12 month or [~~(ii)~~] \$500 a month adjusted, if applicable, in the manner
13 described by Section 6.12 [~~6.12(a)~~] of this article, to be divided
14 equally among them.

15 (f) If there is neither a [~~In the absence of both a qualified~~
16 ~~surviving~~] spouse nor child who is a [~~and~~] qualified survivor
17 [~~surviving children~~] of a Group A primary party who elected to
18 receive a Group A retirement pension under Section 6.01(e) of this
19 article, Plan A, or the former Section 14(b) of this article, each
20 [~~qualified surviving~~] dependent parent who is a qualified survivor
21 will receive a minimum Group A death benefit equal to the greater of
22 \$1,100 [~~(i) \$750~~] a month or [~~(ii)~~] \$500 a month adjusted, if
23 applicable, in the manner described by Section 6.12 [~~6.12(a)~~] of
24 this article. If only one of them is surviving, that [~~the qualified~~
25 ~~surviving~~] dependent parent will receive a minimum Group A death
26 benefit equal to the greater of \$1,100 [~~(iii) \$750~~] a month or
27 [~~(iv)~~] \$500 a month adjusted, if applicable, in the manner

1 described by Section 6.12 [~~6.12(a)~~] of this article.

2 (g) Notwithstanding the minimum monthly benefit as
 3 described in other subsections of this section, a Group A primary
 4 party who leaves active service on a non-service-connected
 5 [~~nonservice-connected~~] disability under Section 6.04(a)
 6 [~~6.04(b)(2)~~] of this article, Plan A, or former Section 17(b)(2) of
 7 this article with less than 20 years of pension service shall
 8 receive a minimum monthly Group A disability pension equal to the
 9 greater of \$110 [~~(i) \$75~~] multiplied by the number of years of the
 10 primary party's pension service or [~~(ii)~~] \$50 multiplied by the
 11 number of years of the primary party's pension service, the product
 12 adjusted, if applicable, in the manner described by Section 6.12
 13 [~~6.12(a)~~] of this article.

14 (i) If a Group A pensioner who received a
 15 non-service-connected [~~nonservice-connected~~] disability pension
 16 under Section 6.04(a) [~~6.04(b)(2)~~] of this article, Plan A, or
 17 former Section 17(b)(2) of this article before the completion of 20
 18 years of pension service dies, the qualified survivors will each
 19 receive the amount specified in Section 6.07 of this article or the
 20 minimum [~~monthly~~] Group A death benefit as provided under
 21 Subsection (c), (d), (e), or (f) of this section, as applicable,
 22 whichever is greatest.

23 SECTION 1.41. Sections 6.11, 6.12, and 6.13,
 24 Article 6243a-1, Revised Statutes, are amended to read as follows:

25 Sec. 6.11. MINIMUM BENEFITS TO GROUP B PRIMARY PARTIES AND
 26 THEIR QUALIFIED SURVIVORS. (a) Except as provided by Section 6.063
 27 of this article or Subsections (b), (c), and (h) of this section and

1 notwithstanding any benefit computation and determination to the
2 contrary contained in this article, the minimum Group B benefits
3 provided by this section shall be paid to any Group B primary party
4 or the primary party's qualified survivors, except further that a
5 Group B primary party who elects to receive an actuarially reduced
6 ~~[Group B] retirement pension, including a request for a benefit~~
7 under Sections 6.02(c) and (d) of this article, ~~[because of the~~
8 ~~primary party's request to receive the pension at or after age 45,~~
9 ~~but before age 50]~~ and the primary party's qualified survivors~~[7]~~
10 or ~~[an] alternate payee [of the primary party],~~ are not entitled to
11 the Group B minimum benefits specified by this section.

12 (b) If a Group B primary party leaves active service with 20
13 or more years of pension service, the Group B primary party is
14 entitled to receive a Group B minimum retirement pension equal to
15 the greater of \$2,200 ~~[(i) \$1,500]~~ a month or ~~[(ii)]~~ \$925 a month,
16 which sum may (A) increase at the rate of \$5 a month for each year of
17 pension service beyond 20 years, but the increase may not exceed \$75
18 and (B) be adjusted, if applicable, in the manner described by
19 Section 6.12 ~~[6.12(a)]~~ of this article. ~~[If a Group B primary~~
20 ~~party's Group B retirement pension is or becomes subject to a~~
21 ~~qualified domestic relations order and the sum of the actuarial~~
22 ~~equivalents of the monthly Group B retirement pension payable to~~
23 ~~the Group B primary party and the alternate payee is less than the~~
24 ~~actuarial equivalent of the minimum monthly Group B retirement~~
25 ~~pension as calculated under this subsection, the Group B primary~~
26 ~~party's monthly Group B retirement pension will be increased so~~
27 ~~that the sum of the actuarial equivalents of both the alternate~~

1 ~~payee's and the Group B primary party's Group B retirement pensions~~
2 ~~equals the actuarial equivalent of the minimum monthly Group B~~
3 ~~retirement pension as calculated under this subsection.]~~

4 (c) If a Group B primary party leaves active service with
5 less than 20 years of pension service, the primary party is entitled
6 to receive a minimum monthly Group B retirement pension equal to the
7 greater of:

8 (1) \$2,200 [~~(i) \$1,500~~] a month divided by 20 and
9 multiplied by the Group B primary party's number of years of pension
10 service; or

11 (2) [~~(ii)~~] \$925 a month divided by 20 and multiplied
12 by the Group B primary party's number of years of pension service,
13 which amount is then adjusted, if applicable, in the manner
14 described by Section 6.12 [~~6.12(a)~~] of this article. [~~If a Group B~~
15 ~~primary party's retirement pension is or becomes subject to a~~
16 ~~qualified domestic relations order and the sum of the actuarial~~
17 ~~equivalents of the monthly Group B retirement pension payable to~~
18 ~~the Group B primary party and the alternate payee is less than the~~
19 ~~actuarial equivalent of the monthly retirement pension as~~
20 ~~calculated under this subsection, the Group B primary party's~~
21 ~~monthly Group B retirement pension will be increased so that the sum~~
22 ~~of the actuarial equivalents of the alternate payee's and the Group~~
23 ~~B primary party's monthly Group B retirement pensions equals the~~
24 ~~actuarial equivalent of the minimum monthly Group B retirement~~
25 ~~pension as calculated under this subsection.]~~

26 (d) In the absence of children who are qualified survivors,
27 a spouse who is a [~~surviving children, the~~] qualified survivor

1 ~~[surviving spouse]~~ of a Group B primary party will receive a minimum
2 Group B death benefit equal to the greater of:

3 (1) \$1,200 ~~[(i) \$750]~~ a month; or

4 (2) ~~[(ii)]~~ \$600 a month adjusted, if applicable, in
5 the manner described by Section 6.12 ~~[6.12(a)]~~ of this article.

6 (e) A spouse who is a qualified survivor ~~[surviving spouse]~~
7 of a Group B primary party ~~[will receive]~~, if there are children who
8 are qualified survivors ~~[surviving children]~~, will receive ~~[the~~
9 ~~greater of a minimum Group B death benefit of 50 percent of the~~
10 ~~primary party's minimum monthly Group B retirement pension~~
11 ~~described by Subsection (b) or (c) of this section, whichever is~~
12 ~~applicable. The qualified surviving children, as a group, will~~
13 ~~receive the greater of]~~ a minimum ~~[monthly]~~ Group B death benefit of
14 \$1,100 a month ~~[50 percent of the minimum monthly Group B retirement~~
15 ~~pension described by Subsection (b) or (c) of this section,~~
16 ~~whichever is applicable, to be divided equally among them].~~

17 (f) The ~~[In the absence of a qualified surviving spouse, the~~
18 ~~qualified surviving]~~ children who are qualified survivors of a
19 Group B primary party, as a group, will receive a minimum Group B
20 death benefit equal to the greater of \$1,100 ~~[(i) \$750]~~ a month or
21 ~~[(ii)]~~ \$600 a month adjusted, if applicable, in the manner
22 described by Section 6.12 ~~[6.12(a)]~~ of this article, to be divided
23 equally between them.

24 (g) If there is neither a ~~[In the absence of either a~~
25 ~~qualified surviving]~~ spouse nor a child who is a ~~[or]~~ qualified
26 survivor ~~[surviving children]~~, each ~~[qualified surviving]~~
27 dependent parent who is a qualified survivor of the deceased Group B

1 primary party will receive a minimum death benefit of \$1,100 a month
2 ~~[Group B minimum death benefit equal to the greater of 50 percent of~~
3 ~~the Group B primary party's minimum monthly Group B retirement~~
4 ~~pension described by Subsection (b) or (c) of this section,~~
5 ~~whichever is applicable. If only one qualified surviving dependent~~
6 ~~parent is surviving, the parent will receive a Group B minimum death~~
7 ~~benefit of 50 percent of the minimum monthly Group B retirement~~
8 ~~pension described by Subsection (b) or (c) of this section,~~
9 ~~whichever is applicable].~~

10 (h) Notwithstanding the minimum monthly ~~[Group B]~~
11 retirement pension otherwise described by this section, a Group B
12 primary party who left active service on a non-service-connected
13 ~~[nonservice-connected]~~ disability with less than 20 years of
14 pension service will receive a minimum monthly ~~[Group B]~~ disability
15 pension equal to the greater of \$110 ~~[(i) \$75]~~ multiplied by the
16 number of years of the primary party's pension service or ~~[(ii)]~~
17 \$46.25 multiplied by the number of years of the primary party's
18 pension service, the product adjusted in the manner, if applicable,
19 described by Section 6.12 ~~[6.12(a)]~~ of this article. ~~[If the Group~~
20 ~~B primary party's Group B disability pension is or becomes subject~~
21 ~~to a qualified domestic relations order and the sum of the actuarial~~
22 ~~equivalents of the monthly Group B disability pension payable to~~
23 ~~the Group B primary party and the alternate payee is less than the~~
24 ~~actuarial equivalent of the monthly disability pension as~~
25 ~~calculated under this subsection, the Group B primary party's~~
26 ~~monthly Group B disability pension will be increased so that the sum~~
27 ~~of the actuarial equivalents of the alternate payee's and the Group~~

1 ~~B primary party's monthly Group B disability pensions equals the~~
 2 ~~actuarial equivalents of the minimum monthly Group B disability~~
 3 ~~pension as calculated under this subsection.]~~ If a Group B primary
 4 party who was receiving a non-service-connected
 5 ~~[nonservice-connected Group B]~~ disability pension before the
 6 completion of 20 years pension service dies, the qualified
 7 survivors will receive the amount specified in Section 6.08 of this
 8 article, or the ~~[Group B]~~ minimum monthly death benefits granted to
 9 qualified survivors as provided by Subsections (d), (e), (f), and
 10 (g) of this section, as applicable, whichever is greater.

11 Sec. 6.12. ADJUSTMENTS TO RETIREMENT AND DISABILITY PENSION
 12 BENEFITS. (a) This section applies to the following benefits
 13 provided under this article:

14 (1) ~~[Annually on the first day of October,]~~ a
 15 retirement pension calculated under Section 6.01(e) ~~[Section 6.01]~~
 16 or 6.02 of this article;

17 (2) ~~[]~~ a disability pension calculated under Section
 18 6.04 of this article, other than under Section 6.04(a) of this
 19 article;

20 (3) periodic disability compensation benefit under
 21 Section ~~[or]~~ 6.05 of this article, other than Section 6.05(b-1) of
 22 this article; [] or

23 (4) a death benefit calculated under:

24 (A) Section 6.07 of this article, if calculated
 25 in the manner of a retirement pension under Section 6.01(e) of this
 26 article or in the manner of a disability compensation benefit under
 27 Section 6.05(b) of this article; or

1 (B) Section 6.08 of this article currently in pay
2 status, or pending board approval on the last day of September [~~7~~
3 ~~will be increased by an amount equal to four percent, not~~
4 ~~compounded, of the original amount of the retirement or disability~~
5 ~~pension or death benefit~~].

6 (b) Except as provided by Subsection (d) of this section,
7 annually on the first day of October, the pension system may
8 increase the base pension of a benefit described by Subsection (a)
9 of this section by a percentage equal to the average annual rate of
10 actual investment return of the pension system for the five-year
11 period ending on the December 31 preceding the effective date of the
12 adjustment less five percent.

13 (c) An adjustment under this section may not be less than
14 zero percent or exceed four percent of the applicable base pension
15 benefit.

16 (d) The pension system may only make an adjustment to
17 benefits under this section if the ratio of the amount of the
18 pension system's market value of assets divided by the amount of the
19 pension system's actuarial accrued liabilities, after giving
20 effect to the adjustment, is not less than .70.

21 (e) For purposes of Subsection (d) of this section, the
22 amount of the pension system's market value of assets and the amount
23 of the pension system's actuarial accrued liabilities shall be
24 based on and determined as of the date of the most recently
25 completed actuarial valuation.

26 (f) The following persons may not receive an adjustment
27 under this section:

1 (1) a member on active service, including a DROP
2 participant;

3 (2) a pensioner until the first October 1 occurring
4 after both the pensioner's retirement and the earlier of:

5 (A) the date the pensioner reaches 62 years of
6 age; or

7 (B) the third anniversary of the date the
8 pensioner retired; or

9 (3) a qualified survivor until the first October 1
10 occurring after the earlier of:

11 (A) the date the qualified survivor reaches 62
12 years of age;

13 (B) the third anniversary of the date the primary
14 party retired; or

15 (C) the third anniversary of the date of the
16 member's or pensioner's death.

17 (g) [~~(b)~~] A [~~Group B~~] retirement or [~~Group B~~] disability
18 pension or periodic disability compensation paid to any Group B
19 pensioner may not be less than the Group B pensioner's base pension.

20 (h) The death benefit of the qualified survivors who are the
21 [~~a Group B qualified surviving~~] spouse, [~~Group B qualified~~
22 ~~surviving~~] dependent parent, or child of a Group B pensioner
23 [~~parents, as a group, or Group B qualified surviving children~~], as a
24 group, may not be less than 50 percent of the [~~a Group B~~]
25 pensioner's base pension.

26 Sec. 6.13. SUPPLEMENT TO CERTAIN RECIPIENTS 55 YEARS OF AGE
27 OR OLDER. (a) Except as provided by Subsection (b) of this

1 section, if [~~if~~] a pensioner had at least 20 years of pension
2 service under any plan adopted pursuant to Article 6243a or this
3 article, or if a pensioner is receiving the periodic [~~a~~
4 ~~service-connected~~] disability compensation benefit under Section
5 6.05 of this article [~~pension~~], the pensioner, the pensioner's
6 [~~qualified surviving~~] spouse who is a qualified survivor eligible
7 to receive benefits under this article, or the pensioner's
8 [~~qualified surviving~~] children who are qualified survivors, as a
9 group, under Section 6.06 [~~6.06(e)~~] of this article are entitled to
10 receive, when the pensioner or spouse who is a qualified survivor
11 [~~surviving spouse~~] attains 55 years of age, provided the pensioner
12 or spouse attains 55 years of age before September 1, 2017, [~~the~~
13 ~~greater of~~] a monthly supplement equal to the greater of \$50 or
14 three percent of their total monthly benefit[~~7~~] and for months
15 [~~years~~] beginning on and after January 1, 1991, a [~~the~~] monthly
16 supplement [~~will be~~] equal to the greater of \$75 or three percent of
17 their total monthly benefit. For purposes only of calculating this
18 supplement, the phrase "their total monthly benefit" means the
19 amount payable to a pensioner or qualified survivors under the
20 terms of the plans described by this section under which the
21 pensioner or qualified survivor elected to receive benefits but
22 does not include the supplement authorized by this section or any
23 adjustments under Section 6.12 of this article made after September
24 1, 2017.

25 (b) A person described by Subsection (a) of this section
26 who, on September 1, 2017, is not receiving or has not received a
27 supplemental benefit under this section is not entitled to receive

1 a supplemental benefit under this section.

2 SECTION 1.42. Section 6.14, Article 6243a-1, Revised
3 Statutes, is amended by amending Subsections (a), (b), (c), (d),
4 (e), (f), (g), (h), and (j) and adding Subsections (e-1), (e-2),
5 (e-3), (e-4), (f-1), (g-1), (l), (m), (n), and (o) to read as
6 follows:

7 (a) A [~~In lieu of either leaving active service and~~
8 ~~commencing a retirement pension as provided for under Section 6.01~~
9 ~~or 6.02 of this article, whichever is applicable, or remaining in~~
10 ~~active service and continuing to accrue additional pension benefits~~
11 ~~as provided under Section 6.01 or 6.02, a~~] member who remains on
12 active service after becoming [~~is~~] eligible to receive a [~~an~~
13 ~~unreduced~~] retirement pension under either Section 6.01 or 6.02 of
14 this article may [~~remain in active service,~~] become a participant
15 in the deferred retirement option plan [~~Deferred Retirement Option~~
16 ~~Plan ("DROP")~~] in accordance with Subsections (b) and (c) of this
17 section, and defer the beginning of the person's retirement
18 pension. Once an election to participate in the DROP has been made,
19 the election continues in effect at least as long as the member
20 remains in active service. On leaving active service, the member
21 may:

22 (1) apply for a retirement pension under Sections
23 6.01(b) and (c), Section 6.01(e), or Section 6.02(b), (c), (d), or
24 (e) [~~Section 6.02~~] of this article, whichever is applicable,
25 together with any DROP benefit provided under this section; or

26 (2) continue to participate in DROP except the member
27 is ineligible for disability benefits described by Subsection (g-1)

1 of this section.

2 (b) The election to participate in the DROP shall be made in
3 accordance with procedures set forth in any uniform and
4 nondiscriminatory election form adopted by the board and in effect
5 from time to time. To determine the proper amount to be credited to
6 a member's DROP account, the election shall indicate whether the
7 member desires to receive a retirement pension under Sections
8 6.01(b) and (c), Section 6.01(e), or Section 6.02(b), (c), (d), or
9 (e) [6.02] of this article, whichever is applicable. The election
10 may be made at any time on or after the date the member becomes
11 eligible for a [an unreduced] retirement pension as provided by
12 this subsection. The election [under Sections 6.01(b) and (c),
13 Section 6.01(e), or Section 6.02 of this article, whichever is
14 applicable, and] becomes effective on the first day of the first
15 month on or after the date on which the member makes the election,
16 except that an election that would otherwise have been effective on
17 October 1, 1993, and every October 1 after that date, is considered,
18 for purposes of this section and Section 6.12 of this article, to be
19 effective on September 30 of the year in which it would otherwise
20 have been effective. On and after the effective date of the
21 election, the member will no longer be eligible for any refund of
22 [make member] contributions [to the fund, notwithstanding Section
23 4.03(b) or (f) of this article, whichever is applicable]. The
24 election by one or more members to participate in the DROP has no
25 effect on the amount of city contributions to the fund under Section
26 4.02 of this article.

27 (c) Each month after a member has made an election to

1 participate in the DROP and indicated a desire to receive a
 2 retirement pension under Sections 6.01(b) and (c), Section 6.01(e),
 3 or Section 6.02(b), (c), (d), or (e) [~~Section 6.02~~] of this article,
 4 whichever is applicable, and through the month before the month in
 5 which [~~until~~] the member leaves active service, an amount equal to
 6 the retirement pension the member would have received under the
 7 [~~Sections 6.01(b) and (c), Section 6.01(e), or Section 6.02,~~
 8 ~~whichever is~~] applicable subsection[~~7~~] for that month if the member
 9 had left active service and been granted a retirement pension by the
 10 board on the effective date of DROP participation shall be credited
 11 [~~transferred~~] to a separate DROP account maintained within the fund
 12 for the benefit of the member. Amounts held in the DROP account of a
 13 member [~~member's DROP account~~] shall be credited at the end of each
 14 calendar month [~~with interest at a rate that will approximately~~
 15 ~~equal one-twelfth of the annual rate assumed by the pension~~
 16 ~~system's qualified actuary and approved by the board as the assumed~~
 17 ~~actuarial rate of return for the fund~~]. Notwithstanding this
 18 section, effective January 1, 2018, a member on active service who
 19 has 10 years or more of participation in DROP shall no longer have
 20 the amount of the member's retirement pension credited to the
 21 member's DROP account while the member is on active service.

22 (d) A [~~On leaving active service and on the board's grant of~~
 23 ~~a retirement pension, a~~] member may not [~~who participates in DROP~~
 24 ~~shall begin to~~] receive a [~~the balance in the person's DROP account~~
 25 ~~under one of the following methods of~~] distribution from the
 26 member's DROP account while the member is on active service
 27 [~~elected by the member.~~]

1 ~~[(1) a single-sum distribution made at a time selected~~
2 ~~by the member but not later than April 1 of the year after the member~~
3 ~~attains 70-1/2 years of age,~~

4 ~~[(2) an annuity to be paid in equal monthly payments~~
5 ~~for the life of the member, or for the life of the member and a~~
6 ~~designated beneficiary in the same manner as a retirement pension~~
7 ~~computed under Sections 6.01(b) and (c), Section 6.01(e), or~~
8 ~~Section 6.02 of this article, whichever is applicable, determined~~
9 ~~as of the date the member leaves active service based on the~~
10 ~~person's account balance and age and the age of the designated~~
11 ~~beneficiary, if applicable, on that date and using the mortality~~
12 ~~and earnings assumptions being used on that date by the pension~~
13 ~~system's qualified actuary and approved by the board as the assumed~~
14 ~~actuarial rate of return for the fund, or~~

15 ~~[(3) substantially equal monthly or annual payments of~~
16 ~~the person's account balance beginning at a time selected by the~~
17 ~~member that is on or before April 1st of the year after the member~~
18 ~~attains 70-1/2 years of age and extending over a fixed period that~~
19 ~~does not exceed the life expectancy of the member, or the life~~
20 ~~expectancy of the member and the member's designated beneficiary,~~
21 ~~if applicable].~~

22 (e) Except as provided by Subsections (e-1) and (1) of this
23 section, the balance in the [The] DROP account [balance] of a member
24 who terminated from active service on or before September 1, 2017,
25 or who terminates from active service shall be distributed to the
26 member in the form of an annuity, payable either monthly or annually
27 at the election of the member, by annuitizing the amount credited to

1 the DROP account over the life expectancy of the member as of the
2 date of the annuitization using mortality tables recommended by the
3 pension system's qualified actuary. The annuity shall be
4 distributed beginning as promptly as administratively feasible
5 after the later of, as applicable:

6 (1) the date the member retires and is granted a
7 retirement pension; or

8 (2) September 1, 2017 [~~elects the method of~~
9 ~~distribution described by Subsection (d)(3) of this section shall~~
10 ~~be credited with interest on the unpaid balance at the end of each~~
11 ~~calendar month in the same manner as is prescribed by Subsection (c)~~
12 ~~of this section].~~

13 (e-1) The board may adopt a shorter period for annuitizing
14 DROP account balances under Subsection (e) of this section if the
15 pension system's qualified actuary determines that the shorter
16 period will not cause the pension system's amortization period to
17 exceed 25 years [~~A member may change a distribution election at any~~
18 ~~time before the member attains 70-1/2 years of age to receive one or~~
19 ~~more additional payments or to accelerate or delay any payment not~~
20 ~~then due, if the change is communicated to the plan administrator,~~
21 ~~in accordance with procedures then in effect, not less than 30 days~~
22 ~~before the day it is to take effect and if the change does not result~~
23 ~~in a failure of the distributions to satisfy the requirements of~~
24 ~~Section 401(a)(9) of the code].~~

25 (e-2) The annuitization of a DROP account under Subsection
26 (e) of this section must reflect the accrual of interest on the
27 amount in the DROP account as of September 1, 2017, over the

1 annuitization period applied to the account under this section.
2 The interest rate applied under this subsection must be a rate as
3 reasonably equivalent as practicable to the interest rate on a note
4 issued by the United States Department of the Treasury or other
5 federal treasury note with a duration that is reasonably comparable
6 to the annuitization period applied to the account, as determined
7 by the board. The portion of an annuity attributable to amounts
8 credited to a member's DROP account on or after September 1, 2017,
9 may not reflect the accrual of this interest on annuitization.

10 (e-3) The board may by rule allow a DROP participant who has
11 terminated active service and who is eligible for a retirement
12 pension to:

13 (1) assign the distribution from the participant's
14 annuitized DROP account to a third party provided the pension
15 system receives a favorable private letter ruling from the Internal
16 Revenue Service ruling that such an assignment will not negatively
17 impact the pension system's qualified plan status; and

18 (2) subject to Subsection (e-4) of this section, in
19 the event of a financial hardship that was not reasonably
20 foreseeable obtain a lump-sum distribution from the participant's
21 DROP account resulting in a corresponding reduction in the total
22 number or in the amount of annuity payments.

23 (e-4) The board shall adopt rules necessary to implement
24 Subsection (e-3)(2) of this section, including rules regarding what
25 constitutes a financial hardship for purposes of that subdivision.
26 In adopting the rules, the board shall provide flexibility to
27 members.

1 (f) The board may adopt rules and policies relating to the
2 administration of Subsections (e), (e-1), and (e-2) of this section
3 if the rules and policies are:

4 (1) consistent with the qualification of the plan
5 under Section 401 of the code; and

6 (2) in the best interest of the pension system [~~Any~~
7 ~~election made in accordance with Subsection (d) of this section may~~
8 ~~be changed at any time before leaving active service to any other~~
9 ~~election permitted by that subsection, subject to the requirements~~
10 ~~for spousal consent, in Section 6.14(d)(1), if applicable].~~

11 (f-1) The DROP account of a member who begins participating
12 in DROP on or after September 1, 2017, does not accrue interest.

13 (g) The provisions of Sections 6.06, 6.061, 6.062, 6.063,
14 6.07, and 6.08 of this article pertaining to death benefits of a
15 qualified survivor do not apply to amounts held in a member's or
16 pensioner's DROP account [~~, and the class of persons eligible to~~
17 ~~become qualified survivors of a member closes on the effective date~~
18 ~~of the member's participation in DROP]. Instead, a member or~~

19 pensioner who participates in DROP may designate a beneficiary to
20 receive the annuity payments under this section over the remaining
21 annuitization period [~~balance of the member's DROP account] in the
22 event of the member's or pensioner's death subject to any rights
23 provided under Subsection (e-3) of this section and in the
24 [~~following] manner allowed by Section 401(a)(9) of the code and any~~~~

25 policy adopted by the board. A member or pensioner who is or
26 becomes married is considered to have designated the member's or
27 pensioner's spouse as the member's or pensioner's beneficiary,

1 notwithstanding any prior beneficiary designation, unless the
2 member or pensioner has made a different designation in accordance
3 with a policy adopted by the board. If a member or pensioner does
4 not have a spouse or the spouse predeceases the member or pensioner,
5 the member's or pensioner's, as applicable, DROP account will be
6 distributed to the member's or pensioner's, as applicable,
7 designee. Notwithstanding anything in this section to the
8 contrary, if a member or pensioner has previously designated the
9 member's or pensioner's spouse as the beneficiary or co-beneficiary
10 of the DROP account and the member or pensioner and spouse are
11 subsequently divorced, the divorce automatically results in the
12 invalidation of the designation of the spouse as a beneficiary and,
13 if there is no additional beneficiary designated, the member's or
14 pensioner's DROP account shall be distributed as provided by
15 Subsection (e) of this section. If there are beneficiaries who
16 survive the deceased member or pensioner, the surviving
17 beneficiaries share equally in that portion that would have
18 otherwise been payable to the former spouse. [+

19 ~~[(1) The beneficiary designation must be made on an~~
20 ~~election form adopted by the board and in effect from time to time~~
21 ~~and in accordance with the conditions on the form, except that if~~
22 ~~the member is married, the designation of a beneficiary other than~~
23 ~~the member's spouse is valid only if the spouse consents to the~~
24 ~~designation at the time, in the manner, and on the consent form as~~
25 ~~is adopted by the board and in effect from time to time.~~

26 ~~[(2) If a member who participates in DROP dies while in~~
27 ~~active service or before the beginning of the member's DROP~~

1 ~~account, distributions will begin no more than one year after the~~
2 ~~date of the member's death under a method described by Subsection~~
3 ~~(d) of this section and shall be completed within the life, or life~~
4 ~~expectancy, of the designated beneficiary.~~

5 ~~[(3) If a member who participates in DROP dies after~~
6 ~~having begun to receive distributions in accordance with Subsection~~
7 ~~(d) of this section, the balance in the member's DROP account shall~~
8 ~~continue to be distributed to the member's designated beneficiary~~
9 ~~or other person described by Subdivision (4) of this subsection in~~
10 ~~accordance with any elections that had been made under Subsection~~
11 ~~(d) of this section.~~

12 ~~[(4) If the deceased member has not designated a~~
13 ~~beneficiary or has designated a beneficiary but not a method of~~
14 ~~distribution, the member's DROP account shall be distributed in a~~
15 ~~single-sum payment as soon as administratively feasible after the~~
16 ~~member's death to the beneficiary if one was designated and~~
17 ~~otherwise to the spouse if the member was married at the time of~~
18 ~~death or, if the member was not married, to the member's estate.]~~

19 (g-1) ~~[(5)]~~ A member who ~~[participates in DROP]~~ becomes a
20 DROP participant is ineligible for any disability benefits
21 described by Section ~~[Sections]~~ 6.03, 6.04, or ~~[and]~~ 6.05 of this
22 article, but is entitled to ~~[instead, on the board's acknowledgment~~
23 ~~of a disability that would otherwise qualify the member for~~
24 ~~disability benefits, the board shall grant]~~ a retirement pension in
25 accordance with Sections 6.01(b) and (c), Section 6.01(e), or
26 Section 6.02 of this article, whichever is applicable, on
27 termination from active service, and ~~[the member]~~ is also entitled

1 to receive annuity payments [~~both a retirement pension and a~~
2 ~~distribution of the DROP account~~] in accordance with Subsection (e)
3 [~~(d)~~] of this section.

4 (h) The base pay or computation pay, whichever is
5 applicable, in effect as of the effective date of a [~~Group A~~]
6 member's participation in DROP shall be used in calculating the
7 member's [~~Group A~~] retirement pension under Section 6.01 or 6.02 of
8 this article. A [~~Group A~~] member who elects to participate in DROP
9 does not accrue additional pension service for purposes of
10 computing a [~~the Group A~~] retirement pension [~~provided under~~
11 ~~Section 6.01(e) of this article~~] for any period after the effective
12 date of the election.

13 (j) Except as provided by Subsection (l) of this section, if
14 [~~If~~] a pensioner who has been a [~~participated in~~] DROP participant
15 returns to active service, the person must [~~once again~~] become a
16 participant in DROP under the terms and conditions in effect at the
17 time of [~~the person's~~] return to active service.

18 (l) Notwithstanding any other provision of this section and
19 except as provided by Subsection (o) of this section, a member who
20 has entered DROP before June 1, 2017, may revoke the DROP election
21 at any time on or after September 1, 2017, and before the earlier
22 of:

23 (1) February 28, 2018; or

24 (2) the member's termination of active service.

25 (m) If a member revokes participation in DROP under
26 Subsection (l) of this section:

27 (1) the member's DROP account balance is eliminated;

1 and

2 (2) the member shall receive pension service credited
3 for all or a portion of the period of the revoked DROP participation
4 on payment of the required contributions for the period of the
5 revoked DROP participation in accordance with a uniform and
6 nondiscriminatory procedure adopted by the board that results in
7 the payment of the amount of member contributions that would have
8 been made if the member had never participated in DROP.

9 (n) A member who revokes the member's DROP election under
10 Subsection (1) of this section is entitled to only a monthly pension
11 computed on the basis of the member's pension service, including
12 pension service purchased under Subsection (m) of this section:

13 (1) that is based on the member's average computation
14 pay at the time of leaving active service, if the member is a Group B
15 member; or

16 (2) as provided by Section 6.01(b) of this article, if
17 the member is a Group A member.

18 (o) A member may not revoke DROP participation under
19 Subsection (1) of this section if any money has been transferred out
20 of the member's DROP account.

21 SECTION 1.43. Part 6, Article 6243a-1, Revised Statutes, is
22 amended by adding Section 6.141 to read as follows:

23 Sec. 6.141. DEFERRED ANNUITIZATION OF CERTAIN DROP
24 ACCOUNTS. (a) This section applies only to a pensioner who:

25 (1) before attaining 50 years of age:

26 (A) left active service; and

27 (B) was granted a service retirement pension

1 under Section 6.01 or 6.02 of this article;
2 (2) since the pensioner's retirement has continued to
3 receive substantially equal periodic payments, as determined under
4 Section 72(t) of the code; and
5 (3) on September 1, 2017:
6 (A) is a DROP participant; and
7 (B) has not attained 59-1/2 years of age.
8 (b) Notwithstanding Section 6.14 of this article and solely
9 to avoid the possibility of an early distribution tax penalty under
10 Section 72(t)(4) of the code:
11 (1) a pensioner subject to this section may until the
12 pensioner attains 59-1/2 years of age:
13 (A) subject to Subsection (c) of this section,
14 continue to participate in DROP;
15 (B) have the same amount of the pensioner's
16 service retirement pension credited to the pensioner's DROP account
17 as has been credited since the pensioner's service retirement
18 pension was initially granted; and
19 (C) defer annuitization of the pensioner's DROP
20 account under Section 6.14(e) of this article; and
21 (2) once a pensioner subject to this section attains
22 59-1/2 years of age:
23 (A) the pensioner may not have any portion of the
24 pensioner's service retirement pension credited to the pensioner's
25 DROP account; and
26 (B) as soon as administratively feasible, the
27 balance in the pensioner's DROP account shall be annuitized and

1 distributed to the pensioner in accordance with Section 6.14(e) of
2 this article.

3 (c) The DROP account of a pensioner who continues
4 participation in DROP under Subsection (b)(1)(A) of this section
5 does not accrue interest on and after September 1, 2017.

6 SECTION 1.44. Sections 6.15(a), (b), and (e), Article
7 6243a-1, Revised Statutes, are amended to read as follows:

8 (a) The board may require the following pensioners
9 receiving a disability pension or a periodic disability
10 compensation benefit to appear and undergo a medical examination by
11 the health director or, if the health director approves, by any
12 licensed medical practitioner, to determine if the pensioner's
13 disability continues or has been removed to the extent that the
14 pensioner is able to resume duties with the department:

15 (1) any Group A pensioner who has served less than 20
16 years;

17 (2) any Group A pensioner who elected a Group A [~~B~~]
18 disability pension under Section 6.04 [~~6.04(e)~~] of this article,
19 periodic disability compensation under Section 6.05 of this
20 article, or a non-service-connected disability pension under Plan A
21 or former Section 17(b)(2) of this article, and who had [~~has served~~]
22 more than 20 years of pension service, but is less than 55 years of
23 age; and

24 (3) any Group B pensioner who was granted [~~elected~~]
25 Group B disability pension under Section 6.04 of this article or
26 periodic disability compensation under Section 6.05 of this article
27 or a disability pension under the terms of Plan B and is less than 50

1 years of age.

2 (b) Any medical examination under this section is subject to
3 the following conditions:

4 (1) Except as otherwise provided by this section, the
5 board has complete discretion to require a pensioner to appear and
6 undergo a medical examination as well as the time that may pass
7 between examinations. When it becomes clear to the board from
8 reliable medical evidence that the disability is unequivocally
9 permanent and is not expected to diminish, the board may waive [~~not~~
10 ~~require~~] subsequent examinations.

11 (2) A pensioner may not be required to undergo a
12 medical examination more often than once in a six-month period,
13 except that the board may order the pensioner to undergo an
14 examination at any time if the board has reason to believe the
15 pensioner's disability has been removed and that the pensioner may
16 be able to resume duties with the pensioner's former department or
17 if the pensioner requests to be allowed to return to duty.

18 (3) If a pensioner fails to undergo an examination
19 after being notified by the board that the examination is required,
20 the board may discontinue disability benefits until the pensioner
21 has undergone the examination and the results of the examination
22 have been sent to the board.

23 (4) If the pensioner is examined by an 'approved
24 outside medical practitioner other than the health director, the
25 reasonable and customary cost of the examination, if any, is
26 payable from the assets of the fund.

27 (e) Pursuant to its authority under Section 6.06(o-2)

1 [~~6.06(e)~~] of this article to review and modify any funding relating
 2 to the disability of a child who is a qualified survivor [~~surviving~~
 3 ~~child's handicap~~], the board may require the [~~a handicapped~~
 4 qualified survivor with a disability [~~surviving child~~] receiving
 5 death benefits to appear and undergo medical examination by the
 6 health director or, if the health director approves, by any
 7 licensed medical practitioner, to determine if the disability
 8 [~~handicap~~] continues or if the disability [~~handicap~~] has been
 9 removed.

10 SECTION 1.45. Sections 6.16, 6.18, and 6.19, Article
 11 6243a-1, Revised Statutes, are amended to read as follows:

12 Sec. 6.16. WAIVER OF BENEFITS. (a) A primary party
 13 [~~pensioner who is on either service or disability retirement~~], [~~a~~
 14 qualified survivor [~~surviving spouse, a handicapped qualified~~
 15 ~~surviving child, a member who may be a participant in DROP~~], or [~~a~~
 16 beneficiary of a member's [~~deceased former~~] DROP account
 17 [~~participant, or a qualified surviving dependent parent~~] may, on a
 18 form prescribed by the board and filed with the executive director
 19 [~~administrator~~], [~~irrevocably~~] waive all or a portion of the
 20 benefits[~~7~~] to which the person [~~who waives the benefit~~] is or may
 21 be entitled. The waiver may state whether it is revocable or
 22 irrevocable, and is irrevocable unless the waiver clearly states it
 23 is revocable.

24 (b) The [~~irrevocable~~] waiver described by Subsection (a) of
 25 this section applies only to [~~retirement, disability, or DROP~~
 26 ~~survivor~~] benefits that become payable on or after the date the
 27 waiver is filed.

1 (b-1) Benefits waived by a revocable waiver are forfeited
 2 and the person making the waiver has no right, title, claim, or
 3 interest in the benefits.

4 (c) If two or more persons are or may be entitled to benefits
 5 under this article [~~there are two qualified surviving dependent~~
 6 ~~parents receiving death benefits~~], the waiver described by
 7 Subsection (a) of this section must be executed by each person to
 8 become effective. The living parent or parents or legal guardian or
 9 guardians of a child must sign the waiver described by Subsection
 10 (a) of this section on behalf of the child [~~both of the parents~~].

11 Sec. 6.18. INVESTIGATION. (a) The board shall consider all
 12 applications for retirement and disability pensions [~~of members~~],
 13 all applications for death benefits [~~by qualified survivors~~], and
 14 all elections to participate [~~for participation by a member~~] in
 15 DROP. The board shall give notice to [~~these~~] persons applying for
 16 benefits, advising them of their right to appear before the board
 17 and offer such sworn evidence as they may desire. Any [~~primary~~
 18 ~~party, survivor, or other~~] person claiming retirement, disability,
 19 or DROP benefits may appear before the board [~~in person~~] and offer
 20 testimony that is relevant to a contested application for a
 21 retirement pension, a disability pension, death benefits
 22 [~~benefit~~], or DROP benefits [~~benefit~~]. The chairman of the board
 23 may issue process for witnesses, administer oaths to witnesses, and
 24 examine any witness as to any matter affecting benefits under any
 25 plan within the pension system. Process for witnesses shall be
 26 served by any [~~member of the police or fire department or by any~~
 27 ~~other~~] method of serving process [~~or person~~] permitted by the state

1 law in any civil judicial proceeding. A witness who fails or
2 refuses to attend and testify may be compelled to attend and
3 testify, as in any judicial proceeding. The board may seek
4 assistance from any court of competent jurisdiction to further
5 compel or sanction a witness who fails or refuses to attend and
6 testify.

7 (b) Any [~~primary party, spouse, child, dependent parent, or~~
8 ~~other~~] person [~~claiming DROP benefits~~] who is aggrieved by a
9 determination of the board regarding [~~on the person's application~~
10 ~~for or continuation of~~] a retirement pension, a disability pension,
11 [~~or~~] death benefits [~~benefit~~], or [~~an election for~~] DROP benefits
12 may appeal the board determination to a state district court in the
13 city [~~county~~] where the pension system is located by giving written
14 notice of appeal. The notice shall contain a statement of the
15 grounds and reasons why the party feels aggrieved. The notice shall
16 be served personally on the executive director [~~secretary of the~~
17 ~~board~~] within 20 days after the date of the board's determination.
18 After service of the notice, the party appealing shall file with the
19 state district court a copy of the notice of intention to appeal,
20 together with an affidavit of the party making service showing how,
21 when, and on whom the notice was served.

22 (c) Within 30 days after the date of service of the notice of
23 appeal on the board, the executive director [~~secretary of the~~
24 ~~board~~] shall make up and file with the state district court a
25 transcript of all nonprivileged papers and proceedings in the case
26 before the board. When the copy of the notice of appeal and the
27 transcript has been filed with the court, the appeal is perfected,

1 and the court shall docket the appeal, assign the appeal a number,
2 fix a date for hearing the appeal, and notify both the appellant and
3 the board of the date fixed for the hearing.

4 (d) At any time before the rendering of its decision on
5 ~~the~~ appeal, the court may require further or additional proof or
6 information, either documentary or under oath. On rendition of a
7 decision on appeal, the court shall give to each party to the appeal
8 a copy of the decision of the case. The decision ~~[or order]~~ of the
9 court is appealable in the same manner as are civil cases generally.

10 (e) As provided by Section 4.01 of this article, the ~~[The]~~
11 board shall approve all money used for investigations ~~[as provided~~
12 ~~under Section 4.01 of this article]~~. The board may request the
13 investigative services of either the police or fire departments in
14 connection with any matter arising under this section.

15 Sec. 6.19. CERTIFICATE OF MEMBER PENSION BENEFIT
16 ELIGIBILITY ~~[RETIREMENT]~~. When a member has earned five ~~[20]~~ years
17 of pension service, the member shall be issued an ~~[a certificate of~~
18 ~~retirement that, barring administrative error, miscalculation, or~~
19 ~~other error, after issuance is]~~ incontestable five-year
20 certificate indicating that the member is entitled to pension
21 benefits subject to the effect of any withdrawals as permitted
22 under Article 6243a or this article. The certificate shall state
23 that the calculation of the retirement pension to which the member
24 is entitled, or any disability benefits to which the member may
25 become entitled, shall be determined solely under the actual terms
26 of the combined pension plan as in effect at the time the member
27 leaves active service. The certificate shall further state that in

1 the case of the member's death, the member's qualified survivors, if
2 any, may become ~~[shall be]~~ entitled to death ~~[survivor]~~ benefits as
3 determined solely under the actual terms of the combined pension
4 plan as in effect at the time of the member's death. The
5 certificate shall bear a seal and be signed by the executive
6 director ~~[mayor, or the mayor pro tem, or the city manager]~~ and ~~[by~~
7 ~~the]~~ chairman of the board ~~[and attested under the seal of the city~~
8 ~~by the city secretary]~~.

9 SECTION 1.46. Part 6, Article 6243a-1, Revised Statutes, is
10 amended by adding Section 6.20 to read as follows:

11 Sec. 6.20. ERRONEOUS PAYMENTS OR OVERPAYMENTS. (a) If the
12 pension system pays money to any person not entitled to the payment,
13 whether by reason of an error of the pension system as to
14 entitlement to or the amount of a benefit or otherwise, or an act or
15 error of some other person, including the recipient of the payment,
16 the recipient of the payment holds the funds to which the recipient
17 was not entitled in constructive trust for the pension system and
18 those funds are subject to demand by the pension system at any time.

19 (b) The recipient of an erroneous payment from the pension
20 system shall repay to the pension system all funds associated with
21 the erroneous payment.

22 (c) Subject to Subsection (e) of this section, the board may
23 by rule adopt a procedure to enable the pension system to offset the
24 future benefit or other payments of a recipient described by this
25 section. In addition, the board may take any additional action,
26 including the bringing of a lawsuit, the board considers necessary
27 to recover an erroneous payment the pension system is entitled to

1 under this section.

2 (d) If the pension system determines that a person is
3 entitled to additional benefits as a result of an error made by the
4 pension system, the pension system shall promptly pay the
5 additional benefits owed.

6 (e) The board's correction procedures must comply with the
7 Internal Revenue Service's Employee Plans Compliance Resolution
8 System and Revenue Procedure 2016-51, including subsequent
9 guidance.

10 SECTION 1.47. Article 6243a-1, Revised Statutes, is amended
11 by adding Part 6A to read as follows:

12 PART 6A. EQUITABLE ADJUSTMENTS

13 Sec. 6A.01. EQUITABLE ADJUSTMENTS TO BENEFITS. (a)
14 Subject to this section and notwithstanding any other provision of
15 this article, the board by at least a two-thirds vote of all
16 trustees may consider and adopt rules requiring the equitable
17 return of funds paid to or credited to the benefit of a member or
18 pensioner under this article before September 1, 2017, to the
19 extent the funds exceeded reasonable amounts that should be paid or
20 credited given the circumstances of the pension system at the time
21 the payment or credit was made, including the return of excessive
22 interest credited to a member's DROP account and excessive
23 adjustments made under Section 6.12 of this article.

24 (b) For purposes of Subsection (a) of this section,
25 "reasonable amounts" includes the amounts that would have been paid
26 or credited:

27 (1) if the interest rate applied in determining a

1 benefit, including the interest rate applied to a DROP account,
2 equaled the actual, audited rate of return of the plan at the time
3 the interest was credited to the account; or

4 (2) if the percentage increase applied under Section
5 6.12 of this article equaled the percentage increase, if any, in the
6 Consumer Price Index for Urban Wage Earners and Clerical Workers
7 (CPI-W) most recently published by the Bureau of Labor Statistics
8 of the United States Department of Labor and used by the United
9 States Social Security Administration to provide a cost-of-living
10 adjustment for social security benefit payments payable beginning
11 in January of the next year.

12 Sec. 6A.02. ADJUDICATION OF CERTAIN CHALLENGES. (a) The
13 Texas Supreme Court has exclusive and original jurisdiction over a
14 challenge to the constitutionality under the Texas Constitution of
15 Section 6A.01 of this article. An action under this section is
16 authorized to the full extent permitted by Section 3, Article V,
17 Texas Constitution. The Texas Supreme Court may issue any
18 injunctive, declaratory, or equitable relief the court deems
19 appropriate or necessary to effectuate the court's mandamus
20 jurisdiction in connection with a challenge under this section.

21 (b) Any action brought under this section must be filed not
22 later than the 90th day after the date the board adopts a rule under
23 Section 6A.01 of this article.

24 (c) If an action brought under this section is timely filed,
25 the board may not enforce or otherwise administer any rules adopted
26 pursuant to Section 6A.01 of this article during the pendency of the
27 action.

1 SECTION 1.48. Section 8.01, Article 6243a-1, Revised
2 Statutes, is amended to read as follows:

3 Sec. 8.01. QUALIFICATION UNDER FEDERAL TAX LAW. (a) The
4 plans within the pension system and the assets of the fund are
5 intended to qualify as a governmental plan under Sections [~~Section~~]
6 401 and 414(d) of the code, be exempt from federal income taxes
7 under Section 501(a) of the code, and conform at all times to
8 applicable requirements of law, regulations, and orders of duly
9 constituted federal governmental authorities. Accordingly, if any
10 provision of this article is subject to more than one construction,
11 one of which will permit the qualification of a plan that is within
12 the pension system, that construction that will permit the plan to
13 qualify and conform will prevail.

14 (b) The plans within the pension system as well as the
15 assets of the fund shall be maintained for the exclusive benefit of
16 members and their beneficiaries. At no time before the termination
17 of all the plans within the pension system and the satisfaction of
18 all liabilities with respect to members and their beneficiaries
19 under all plans shall any part of the principal or interest from the
20 assets of the fund be used for or diverted to purposes other than
21 the exclusive benefit of the members and beneficiaries.

22 (c) Notwithstanding any other provisions of this article,
23 the annual benefit [~~pension~~] provided with respect to any member
24 [~~may not exceed an annual benefit computed in accordance with the~~
25 ~~limitations prescribed by this subsection.~~

26 [(1) ~~The maximum annual benefit payable~~] in any
27 limitation year [~~to a member~~] may not exceed the amount permitted by

1 Section 415(b) of the code for the limitation year, and the sum of
2 the member contributions and all other annual additions for any
3 limitation year may not exceed the amount permitted under Section
4 415(c) of the code for the limitation year. If the aggregated
5 annual benefit or aggregated annual additions under ~~[lesser of:~~

6 ~~[(A) \$90,000, or~~

7 ~~[(B) 100 percent of a member's 415 compensation~~
8 ~~averaged over the three consecutive limitation years, or the actual~~
9 ~~number of limitation years for a member whose total pension service~~
10 ~~is less than three consecutive limitation years, during which the~~
11 ~~member had the greatest aggregate 415 compensation from the city.~~

12 ~~[(2) Benefits provided to a member under this article~~
13 ~~and under any defined benefit plan or plans maintained by the city~~
14 ~~shall be aggregated for purposes of determining whether the~~
15 ~~limitations in Subdivision (1) of this subsection are met. If the~~
16 ~~aggregate benefits otherwise payable from] any qualified plans~~
17 ~~created under this article and any other defined benefit plan or~~
18 ~~plans maintained by the city would otherwise exceed the limitations~~
19 ~~of Section 415 of the code [Subdivision (1) of this subsection], the~~
20 required reductions in benefits or contributions shall first be
21 made to the extent possible from the other plan or plans. The
22 limitations referenced in this subsection shall be adjusted
23 annually in accordance with Section 415(d) of the code and any
24 adjustment to benefits applies to the benefits of active and
25 terminated members and applies without regard to whether a
26 terminated member is a pensioner.

27 ~~[(3) The adjustments on retirement are the following:~~

1 ~~[(A) If the annual benefit begins before a member~~
2 ~~attains age 62, the \$90,000 limitation, as adjusted, shall be~~
3 ~~reduced in a manner prescribed by the secretary of the treasury.~~
4 ~~However, that adjustment may not reduce the member's annual benefit~~
5 ~~below \$75,000, if the member's benefit begins after age 55, or the~~
6 ~~actuarial equivalent of \$75,000 beginning at age 55 if benefits~~
7 ~~begin before age 55. Furthermore, except as provided by Paragraph~~
8 ~~(C) of this subdivision, an adjustment may not reduce the member's~~
9 ~~annual benefit below \$50,000, regardless of the age at which the~~
10 ~~benefit begins.~~

11 ~~[(B) If the annual benefit begins after a member~~
12 ~~attains age 65, the \$90,000 limitation, as adjusted, will be~~
13 ~~increased so that it is the actuarial equivalent of the \$90,000~~
14 ~~limitation at age 65.~~

15 ~~[(C) If a member's benefits begin before the~~
16 ~~member has at least 15 years of pension service as a full-time~~
17 ~~employee of the police or fire department, or both, including~~
18 ~~credit for full-time service in the armed forces of the United~~
19 ~~States, Paragraphs (A) and (B) of this subdivision shall be applied~~
20 ~~by substituting "social security retirement age" for "age 62" and~~
21 ~~for "age 65," and the last two sentences of Paragraph (A) of this~~
22 ~~subdivision do not apply in computing the benefit limitation for~~
23 ~~that member.~~

24 ~~[(D) The portion of a member's benefit that is~~
25 ~~attributable to the member's own contributions is not part of the~~
26 ~~annual benefit subject to the limitations of Subdivision (1) of~~
27 ~~this subsection. Instead, the amount of those contributions is~~

1 ~~treated as an annual addition to a qualified defined contribution~~
2 ~~plan maintained by the city.~~

3 ~~[(4)(A) The dollar limitation on annual benefits~~
4 ~~provided by Subdivision (1) of this subsection, and the \$50,000~~
5 ~~limitation provided by Subdivision (3) of this subsection, but not~~
6 ~~the \$75,000 limitation provided by that subsection, shall be~~
7 ~~adjusted annually as provided by Section 415(d) of the code and the~~
8 ~~regulations prescribed by the secretary of the treasury. The~~
9 ~~adjusted limitation is effective as of January 1 of each calendar~~
10 ~~year and is applicable to limitation years ending with or within~~
11 ~~that calendar year.~~

12 ~~[(B) The limitation provided by this paragraph~~
13 ~~for a member who has separated from service with a vested right to a~~
14 ~~pension shall be adjusted annually as provided by Section 415(d) of~~
15 ~~the code and the regulations prescribed by the secretary of the~~
16 ~~treasury.~~

17 ~~[(5) The following interest rate assumptions shall be~~
18 ~~used in computing the limitations under this section:~~

19 ~~[(A) For the purpose of determining the portion~~
20 ~~of the annual benefit that is purchased with member contributions,~~
21 ~~the interest rate assumption is 8.5 percent, compounded annually,~~
22 ~~for plan years beginning before 1988 and 120 percent of the federal~~
23 ~~mid-term rate, as in effect under Section 1274 of the code,~~
24 ~~compounded annually, for plan years beginning after 1987.~~

25 ~~[(B) For the purpose of adjusting the annual~~
26 ~~benefit to a straight life annuity, the interest rate assumption is~~
27 ~~five percent, unless a different rate is required by the secretary~~

1 ~~of the treasury.~~

2 ~~[(C) For the purpose of adjusting the \$90,000~~
3 ~~limitation after a member attains age 65, the interest rate~~
4 ~~assumption is five percent, unless a different rate is required by~~
5 ~~the secretary of the treasury, and the mortality decrement shall be~~
6 ~~ignored to the extent that a forfeiture does not occur at death.~~

7 ~~[(6) For purposes of Subdivisions (1) and (3) of this~~
8 ~~subsection, an adjustment under Section 415(d) of the code may not~~
9 ~~be taken into account before the limitation year for which that~~
10 ~~adjustment first takes effect. For purposes of Subdivisions (1)~~
11 ~~and (5) of this subsection, an adjustment is not required for the~~
12 ~~value of qualified joint and survivor annuity benefits,~~
13 ~~preretirement death benefits, postretirement medical benefits, or~~
14 ~~postretirement cost-of-living increases made in accordance with~~
15 ~~Section 415(d) of the code and Section 1.415-3(c) of the Income Tax~~
16 ~~Regulations.~~

17 ~~[(7) This plan may pay an annual benefit to any member~~
18 ~~in excess of the member's maximum annual benefit otherwise allowed~~
19 ~~if:~~

20 ~~[(A) the annual benefit derived from the city's~~
21 ~~contributions under any qualified plans within this article and all~~
22 ~~defined benefit plans maintained by the city does not in the~~
23 ~~aggregate exceed \$10,000 for the limitation year or for any prior~~
24 ~~limitation year; and~~

25 ~~[(B) the member has not at any time participated~~
26 ~~in a defined contribution plan maintained by the city.~~

27 ~~[For purposes of this subdivision, member contributions to~~

1 ~~the plan are not considered a separate defined contribution plan~~
2 ~~maintained by the city.~~

3 ~~[(8) If a member has less than 10 years of pension~~
4 ~~service in the plan at the time the member begins to receive~~
5 ~~benefits under the plan, the \$90,000 limitation, as adjusted, shall~~
6 ~~be reduced by multiplying the limitation by a fraction in which the~~
7 ~~numerator is the number of years of pension service and the~~
8 ~~denominator is 10, provided, however, that the fraction may not be~~
9 ~~less than one-tenth. The 100 percent limitation of Subdivision~~
10 ~~(1)(B) of this subsection, and the \$10,000 limitation of~~
11 ~~Subdivision (7) of this subsection shall be reduced in the same~~
12 ~~manner as provided by this subdivision, except the numerator shall~~
13 ~~be the number of years of employment with the city rather than years~~
14 ~~of pension service.~~

15 ~~[(9) If a member is or has been a participant in one or~~
16 ~~more defined benefit plans and one or more defined contribution~~
17 ~~plans maintained by the city, the following provisions shall apply:~~

18 ~~[(A) The sum of the defined benefit plan fraction~~
19 ~~and the defined contribution plan fraction for any limitation year~~
20 ~~may not exceed 1.0.~~

21 ~~[(B) The defined benefit plan fraction for any~~
22 ~~limitation year is a fraction in which:~~

23 ~~[(I) the numerator is the projected annual~~
24 ~~benefit of a member, determined as of the close of the limitation~~
25 ~~year pursuant to Section 1.415-7(b)(3) of the Income Tax~~
26 ~~Regulations, and~~

27 ~~[(II) the denominator is the lesser of:~~

1 ~~[(i) the product of 1.25 and the maximum~~
2 ~~dollar limitation provided by Subdivision (1)(A) of this~~
3 ~~subsection, as adjusted, for the limitation year, or~~

4 ~~[(ii) the product of 1.4 and the amount that~~
5 ~~may be taken into account under Subdivision (1)(B) of this~~
6 ~~subsection for the limitation year.~~

7 ~~[(C) The defined contribution plan fraction for~~
8 ~~any limitation year is a fraction in which:~~

9 ~~[(I) the numerator is the sum of the annual~~
10 ~~additions to the member's account as of the close of the limitation~~
11 ~~year, and~~

12 ~~[(II) the denominator is the sum of the~~
13 ~~lesser of the following amounts determined for the limitation year~~
14 ~~and each prior year of service with the city:~~

15 ~~[(i) the product of 1.25 and the dollar~~
16 ~~limitation in effect under Section 415(c)(1)(A) of the code for the~~
17 ~~limitation year, determined without regard to Section 415(c)(6) of~~
18 ~~the code, or~~

19 ~~[(ii) the product of 1.4 and the amount that~~
20 ~~may be taken into account under Section 415(c)(1)(B) of the code for~~
21 ~~the limitation year beginning before January 1, 1987, the annual~~
22 ~~additions may not be recomputed to treat all member contributions~~
23 ~~as an annual addition.~~

24 ~~[(D) If the sum of the defined benefit plan~~
25 ~~fraction and the defined contribution plan fraction exceeds 1.0 in~~
26 ~~any limitation year for any member of any plan within the pension~~
27 ~~system, the administrator shall limit, to the extent necessary, the~~

1 ~~annual additions to the member's account for that limitation year.~~
2 ~~If after limiting to the extent possible the annual additions to the~~
3 ~~member's account for the limitation year, the sum of the defined~~
4 ~~benefit plan fraction and the defined contribution plan fraction~~
5 ~~still exceeds 1.0, the administrator shall adjust the benefits~~
6 ~~under the defined benefit plan fraction so that the sum of both~~
7 ~~fractions shall not exceed 1.0 in any limitation year for the~~
8 ~~member.~~

9 ~~[(10) For purposes of determining the limits provided~~
10 ~~by this section, all qualified defined benefit plans, whether~~
11 ~~terminated or not, ever maintained by or contributed to by the city,~~
12 ~~shall be treated as one defined benefit plan, and all qualified~~
13 ~~defined contribution plans, whether terminated or not, ever~~
14 ~~maintained by or contributed to by the city, shall be treated as one~~
15 ~~defined contribution plan.]~~

16 (c-1) ~~[(11)]~~ Notwithstanding anything contained in this
17 section to the contrary, the limitations, adjustments, and other
18 requirements prescribed by this section shall at all times be
19 computed in the manner most favorable to the affected members, to
20 the extent permitted by guidelines issued by the Internal Revenue
21 Service ~~[comply with the requirements of Section 415 of the code and~~
22 ~~all regulations promulgated under the code]~~. If any provision of
23 Section 415 of the code is repealed or is not enforced by the
24 Internal Revenue Service, that provision may not reduce the
25 benefits of any member after the effective date of the repeal of the
26 provision or during the period in which the provision is not
27 enforced.

1 (c-2) Any benefit reductions that are required to be made
2 under this section shall be applied to reduce the monthly benefit
3 that would otherwise have been payable to the member, unless the
4 value of the member's DROP account accrued under Section 6.14 of
5 this article exceeds the amount that may be paid under this section.
6 If the value of the DROP account exceeds the value of the payments
7 that may be made under this section, the member shall receive a
8 lump-sum payment from the account of the maximum amount that may be
9 paid under this section and the payment shall permanently reduce
10 the benefits the member would otherwise have been entitled to
11 receive under the combined pension plan.

12 (d) A member's retirement pension may not begin later than
13 April 1 of the year after the later of the year in which the member
14 leaves active service or the year in which the member attains age
15 70-1/2 and must at all times comply with the requirements of Section
16 401(a)(9) of the code. [~~Benefits to a qualified beneficiary may not~~
17 ~~begin later than one year after the date of the member's death~~].

18 (e) Any person [~~member or beneficiary~~] who receives any
19 distribution from any plan within the pension system that is an
20 eligible rollover distribution as defined by Section 402(f)(2)(A)
21 of the code is entitled to have that distribution transferred
22 directly to another eligible retirement plan as defined by Section
23 402(c)(8)(B) of the code of the person's [~~member's or beneficiary's~~]
24 choice on providing direction regarding that transfer to the
25 executive director [~~administrator~~] in accordance with procedures
26 established by the executive director [~~administrator~~].

27 (e-1) If an eligible rollover distribution described by

1 Subsection (e) of this section is to a designated beneficiary who is
 2 not the spouse or former spouse of the member, the transfer may only
 3 be to an individual retirement account or an individual retirement
 4 annuity.

5 (f) For the 2017 calendar year, the [~~The~~] annual
 6 compensation taken into account for any purpose under the combined
 7 pension plan [~~this article~~] may not exceed \$400,000 for an eligible
 8 participant or \$270,000 for an ineligible participant [~~\$200,000 for~~
 9 ~~any calendar year~~]. For a Group A member the term "annual
 10 compensation" means the aggregate of the member's base pay. For a
 11 Group B member the term "annual compensation" means the aggregate
 12 of the member's computation pay for any given plan year. These
 13 dollar limits [~~The \$200,000 limit~~] shall be adjusted from [~~on~~
 14 ~~January 1 of each year at the same~~] time to time [~~and~~] in accordance
 15 with guidelines [~~the same manner as~~] provided by the secretary of
 16 the treasury. For [~~Section 415(d) of the code. In determining the~~
 17 ~~compensation of a member for~~] purposes of this subsection, an:

18 (1) "eligible participant" means any person who first
 19 became a member of the pension system before January 1, 1996; and

20 (2) "ineligible participant" means any member who is
 21 not an eligible participant [~~limitation, the family aggregation~~
 22 ~~rules of Section 414(q)(6) of the code apply, except that the term~~
 23 ~~"family member" includes only the spouse of the member and any~~
 24 ~~lineal descendants of the member who have not attained age 19 at the~~
 25 ~~end of the plan year. If as a result of this family aggregation~~
 26 ~~requirement, the \$200,000 limit is exceeded, the limitation shall~~
 27 ~~be prorated among the affected individuals in proportion to each~~

1 ~~individual's compensation as determined before application of the~~
2 ~~limit].~~

3 (g) For purposes of Subsection (h) of this section, "normal
4 retirement age" means the earlier of:

5 (1) the attainment of 50 years of age on or before
6 September 1, 2017, and completion of at least five years of pension
7 service;

8 (2) the attainment of 58 years of age after September
9 1, 2017, and completion of at least five years of pension service;
10 or

11 (3) completion of 20 years of pension service.

12 (h) The retirement benefit earned by a member is
13 nonforfeitable:

14 (1) on attainment of normal retirement age, if not
15 already nonforfeitable; or

16 (2) to the extent the benefit is funded, if not already
17 nonforfeitable, on the termination or partial termination of the
18 combined pension plan or the complete discontinuance of city
19 contributions to the fund.

20 (i) In accordance with Section 401(a)(8) of the code,
21 forfeitures arising under the combined pension plan may not be used
22 to increase the benefits any member would otherwise receive under
23 the terms of the plan. Forfeitures may be used first to reduce
24 administrative expenses, then to reduce required city
25 contributions.

26 (j) Subject to procedures adopted by the board, the pension
27 system shall accept an eligible rollover distribution from another

1 eligible retirement plan as defined by Section 402(f)(2)(B) of the
2 code as payment of all or a portion of any payment a member is
3 permitted to make to the pension system for past pension service
4 credit. The pension system shall separately account for any
5 after-tax contributions transferred from any plan under this
6 subsection.

7 SECTION 1.49. Section 8.02, Article 6243a-1, Revised
8 Statutes, is amended to read as follows:

9 Sec. 8.02. EXCESS BENEFIT PLAN FOR POLICE OFFICERS AND FIRE
10 FIGHTERS. The board may by rule establish and administer [~~On the~~
11 ~~enactment of federal legislation enabling public retirement~~
12 ~~systems to establish excess benefit plans for the benefit of~~
13 ~~employees for whom additional benefits from retirement plans~~
14 ~~qualified under Section 401 of the code would exceed the~~
15 ~~limitations of Section 415 of the code, there is created outside the~~
16 ~~pension system] a separate^[7] qualified governmental
17 [nonqualified] excess benefit arrangement and associated trust for
18 the arrangement in accordance with Section 415(m) of the code.
19 ~~[plan containing the following terms and provisions:~~~~

20 ~~[(a)(1) All definitions prescribed by Section 2.01 of this~~
21 ~~article are applicable to the plan created pursuant to this section~~
22 ~~except:~~

23 ~~[(A) if a different definition is set forth in~~
24 ~~this subsection; or~~

25 ~~[(B) the context in which a term is used in this~~
26 ~~section indicates a different meaning is clearly intended than that~~
27 ~~prescribed by Section 2.01 of this article.~~

1 ~~[(2) "Excess benefit plan" means this separate,~~
2 ~~nonqualified, unfunded excess benefit plan as created by this~~
3 ~~section for the benefit of eligible members, as amended or restated~~
4 ~~from time to time.~~

5 ~~[(3) "Qualified plan" means any plan maintained within~~
6 ~~the pension system or maintained by the city outside the pension~~
7 ~~system for the exclusive benefit of some or all of the employees of~~
8 ~~the city if the plan has been found by the Internal Revenue Service~~
9 ~~to be qualified or has been treated by the city as a qualified plan~~
10 ~~under Section 401 of the code.~~

11 ~~[(4) "Maximum benefit" means the retirement benefit a~~
12 ~~member or, the spouse, any child, or any dependent parent of a~~
13 ~~member if those persons are entitled, is entitled to receive from~~
14 ~~all qualified plans in any month after giving effect to Section 8.01~~
15 ~~of this article and any similar provisions of any other qualified~~
16 ~~plans designed to conform to Section 415 of the code.~~

17 ~~[(5) "Excess benefit participant" means any member~~
18 ~~whose retirement benefits as determined on the basis of all~~
19 ~~qualified plans without regard to the limitations of Section 8.01~~
20 ~~of this article and comparable provisions of other qualified plans~~
21 ~~would exceed the maximum benefit permitted under Section 415 of the~~
22 ~~code.~~

23 ~~[(6) "Unrestricted benefit" means the monthly~~
24 ~~retirement benefit a member, or the spouse or any child of a member,~~
25 ~~would have received under the terms of all qualified plans except~~
26 ~~for the restrictions of Section 8.01 of this article and any similar~~
27 ~~provisions of any other qualified plans designed to conform to~~

1 ~~Section 415 of the code.~~

2 ~~[(b)(1) An excess benefit participant who is receiving~~
3 ~~benefits from an applicable qualified plan is entitled to a monthly~~
4 ~~benefit under this excess benefit plan in an amount equal to the~~
5 ~~lesser of:~~

6 ~~[(A) the member's unrestricted benefit less the~~
7 ~~maximum benefit, or~~

8 ~~[(B) the amount by which the member's monthly~~
9 ~~benefit from the qualified plan or plans approved by the members has~~
10 ~~been reduced due to the limitations of Section 415 of the code.~~

11 ~~[(2) In the case of the death of an excess benefit~~
12 ~~participant whose spouse or child is entitled to preretirement or~~
13 ~~postretirement death benefits under a qualified plan, the excess~~
14 ~~benefit participant's surviving spouse or child is entitled to a~~
15 ~~monthly benefit under the excess benefit plan equal to the benefit~~
16 ~~determined in accordance with the qualified plans without regard to~~
17 ~~the limitations under Section 8.01 of this article or Section 415 of~~
18 ~~the code, less the maximum benefit.~~

19 ~~[(3) Unless the excess benefit participant makes a~~
20 ~~timely election to the contrary, a retirement benefit payable under~~
21 ~~this excess benefit plan shall be paid in the form and at the time it~~
22 ~~would have been paid under the applicable qualified plan except for~~
23 ~~the limitations under Section 415 of the code. However, retirement~~
24 ~~benefits payable under this excess benefit plan shall be paid at the~~
25 ~~time and in the form, including a single-sum distribution, as the~~
26 ~~excess benefit participant elects from among the benefit payment~~
27 ~~forms made available under the election form as approved by the~~

1 ~~board. An excess benefit participant makes an election under this~~
2 ~~subdivision by sending written notice to the administrator on the~~
3 ~~election form approved by the board. Each optional benefit form~~
4 ~~permitted under this excess benefit plan shall be the actuarial~~
5 ~~equivalent of each other permitted benefit form. On or after an~~
6 ~~excess benefit participant's leaving active service with an~~
7 ~~entitlement to a retirement benefit under any qualified plan~~
8 ~~approved by the members, a benefit under this subdivision may be~~
9 ~~elected to be paid.~~

10 ~~[(c)(1) This plan shall be administered by the board, and~~
11 ~~the administrator shall also carry out the business of the board~~
12 ~~with respect to this excess benefit plan. Except as provided to the~~
13 ~~contrary by this subsection, the rights, duties, and~~
14 ~~responsibilities of the board and administrator shall be the same~~
15 ~~for this excess benefit plan as for the qualified pension plans~~
16 ~~within the pension system.~~

17 ~~[(2) The qualified actuary employed pursuant to~~
18 ~~Section 4.08 of this article is responsible for determining the~~
19 ~~amount of benefits that may not be provided under the qualified~~
20 ~~plans solely by reason of the limitations of Section 415 of the code~~
21 ~~and thus the amount of city contributions that will be made to this~~
22 ~~excess benefit plan rather than to a qualified plan.~~

23 ~~[(3) The legal advisors described by Section 3.03 of~~
24 ~~this article shall also provide advice to the board for this excess~~
25 ~~benefit plan.~~

26 ~~[(d) Contributions may not be accumulated under this excess~~
27 ~~benefit plan to pay future retirement benefits. Instead, each~~

1 ~~payment of city contributions that would otherwise be made to the~~
2 ~~fund pursuant to Section 4.02 of this article or comparable~~
3 ~~provisions of other qualified plans approved by the members shall~~
4 ~~be reduced by the amount determined by the administrator as~~
5 ~~necessary to meet the requirements for retirement benefits under~~
6 ~~this excess benefit plan until the next payment of city~~
7 ~~contributions is expected to be made to the fund by the city. The~~
8 ~~city shall then pay to this excess benefit plan, out of the withheld~~
9 ~~city contributions no earlier than the 14th day before the date of~~
10 ~~each distribution of monthly retirement benefits is required to be~~
11 ~~made from this excess benefit plan, the amount necessary to satisfy~~
12 ~~the obligation to pay this excess benefit plan monthly retirement~~
13 ~~benefits. The administrator shall satisfy the obligation of this~~
14 ~~excess benefit plan to pay retirement benefits out of the city~~
15 ~~contributions so transferred for that month. The city~~
16 ~~contributions otherwise required to the pension system pursuant to~~
17 ~~Section 4.02 of this article and any other qualified plan approved~~
18 ~~by the members shall be divided into those contributions required~~
19 ~~to pay retirement benefits pursuant to this section and those~~
20 ~~contributions paid into and accumulated to pay the maximum benefits~~
21 ~~required under the qualified plans. City contributions made to~~
22 ~~provide retirement benefits pursuant to this section may not be~~
23 ~~commingled with the monies of the fund or any other qualified plan.~~

24 ~~[(e) Amendments to this excess benefit plan shall be made in~~
25 ~~the same manner provided by Section 7.01 of this article.]~~

26 SECTION 1.50. Section 8.03, Article 6243a-1, Revised
27 Statutes, is amended to read as follows:

1 Sec. 8.03. EXEMPTION OF BENEFITS FROM JUDICIAL PROCESS OR
2 ALIENATION. (a) A portion of the fund or benefit or amount awarded
3 to any primary party, qualified survivor, ~~[or]~~ beneficiary of a
4 member's DROP account, excess benefit participant, or survivor of
5 an excess benefit participant under this article may not be held,
6 seized, taken, subjected to, or detained or levied on by virtue of
7 any execution, attachment, garnishment, injunction, or other writ,
8 order, or decree, or any process or proceedings issued from or by
9 any court for the payment or satisfaction, in whole or in part, of
10 any debt, damage, claim, demands, or judgment against any person
11 entitled to benefits from any plan within the pension system or from
12 the excess benefit plan. The fund and the excess benefit plan or
13 any claim against the fund or the excess benefit plan may not be
14 directly or indirectly assigned or transferred, and any attempt to
15 transfer or assign the fund or the excess benefit plan or a claim
16 against the fund or the excess benefit plan is void.

17 (b) A benefit under any plan created or existing pursuant to
18 this article or Article 6243a is subject to division pursuant to the
19 terms of a qualified domestic relations order. The executive
20 director ~~[administrator]~~ shall determine the qualifications of a
21 domestic relations order according to a uniform, consistent
22 procedure approved by the board. The total benefit payable to a
23 primary party or to an alternate payee under a qualified domestic
24 relations order may not actuarially exceed the benefits to which a
25 primary party would be entitled in the absence of the qualified
26 domestic relations order. In calculating the alternate payee's
27 benefits under a qualified domestic relations order, the interest

1 rate is the rate used by the pension system's actuary in the
2 actuarial evaluation for that year, except that the minimum
3 interest rate for this purpose is the minimum required by Section
4 414 of the code.

5 (c) This section does not preclude:

6 (1) the payment of death benefits to a ~~[support]~~ trust
7 for certain ~~[surviving]~~ children of a primary party pursuant to
8 Section 6.06(n) of this article;

9 (2) the withholding of federal taxes from pension
10 benefits;

11 (3) the recovery by the board of overpayments of
12 benefits previously made to any person;

13 (4) the direct deposit of benefit payments to an
14 account in a bank, savings and loan association, credit union, or
15 other financial institution, provided the arrangement is not an
16 alienation;

17 (5) under any policy adopted by the board and
18 uniformly applied to voluntary arrangements entered into by a
19 primary party or qualified survivor, any voluntary and revocable
20 arrangement entered into by a pensioner or a qualified survivor
21 that permits the withholding and direct payment of health care or
22 life insurance premiums or similar payments from the monthly
23 benefit payments; or

24 (6) an assignment of the distribution from an
25 annuitized DROP account to a third party under Section 6.14(e-3)(1)
26 of this article.

27 (d) For purposes of Subsection (c) of this section, an

1 attachment, garnishment, levy, execution, or other legal process is
2 not considered a voluntary arrangement.

3 SECTION 1.51. Chapter 810, Government Code, is amended by
4 adding Section 810.002 to read as follows:

5 Sec. 810.002. ALTERNATIVE BENEFIT PLAN FOR CERTAIN
6 MUNICIPALITIES. (a) In this section, "alternative benefit plan"
7 means a continuing, organized benefit plan, including a plan
8 qualified under Section 401(a) of the Internal Revenue Code of
9 1986, of service retirement, disability retirement, or death
10 benefits for officers or employees of a municipality.

11 (b) This section applies only to a municipality subject to
12 Article 6243a-1, Revised Statutes.

13 (c) Notwithstanding any other law and subject to Subsection
14 (f), the governing body of a municipality subject to this section
15 may by ordinance:

16 (1) establish an alternative benefit plan and
17 determine the benefits, funding source and amount, and
18 administration of the alternative benefit plan; and

19 (2) require an employee first hired by the
20 municipality on or after the date the alternative benefit plan is
21 implemented to participate in the alternative benefit plan instead
22 of participating in the pension system provided under Article
23 6243a-1, Revised Statutes.

24 (d) Each active participant of an alternative benefit plan
25 established under this section shall contribute to the plan an
26 amount, if any, determined by the municipality. The municipality
27 shall contribute for each active participant in an alternative

1 benefit plan established under Subsection (c) an amount determined
2 by the municipality.

3 (e) A municipality that establishes an alternative benefit
4 plan under this section shall file all reports with the State
5 Pension Review Board required by Chapter 802.

6 (f) The governing body of a municipality may only establish
7 an alternative benefit plan under this section if:

8 (1) the qualified actuary of the pension system
9 established under Article 6243a-1, Revised Statutes, determines
10 that after establishment and implementation of the alternative
11 benefit plan, the pension system would continue to comply with
12 funding and amortization period requirements applicable to the
13 pension system under Subchapter C, Chapter 802; and

14 (2) the State Pension Review Board conducts a review
15 of and validates the determination made under Subdivision (1).

16 SECTION 1.52. The following provisions of Article 6243a-1,
17 Revised Statutes, are repealed:

- 18 (1) Section 3.01(c);
19 (2) Section 4.01(b);
20 (3) Section 4.02(f);
21 (4) Sections 6.06(i) and (s);
22 (5) Section 6.10B(h);
23 (6) Sections 6.14(i) and (k); and
24 (7) Part 7.

25 SECTION 1.53. (a) In this section, "board," "city,"
26 "nominations committee," "pension system," and "trustee" have the
27 meanings assigned by Section 2.01, Article 6243a-1, Revised

1 Statutes, as amended by this article.

2 (b) The terms of the current trustees expire on the
3 effective date of this article. Subject to Subsection (e) of this
4 section, on that date or as soon as possible after that date:

5 (1) the mayor shall appoint new trustees to the board
6 in accordance with the requirements of Section 3.01(b)(1), Article
7 6243a-1, Revised Statutes, as added by this article; and

8 (2) notwithstanding the requirements of Sections
9 3.01(b)(2), (3), and (4) and (f), Article 6243a-1, Revised
10 Statutes, as added or amended by this article, that the board in
11 consultation with the nominations committee adopt rules governing
12 the election of trustees appointed under Sections 3.01(b)(2), (3),
13 and (4), Article 6243a-1, Revised Statutes, as added by this
14 article, the nominations committee shall adopt procedures for
15 electing the initial trustees elected under Sections 3.01(b)(2),
16 (3), and (4), Article 6243a-1, Revised Statutes, as added by this
17 article.

18 (c) Notwithstanding Section 3.01(o), Article 6243a-1,
19 Revised Statutes, as amended by this article, and except as
20 provided by Subsections (d) and (g) of this section, the board may
21 not take any action authorized by Article 6243a-1, Revised
22 Statutes, until at least 10 initial trustees have been appointed or
23 elected, except that the board may take such an action, other than
24 an action described by Section 3.01(o)(2), Article 6243a-1, Revised
25 Statutes, as added by this article, before at least 10 initial
26 trustees have been appointed or elected if the action is in the
27 ordinary course of business of the board and is required for the

1 continued administration of the pension system.

2 (d) Once all trustees have been appointed or elected to the
3 board under this section, the board shall by majority vote adopt
4 rules establishing a process for electing trustees under Sections
5 3.01(b)(2), (3), and (4), Article 6243a-1, Revised Statutes, as
6 added by this article.

7 (e) As soon as possible after the effective date of this
8 article, the mayor and the nominations committee shall:

9 (1) make a determination under Section 3.01(e),
10 Article 6243a-1, Revised Statutes, as amended by this article,
11 regarding the term limits of the board established under that
12 section; and

13 (2) notwithstanding Section 3.01(e), Article 6243a-1,
14 Revised Statutes, as amended by this article, determine the terms
15 of initial trustees to ensure the appropriate staggering of trustee
16 terms.

17 (f) Notwithstanding Section 3.01(g), Article 6243a-1,
18 Revised Statutes, the board shall elect from among its trustees an
19 initial chairman, vice chairman, and deputy vice chairman as soon
20 as possible after all trustees have been appointed or elected in
21 accordance with this article and, if the board elects to do so, an
22 initial second deputy vice chairman.

23 (g) Not later than the 90th day after the date all trustees
24 under Section 3.01, Article 6243a-1, Revised Statutes, as amended
25 by this article, have been appointed or elected, the board shall
26 vote on and, if the board determines it is appropriate, amend the
27 existing rules relating to the governance and conduct of the board.

1 SECTION 1.54. (a) Not later than January 1, 2018, the board
2 of trustees of the pension system established under Article
3 6243a-1, Revised Statutes, shall:

4 (1) establish the ethics policy required by Section
5 3.01(r), Article 6243a-1, Revised Statutes, as added by this
6 article; and

7 (2) appoint an executive director under Section 3.04,
8 Article 6243a-1, Revised Statutes, as amended by this article.

9 (b) As soon as possible after the executive director is
10 appointed under Subsection (a) of this section, the executive
11 director may hire, subject to confirmation by the board of trustees
12 of the pension system established under Article 6243a-1, Revised
13 Statutes, a chief investment officer as authorized under Section
14 3.025, Article 6243a-1, Revised Statutes, as added by this article,
15 and a chief legal officer as authorized under Section 3.03(c),
16 Article 6243a-1, Revised Statutes, as amended by this article.

17 SECTION 1.55. (a) In this section, "executive director,"
18 "nominations committee," and "pensioner" have the meanings
19 assigned by Section 2.01, Article 6243a-1, Revised Statutes, as
20 amended by this article.

21 (b) As soon as possible after the effective date of this
22 article but not later than the 30th day after the effective date of
23 this article, the president, chair, or other executive head of an
24 organization described by Section 3.011(a)(2), Article 6243a-1,
25 Revised Statutes, as added by this article, that is eligible to and
26 intends to participate on the nominations committee shall notify
27 the executive director of:

1 (1) the organization's intent to participate on the
2 nominations committee; and

3 (2) whether the president, chair, or other executive
4 head, as appropriate, or that person's designee will serve on the
5 committee.

6 SECTION 1.56. Section 4.025, Article 6243a-1, Revised
7 Statutes, as added by this article, applies only to a contribution
8 made on or after the date of the most recently completed actuarial
9 valuation following the effective date of this article.

10 SECTION 1.57. The board of trustees of the pension system
11 established under Article 6243a-1, Revised Statutes, shall review
12 all investments held on the effective date of this article under
13 Section 4.071, Article 6243a-1, Revised Statutes, as added by this
14 article.

15 SECTION 1.58. Changes in law to Part 5, Article 6243a-1,
16 Revised Statutes, as amended by this article, apply to membership
17 in a pension system established under Article 6243a-1, Revised
18 Statutes, on or after the effective date of this article.

19 SECTION 1.59. A rollover distribution to a plan
20 administered by the pension system established under Article
21 6243a-1, Revised Statutes, that was made on or after January 1,
22 2002, is validated as of the date the distribution occurred. A
23 distribution described by this section may not be held invalid
24 because the distribution was not performed in accordance with
25 Section 8.01(j), Article 6243a-1, Revised Statutes, as added by
26 this article, or other applicable law.

27 SECTION 1.60. Section 6.14(e), Article 6243a-1, Revised

1 Statutes, as amended by this article, applies only to a
2 distribution out of a deferred retirement option plan account that
3 is made on or after the implementation of that section. A
4 distribution out of a deferred retirement option plan account that
5 is made before the implementation of that section is governed by the
6 law in effect when the distribution is made.

7 ARTICLE 2. IMMEDIATE PROHIBITION ON CERTAIN DISTRIBUTIONS

8 SECTION 2.01. Part 6, Article 6243a-1, Revised Statutes, is
9 amended by adding Section 6.142 to read as follows:

10 Sec. 6.142. PROHIBITION ON CERTAIN DISTRIBUTIONS. (a)

11 Notwithstanding Section 6.14 of this article, including Section
12 6.14(d)(1) of this article, the board may not allow any
13 distribution out of a DROP participant's DROP account to a DROP
14 participant or a participant's designated beneficiary, except:

15 (1) in the event of an unforeseeable emergency, as
16 described in Section 6 of the DROP addendum policy adopted by the
17 board that took effect on January 12, 2017;

18 (2) for purposes of making a minimum annual
19 distribution, as described in Section 7 of the DROP addendum policy
20 adopted by the board that took effect on January 12, 2017;

21 (3) as permitted by the board under Section 8e of the
22 DROP addendum policy adopted by the board that took effect on
23 January 12, 2017, in order to avoid the possibility of an early
24 distribution tax penalty under Section 72(t) of the code; or

25 (4) in compliance with a court order.

26 (b) This section expires September 1, 2017.

1 ARTICLE 3. SEVERABILITY AND EFFECTIVE DATE

2 SECTION 3.01. If any provision of this Act or its
3 application to any person or circumstance is held invalid, the
4 invalidity does not affect other provisions or applications of this
5 Act that can be given effect without the invalid provision or
6 application, and to this end the provisions of this Act are declared
7 to be severable.

8 SECTION 3.02. (a) Except as provided by Subsections (b) and
9 (d) of this section, this Act takes effect immediately if it
10 receives a vote of two-thirds of all the members elected to each
11 house, as provided by Section 39, Article III, Texas Constitution.
12 If this Act does not receive the vote necessary for immediate
13 effect, this Act takes effect on the 91st day after the last day of
14 the legislative session.

15 (b) Article 1 of this Act takes effect on September 1, 2017,
16 unless the board of trustees of the pension system established
17 under Article 6243a-1, Revised Statutes, violates Section 6.142,
18 Article 6243a-1, Revised Statutes, as added by this Act, on or
19 before August 31, 2017, as determined by the State Pension Review
20 Board. At the request of the State Pension Review Board and within
21 the time prescribed by the State Pension Review Board, the board of
22 trustees shall provide the data or other information requested by
23 the State Pension Review Board for purposes of making a
24 determination under this subsection.

25 (c) If the State Pension Review Board determines that the
26 pension system violated Section 6.142, Article 6243a-1, Revised
27 Statutes, as added by this Act, the State Pension Review Board

1 shall:

2 (1) not later than August 31, 2017:

3 (A) notify the board of trustees of the pension
4 system and the mayor and city council of a city subject to Article
5 6243a-1, Revised Statutes, of its determination under this section;
6 and

7 (B) publish notice of its determination under
8 this section on the State Pension Review Board's Internet website;
9 and

10 (2) as soon as practicable after August 31, 2017,
11 publish notice of its determination under this section in the Texas
12 Register.

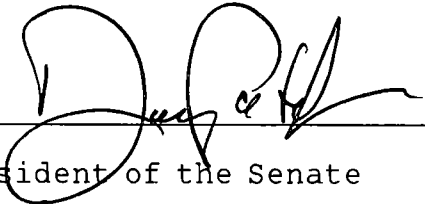
13 (c-1) The State Pension Review Board shall make the
14 determination described by Subsection (c) of this section based on
15 the data or other information that:

16 (1) is in the State Pension Review Board's possession
17 on or before August 31, 2017; and

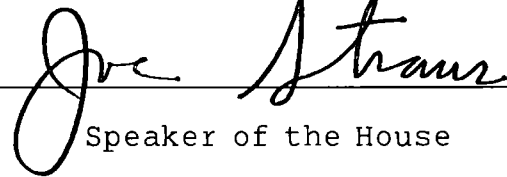
18 (2) was provided with enough time for the State
19 Pension Review Board to reasonably use the information to make a
20 determination under this section.

21 (d) If, not later than August 31, 2017, the State Pension
22 Review Board makes the determination described by Subsection (c) of
23 this section, Article 1 of this Act has no effect.

H.B. No. 3158

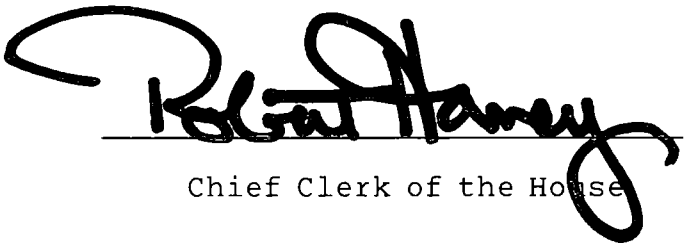


President of the Senate



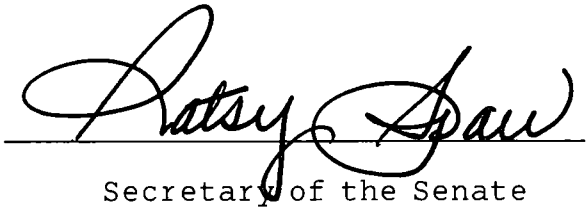
Speaker of the House

I certify that H.B. No. 3158 was passed by the House on May 4, 2017, by the following vote: Yeas 141, Nays 0, 4 present, not voting; and that the House concurred in Senate amendments to H.B. No. 3158 on May 25, 2017, by the following vote: Yeas 142, Nays 0, 3 present, not voting.



Chief Clerk of the House

I certify that H.B. No. 3158 was passed by the Senate, with amendments, on May 23, 2017, by the following vote: Yeas 30, Nays 0, 1 present, not voting.



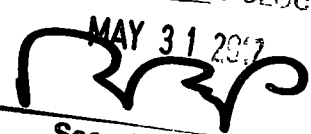
Secretary of the Senate

APPROVED: 5-31-2017

Date



Governor

FILED IN THE OFFICE OF THE
SECRETARY OF STATE
HAN O'CLOCK
MAY 31 2017

Secretary of State

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

May 24, 2017

TO: Honorable Joe Straus, Speaker of the House, House of Representatives

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB3158 by Flynn (Relating to the retirement systems for and the provision of other benefits to police and fire fighters in certain municipalities; creating a criminal offense.),
As Passed 2nd House

No significant fiscal implication to the State is anticipated.

The bill would amend the Revised Statutes relating to the benefits of police and fire fighters in the City of Dallas. The bill would modify many components of the retirement system. This analysis focuses on the most significant changes.

The Dallas Police and Fire Pension System (Pension) has three tiers based on date of hire. The bill would increase the retirement age for Tier 1 (hired before 1/1/2007) and Tier 2 (hired between 1/1/2007 and 2/28/2011) from 50 to 58, and increase Tier 3 (hired after 2/28/2011) from 55 to 58. Early retirement is a current option for Tiers 1 and 2 beginning at age 45. The bill would allow members in all three tiers to retire at age 53 with reduced benefits.

The bill would change the maximum benefit for Tiers 1 and 2 from 96 percent of computation pay to 90 percent of computation pay. Computation pay is based on the pay rate for an employee's highest civil service rank, educational incentive pay, longevity pay, and city service incentive pay.

The bill would limit the number of years a member could participate in a deferred retirement option plan (DROP) to 10 years. Currently there is no limit to DROP participation. The bill would prohibit an active DROP participant from receiving a distribution from the DROP account. The bill would remove authority allowing active DROP accounts to earn interest. DROP accounts would be distributed as an annuity over the life expectancy of the member. Current law allows DROP participants to receive a single lump sum distribution.

The bill would allow the Pension to make cost of living adjustments (COLA). Currently Tier 1 receives a 4 percent simple COLA every year. Tiers 2 and 3 receive an ad hoc COLA not to exceed 4 percent simple COLA on the base benefit. The bill would adjust Tier 1 to match Tiers 2 and 3 and make the COLA dependent on reaching certain financial benchmarks. The benchmark, the market value of assets divided by the Pensions actuarial accrued liabilities, must be greater than or equal to .70. The bill would prohibit DROP accounts from receiving a COLA.

The bill would allow retiree DROP participants to accrue interest on the accounts equal to the 10-year note issued by the United States Department of the Treasury or other federal treasury note.

The bill would set the employee contribution rates to 13.5 percent for active members. Under current law, Tier 1 employees contribute 6.5 percent and Tier 2 employees contribute 8.5 percent.

The bill would set the contribution rate for the City of Dallas to 34.5 percent of computation pay. Under current law, the City of Dallas contribution rate is set based on the employee contribution rate and capped at 28.5 percent of total salaries and wages.

According to an actuarial analysis provided by the City of Dallas, the bill would require the City of Dallas to contribute an additional \$11.0 million each year. Beginning on or after September 1, 2019 the \$11.0 million contributions would cease if the unfunded actuarial accrued liability (UAAL) is not projected to be paid off within 35 years while including the additional \$11.0 million.

The bill would create a Class B misdemeanor if an employee or other agent acting on behalf of the pension system knowingly provides false information to the Pension Review Board.

The bill would repeal Section 3.01(c), Section 4.01(b), Section 4.02 (f), Section, 606(i) and (s), Section 6.10B(h), Section 6.14(i) and (k), and Part 7 of Article 6243a-1, Revised Statutes.

Local Government Impact

According to an actuarial analysis provided by the City of Dallas, the current pension system will become insolvent within the next 10 years.

The Pension currently has an unfunded liability of \$3,696.0 million. Under the provisions of the bill, the unfunded liability would decline to \$2,280.0 million. The funded ratio would increase from 36.8 percent to 48.6 percent.

According to the actuarial analysis, implementing provisions of the bill would result in the UAAL being paid off in 58 years. The actuarial analysis assumes that the additional \$11.0 million contribution will end September 2019. However, if the city contributes the additional \$11.0 million every year, regardless of the projected years to full funding as of January 1, 2019, the UAAL is projected to be paid off in 48 years.

The City of Dallas estimates the bill would require the city to spend an additional \$22.8 million in fiscal year 2018 and an estimated \$161.9 million over five years.

A Class B misdemeanor is punishable by a fine of not more than \$2,000, confinement in jail for a term not to exceed 180 days, or both. Costs associated with enforcement, prosecution and confinement could likely be absorbed within existing resources. Revenue gain from fines imposed and collected is not anticipated to have a significant fiscal implication.

Source Agencies: 338 Pension Review Board

LBB Staff: UP, JGA, AG, GG, BM, BRi

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

May 19, 2017

TO: Honorable Joan Huffman, Chair, Senate Committee on State Affairs

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB3158** by Flynn (Relating to the retirement systems for and the provision of other benefits to police and fire fighters in certain municipalities; creating a criminal offense.),
Committee Report 2nd House, Substituted

<p>No significant fiscal implication to the State is anticipated.</p>
--

The bill would amend the Revised Statutes relating to the benefits of police and fire fighters in the City of Dallas. The bill would modify many components of the retirement system. This analysis focuses on the most significant changes.

The Dallas Police and Fire Pension System (Pension) has three tiers based on date of hire. The bill would increase the retirement age for Tier 1 (hired before 1/1/2007) and Tier 2 (hired between 1/1/2007 and 2/28/2011) from 50 to 58, and increase Tier 3 (hired after 2/28/2011) from 55 to 58. Early retirement is a current option for Tiers 1 and 2 beginning at age 45. The bill would allow members in all three tiers to retire at age 53 with reduced benefits.

The bill would change the maximum benefit for Tiers 1 and 2 from 96 percent of computation pay to 90 percent of computation pay. Computation pay is based on the pay rate for an employee's highest civil service rank, educational incentive pay, longevity pay, and city service incentive pay.

The bill would limit the number of years a member could participate in a deferred retirement option plan (DROP) to 10 years. Currently there is no limit to DROP participation. The bill would prohibit an active DROP participant from receiving a distribution from the DROP account. The bill would remove authority allowing active DROP accounts to earn interest. DROP accounts would be distributed as an annuity over the life expectancy of the member. Current law allows DROP participants to receive a single lump sum distribution.

The bill would allow the Pension to make cost of living adjustments (COLA). Currently Tier 1 receives a 4 percent simple COLA every year. Tiers 2 and 3 receive an ad hoc COLA not to exceed 4 percent simple COLA on the base benefit. The bill would adjust Tier 1 to match Tiers 2 and 3 and make the COLA dependent on reaching certain financial benchmarks. The benchmark, the market value of assets divided by the Pensions actuarial accrued liabilities, must be greater than or equal to .70. The bill would prohibit DROP accounts from receiving a COLA.

The bill would allow retiree DROP participants to accrue interest on the accounts equal to the 10-year note issued by the United States Department of the Treasury or other federal treasury note.

The bill would set the employee contribution rates to 13.5 percent for active members. Under current law, Tier 1 employees contribute 6.5 percent and Tier 2 employees contribute 8.5 percent.

The bill would set the contribution rate for the City of Dallas to 34.5 percent of computation pay. Under current law, the City of Dallas contribution rate is set based on the employee contribution rate and capped at 28.5 percent of total salaries and wages.

According to an actuarial analysis provided by the City of Dallas, the bill would require the City of Dallas to contribute an additional \$11.0 million each year. Beginning on or after September 1, 2019 the \$11.0 million contributions would cease if the unfunded actuarial accrued liability (UAAL) is not projected to be paid off within 35 years while including the additional \$11.0 million.

The bill would create a Class B misdemeanor if an employee or other agent acting on behalf of the pension system knowingly provides false information to the Pension Review Board.

The bill would repeal Section 3.01(c), Section 4.01(b), Section 4.02 (f), Section, 606(i) and (s), Section 6.10B(h), Section 6.14(i) and (k), and Part 7 of Article 6243a-1, Revised Statutes.

Local Government Impact

According to an actuarial analysis provided by the City of Dallas, the current pension system will become insolvent within the next 10 years.

The Pension currently has an unfunded liability of \$3,696.0 million. Under the provisions of the bill, the unfunded liability would decline to \$2,280.0 million. The funded ratio would increase from 36.8 percent to 48.6 percent.

According to the actuarial analysis, implementing provisions of the bill would result in the UAAL being paid off in 58 years. The actuarial analysis assumes that the additional \$11.0 million contribution will end September 2019. However, if the city contributes the additional \$11.0 million every year, regardless of the projected years to full funding as of January 1, 2019, the UAAL is projected to be paid off in 48 years.

The City of Dallas estimates the bill would require the city to spend an additional \$22.8 million in fiscal year 2018 and an estimated \$161.9 million over five years.

A Class B misdemeanor is punishable by a fine of not more than \$2,000, confinement in jail for a term not to exceed 180 days, or both. Costs associated with enforcement, prosecution and confinement could likely be absorbed within existing resources. Revenue gain from fines imposed and collected is not anticipated to have a significant fiscal implication.

Source Agencies: 338 Pension Review Board

LBB Staff: UP, JGA, AG, GG, BM, BRi

**LEGISLATIVE BUDGET BOARD
Austin, Texas**

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

May 12, 2017

TO: Honorable Joan Huffman, Chair, Senate Committee on State Affairs

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB3158** by Flynn (Relating to the retirement systems for and the provision of other benefits to police and fire fighters in certain municipalities; creating a criminal offense.),
As Engrossed

<p>No significant fiscal implication to the State is anticipated.</p>
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The bill would amend the Revised Statutes relating to the benefits of police and fire fighters in the City of Dallas. The bill would modify many components of the retirement system. This analysis focuses on the most significant changes.

The Dallas Police and Fire Pension System (Pension) has three tiers based on date of hire. The bill would increase the retirement age for Tier 1 (hired before 1/1/2007) and Tier 2 (hired between 1/1/2007 and 2/28/2011) from 50 to 58, and increase Tier 3 (hired after 2/28/2011) from 55 to 58. Early retirement is a current option for Tiers 1 and 2 beginning at age 45. The bill would allow members in all three tiers to retire at age 53 with reduced benefits.

The bill would change the maximum benefit for Tiers 1 and 2 from 96 percent of computation pay to 90 percent of computation pay. Computation pay is based on the pay rate for an employee's highest civil service rank, educational incentive pay, longevity pay, and city service incentive pay.

The bill would limit the number of years a member could participate in a deferred retirement option plan (DROP) to 10 years. Currently there is no limit to DROP participation. The bill would prohibit an active DROP participant from receiving a distribution from the DROP account. The bill would remove authority allowing active DROP accounts to earn interest. DROP accounts would be distributed as an annuity over the life expectancy of the member. Current law allows DROP participants to receive a single lump sum distribution.

The bill would allow the Pension to make cost of living adjustments (COLA). Currently Tier 1 receives a 4 percent simple COLA every year. Tiers 2 and 3 receive an Ad hoc COLA not to exceed 4 percent simple COLA on the base benefit. The bill would adjust Tier 1 to match Tiers 2 and 3 and make the COLA dependent on reaching certain financial benchmarks. The benchmark, the market value of assets divided by the Pensions actuarial accrued liabilities, must be greater than or equal to .70. The bill would prohibit DROP accounts from receiving a COLA.

The bill would allow retiree DROP participants to accrue interest on the accounts equal to the 10-year note issued by the United States Department of the Treasury or other federal treasury note.

The bill would set the employee contribution rates to 13.5 percent for active members. Under current law, Tier 1 employees contribute 6.5 percent and Tier 2 employees contribute 8.5 percent.

The bill would set the contribution rate for the City of Dallas to 34.5 percent of computation pay. Under current law, the City of Dallas contribution rate is set based on the employee contribution rate and capped at 28.5 percent of total salaries and wages.

According to an actuarial analysis provided by the City of Dallas, the bill would require the City of Dallas to contribute an additional \$11.0 million each year. Beginning on or after September 1, 2019 the \$11.0 million contributions would cease if the unfunded actuarial accrued liability (UAAL) is not projected to be paid off within 35 years while including the additional \$11.0 million.

The bill would create a Class B misdemeanor if an employee or other agent acting on behalf of the pension system knowingly provides false information to the Pension Review Board.

The bill would repeal Section 1.01 (b), Section 3.01(c), Section 4.01(b), Section 4.02 (f), Section, 606(i) and (s), Section 6.10B(h), Section 6.14(i) and (k), and Part 7 of the Revised Statutes.

Local Government Impact

According to an actuarial analysis provided by the City of Dallas, the current pension system will become insolvent within the next 10 years.

The Pension currently has an unfunded liability of \$3,696.0 million. Under the provisions of the bill, the unfunded liability would decline to \$2,280.0 million. The funded ratio would increase from 36.8 percent to 48.6 percent.

According to the actuarial analysis, implementing provisions of the bill would result in the UAAL being paid off in 58 years. The actuarial analysis assumes that the additional \$11.0 million contribution will end September 2019. However, if the city contributes the additional \$11.0 million every year, regardless of the projected years to full funding as of January 1, 2019, the UAAL is projected to be paid off in 48 years.

The City of Dallas estimates the bill would require the city to spend an additional \$22.8 million in fiscal year 2018 and an estimated \$161.9 million over five years.

A Class B misdemeanor is punishable by a fine of not more than \$2,000, confinement in jail for a term not to exceed 180 days, or both. Costs associated with enforcement, prosecution and confinement could likely be absorbed within existing resources. Revenue gain from fines imposed and collected is not anticipated to have a significant fiscal implication.

Source Agencies: 338 Pension Review Board

LBB Staff: UP, JGA, AG, GG, BM, BRi

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

April 16, 2017

TO: Honorable Dan Flynn, Chair, House Committee on Pensions

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB3158 by Flynn (Relating to the retirement systems for and the provision of other benefits to police and fire fighters in certain municipalities.), **Committee Report 1st House, Substituted**

No significant fiscal implication to the State is anticipated.

The bill would amend the Revised Statutes relating to the benefits of police and fire fighters in the City of Dallas. The bill would modify many components of the retirement system. This analysis focuses on the most significant changes.

The Dallas Police and Fire Pension System (Pension) has three tiers based on date of hire. The bill would increase the retirement age for Tier 1 (hired before 1/1/2007) and Tier 2 (hired between 1/1/2007 and 2/28/2011) from 50 to 58, and increase Tier 3 (hired after 2/28/2011) from 55 to 58. Early retirement is a current option for Tiers 1 and 2 beginning at age 45. The bill would allow members in all three tiers to retire at age 53 with reduced benefits.

The bill would change the maximum benefit for Tiers 1 and 2 from 96 percent of computation pay to 90 percent of computation pay. Computation pay is based on the pay rate for an employee's highest civil service rank, educational incentive pay, longevity pay, and city service incentive pay.

The bill would limit the number of years a member could participate in a deferred retirement option plan (DROP) to 10 years. Currently there is no limit to DROP participation. The bill would prohibit an active DROP participant from receiving a distribution from the DROP account. The bill would remove authority allowing active DROP accounts to earn interest. DROP accounts would be distributed as an annuity over the life expectancy of the member. Current law allows DROP participants to receive a single lump sum distribution.

The bill would allow the Pension to make cost of living adjustments (COLA). Currently Tier 1 receives a 4 percent simple COLA every year. Tiers 2 and 3 receive an Ad hoc COLA not to exceed 4 percent simple COLA on the base benefit. The bill would adjust Tier 1 to match Tiers 2 and 3 and make the COLA dependent on reaching certain financial benchmarks. The benchmark, the market value of assets divided by the Pensions actuarial accrued liabilities, must be greater than or equal to .70. The bill would prohibit DROP accounts from receiving a COLA.

The bill would allow retiree DROP participants to accrue interest on the accounts equal to the 10-year note issued by the United States Department of the Treasury or other federal treasury note.

The bill would set the employee contribution rates to 13.5 percent for active members. Under current law, Tier 1 employees contribute 6.5 percent and Tier 2 employees contribute 8.5 percent.

The bill would set the contribution rate for the City of Dallas to 34.5 percent of computation pay. Under current law, the City of Dallas contribution rate is set based on the employee contribution rate and capped at 28.5 percent of total salaries and wages.

According to an actuarial analysis provided by the City of Dallas, the bill would require the City of Dallas to contribute an additional \$11.0 million each year. Beginning on or after September 1, 2019 the \$11.0 million contributions would cease if the unfunded actuarial accrued liability (UAAL) is not projected to be paid off within 35 years while including the additional \$11.0 million.

The bill would repeal Section 1.01 (b), Section 3.01(c), Section 4.01(b), Section 4.02 (f), Section 606(i) and (s), Section 6.10B(h), Section 6.14(i) and (k), and Part 7 of the Revised Statutes.

Local Government Impact

According to an actuarial analysis provided by the City of Dallas, the current pension system will become insolvent within the next 10 years.

The Pension currently has an unfunded liability of \$3,696.0 million. Under the provisions of the bill, the unfunded liability would decline to \$2,280.0 million. The funded ratio would increase from 36.8 percent to 48.6 percent.

According to the actuarial analysis, implementing provisions of the bill would result in the UAAL being paid off in 58 years. The actuarial analysis assumes that the additional \$11.0 million contribution will end September 2019. However, if the city contributes the additional \$11.0 million every year, regardless of the projected years to full funding as of January 1, 2019, the UAAL is projected to be paid off in 48 years.

The City of Dallas estimates the bill would require the city to spend an additional \$22.8 million in fiscal year 2018 and an estimated \$161.9 million over five years.

Source Agencies: 338 Pension Review Board

LBB Staff: UP, AG, GG, BM, BRi

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

April 2, 2017

TO: Honorable Dan Flynn, Chair, House Committee on Pensions

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB3158 by Flynn (Relating to the retirement systems for and the provision of other benefits to police and fire fighters in certain municipalities.), **As Introduced**

No significant fiscal implication to the State is anticipated.

The bill would amend the Revised Statutes relating to the benefits of police and fire fighters in the City of Dallas. The bill would modify many components of the retirement system. This analysis focuses on the most significant changes.

The Dallas Police and Fire Pension System (Pension) has three tiers based on date of hire. The bill would increase the retirement age for Tier 1 (hired before 1/1/2007) and Tier 2 (hired between 1/1/2007 and 2/28/2011) from 50 to 58, and increase Tier 3 (hired after 2/28/2011) from 55 to 58. Early retirement is a current option for Tiers 1 and 2 beginning at age 45. The bill would allow members in all three tiers to retire at age 53 with reduced benefits.

The bill would change the maximum benefit for Tiers 1 and 2 from 96 percent of computation pay to 90 percent of computation pay. Computation pay is based on the pay rate for an employee's highest civil service rank, educational incentive pay, longevity pay, and city service incentive pay.

The bill would limit the number of years a member could participate in a deferred retirement option plan (DROP) to 10 years. Currently there is no limit to DROP participation. The bill would prohibit an active DROP participant from receiving a distribution from the DROP account. The bill would remove authority allowing active DROP accounts to earn interest. DROP accounts would be distributed as an annuity over the life expectancy of the member. Current law allows DROP participants to receive a single lump sum distribution.

The bill would allow the Pension to make cost of living adjustments (COLA). Currently Tier 1 receives a 4 percent simple COLA every year. Tiers 2 and 3 receive an Ad hoc COLA not to exceed 4 percent simple COLA on the base benefit. The bill would adjust Tier 1 to match Tiers 2 and 3 and make the COLA dependent on reaching certain financial benchmarks. The benchmark, the market value of assets divided by the Pensions actuarial accrued liabilities, must be greater than or equal to .70. The bill would prohibit DROP accounts from receiving a COLA.

The bill would allow retiree DROP participants to accrue interest on the accounts equal to the 10-year note issued by the United States Department of the Treasury or other federal treasury note.

The bill would set the employee contribution rates to 13.5 percent for active members. Under

current law, Tier 1 employees contribute 6.5 percent and Tier 2 employees contribute 8.5 percent.

The bill would set the contribution rate for the City of Dallas to 34.5 percent of computation pay. Under current law, the City of Dallas contribution rate is set based on the employee contribution rate and capped at 28.5 percent of total salaries and wages.

According to an actuarial analysis provided by the City of Dallas, the bill would require the City of Dallas to contribute an additional \$11.0 million each year. Beginning on or after September 1, 2019 the \$11.0 million contributions would cease if the unfunded actuarial accrued liability (UAAL) is not projected to be paid off within 35 years while including the additional \$11.0 million.

The bill would repeal Section 3.01(c), Section 4.01(b), Section 4.02 (f), Section, 606(i) and (s), Section 6.10B(h), Section 6.14(i) and (k), and Part 7 of the Revised Statutes.

Local Government Impact

According to an actuarial analysis provided by the City of Dallas, the current pension system will become insolvent within the next 10 years.

The Pension currently has an unfunded liability of \$3,696.0 million. Under the provisions of the bill, the unfunded liability would decline to \$2,186.0 million. The funded ratio would increase from 36.8 percent to 49.6 percent.

According to the actuarial analysis, implementing provisions of the bill would result in the UAAL being paid off in 48 years. The actuarial analysis assumes that the additional \$11.0 million contribution will end September 2019. However, if the city contributes the additional \$11.0 million every year, regardless of the projected years to full funding as of January 1, 2019, the UAAL is projected to be paid off in 40 years.

The City of Dallas estimates the bill would require the city to spend an additional \$22.8 million in fiscal year 2018 and an estimated \$161.9 million over five years.

Source Agencies: 338 Pension Review Board

LBB Staff: UP, AG, GG, BM, BRi

**LEGISLATIVE BUDGET BOARD
Austin, Texas**

ACTUARIAL IMPACT STATEMENT

85TH LEGISLATIVE REGULAR SESSION

May 24, 2017

TO: Honorable Joe Straus, Speaker of the House, House of Representatives

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB3158 by Flynn (Relating to the retirement systems for and the provision of other benefits to police and fire fighters in certain municipalities; creating a criminal offense.),
As Passed 2nd House

The following information was supplied by Agency 338 - Pension Review Board:

HB 3158 As passed 2nd House would make significant changes to Article 6243a-1, Title 109 Revised Civil Statutes (affecting the Dallas Police and Fire Pension System (DPFPS)) to increase both employee and City of Dallas (City) contributions; modify future benefit accruals; provide a retroactive multiplier increase for certain members; modify DROP participation and cost of living adjustments; make changes to the composition and governance structure of the DPFPS board (board); and require the establishment of an investment advisory committee. Article 6243a-1 establishes the basic governing structure of the DPFPS.

The proposed changes to the bill, if enacted, would significantly improve the actuarial soundness of the system. Under the existing plan structure, the plan is expected to become insolvent within the next 10 years. While the bill does not immediately bring the amortization period down to 40 years, which is the maximum recommended amortization period according to PRB *Guidelines for Actuarial Soundness* currently in effect, it sets the system on a path to full funding within a finite period.

The actuarial analysis provides the following details regarding the impact of the bill on projected January 1, 2017 actuarial valuation results:

Dallas Police and Fire Pension System Estimated Impact As of 1/1/2017 (\$Millions)	Current Plan	HB 3158
City Contribution*	27.5%	34.5%
Employee Contribution	<u>8.5%</u>	<u>13.5%</u>
Total Contribution	36.0%	48.0%
Total Normal Cost, before administrative expenses	\$84	\$60
Total Normal Cost as a % of Pay	22.6%	16.1%
Actuarial Accrued Liabilities (AAL)	\$5,849	\$4,402
Actuarial Value of Assets (AVA)	(\$2,153)	(\$2,153)
Unfunded Actuarial Accrued Liability (millions)	\$3,696	\$2,249
Funded Ratio	36.8%	48.9%

Amortization Period**	Infinite (never)	46
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*Amount is a percentage of total pay for current plan and a percentage of computation pay for the If Bill Enacted scenarios, but does not include additional flat dollar annual contributions or the minimum dollar floor, as outlined in the Summary of Plan Changes

** Takes into account the additional \$13 million annual contribution for the period September 1, 2017 - December 31, 2024. The bill provides for an ad-hoc COLA that may not be paid unless the funded ratio is at least 70%. The amortization period presented above assume that no COLA is paid until the plan is fully funded. The plan is expected to reach a 70% funding ratio in 2047. Segal has indicated if a 2% COLA is paid beginning with the year 2047, the UAAL would increase by approximately \$51 million and amortization period would increase to 55 years. The PRB recommends that the costs of benefit changes, including any ad-hoc COLAs, should be actuarially valued prior to adoption to ensure that additional costs will be funded adequately. The PRB therefore recommends that as the funded ratio and amortization period of the plan improves, the board examine the likelihood of paying any ad-hoc COLAs and include them in future valuations.

The contribution policy for the City would be a fixed percentage of pay plus a flat dollar contribution per year through the end of 2024. However, the fixed percentage contribution would be subject to a minimum dollar floor in each year (Employer Contributions as outlined in the Summary of Plan Changes section). In addition, during 2024, the bill requires the system to engage an independent actuary, as selected by the PRB, to provide recommendations regarding potential contribution or benefit changes that ensure the system remains actuarially sound. The board is required to submit a plan to the PRB that takes into consideration the independent actuary's recommendations outlining steps that will ensure the system remains on a path to financial solvency.

ACTUARIAL EFFECTS

The actuarial analysis provided by the plan's actuary states that although the retirement system is not projected to reach 100% funding within 30 years, it is projected to eventually become fully funded. The plan's actuary further states that currently the System is projected to become insolvent within the next 10 years. PRB's actuarial review states that the bill would make the retirement system less unsound and would set it on a path to full funding within a finite period.

Based on the results outlined in the actuarial analysis, DPFPS is likely to be immediately subject to the FSRP requirements in Texas Government Code Section 802.2015 once the January 1, 2017 actuarial valuation is finalized. However, based on the actuarial analysis, the changes made under the bill will be sufficient to satisfy the Funding Soundness Restoration Plan requirements.

Furthermore, the PRB actuarial review states that it is important to recognize that even after the changes enacted by the bill, if all assumptions are met, the UAAL is still expected to grow and the funded ratio is expected to decline in the near term. Also, 90% or more of the City's contribution will be used to pay off the unfunded actuarial accrued liability (UAAL) and therefore any reduction in the City contribution will increase the expected time to fully fund the plan. The actuarial analysis also illustrates the impact or funding risk associated with a prolonged reduction in payroll, which would have the effect of lowering the total dollar amount contributed by the City, by assuming actual payroll is 90% of the projected payroll provided by the City. This results in an amortization period of 59 years. However, the minimum contribution requirement under the Employer Contribution provisions of the bill ensures this has minimal impact until after the floor and additional dollar contribution expire at the end of 2024. During the seventh year, the bill requires the system to engage an independent actuary, selected by the PRB, to provide recommendations regarding potential contribution or benefit changes that ensure the system remains actuarially sound after the contribution floor, including the additional flat dollar contribution, expires.

In addition, the board is required to adopt rules and submit a plan to the PRB to comply with any funding and amortization period requirements contained in the Texas Government Code (Funding Soundness Restoration Plan). This plan would be required to take into consideration the independent actuary's recommendations and outline steps to ensure the retirement system remains on a path to financial solvency.

Below is a table of the total projected contribution amounts (City plus employee contributions) under the current and proposed plans for the next 10 years:

Projected Total Contributions

(in millions)

<u>Valuation Year</u>	<u>Current Plan</u>	<u>HB 3158</u>
2017	\$140	\$159
2018	137	201
2019	144	210
2020	149	215
2021	153	221
2022	159	227
2023	165	223
2024	171	231
2025	177	226
2026	184	234
2027	191	243

Actuarial Assumptions and Methods

The assumptions and methods are the same as used in the January 1, 2016 actuarial valuation report except as noted in the following table.

Summary of Changes in Assumptions

Discount Rate

7.25% - same as the January 1, 2016 actuarial valuation

Investment Return

Market value returns assumed to be 5.00% in 2016, -1.74% in 2017, 5.00% in 2018, 6.50% in 2019, 7.00% in 2020, and 7.25% thereafter. Assumed rates of return were provided by the System.

Actuarial Value of Assets

Set equal to market value of assets

Administrative Expenses

The greater of \$10 million or 1% of computation pay

DROP Utilization

It is assumed that there will be no future entrants into DROP

Salary Increases

Select rates added for years 2016 - 2018.

2016 and 2018 - 10% if 0 - 10 years, 7% if 11 - 12 years, and 2% if 12 years

2017 - 5% if 0 - 10 years, 2% for all others

Current salary scale applies in 2019 and beyond

Total Computation Payroll

Year	Payroll
2017	\$372,000,000
2018	\$364,000,000
2019	\$383,000,000
2020	\$396,000,000
2021	\$408,000,000

2022	\$422,000,000
2023	\$438,000,000
2024	\$454,000,000
2025	\$471,000,000
2026	\$488,000,000
2027	\$507,000,000
2028	\$525,000,000
2029	\$545,000,000
2030	\$565,000,000
2031	\$581,000,000
2032	\$597,000,000
2033	\$614,000,000
2034	\$631,000,000
2035	\$648,000,000
2036	\$666,000,000
2037	\$684,000,000

2.75% in all other years

Overtime

The City is no longer assumed to contribute an amount 11% greater than computation pay for overtime work. This assumption does not impact benefits or liabilities.

Cost of Living Adjustment (COLA)

Future COLAs are dependent upon reaching certain financial benchmarks and Board approval therefore no future COLAs have been included in this analysis.

Retirement Rates

Retirements are assumed to occur on January 1st.

In 2016, rates are increased by 5 percentage points for those participants who have been in DROP for six years or more.

Beginning in 2017, the current valuation retirement rates apply, with the following exception:

Current Active DROP Participants

- If at least 8 years in DROP as of 1/1/2017, 100% retirement rate in 2018
- If less than 8 years in DROP as of 1/1/2017, 50% retirement rate in 2018

Retirement Rates Beginning in 2018 for those not in DROP:

<u>Age</u>	<u>Tiers 1 & 2, <20 YOS as of 9/1/2017</u>	<u>Tier 1, at least 20 YOS as of 9/1/2017</u>	<u>Tier 3</u>
<50	1%	1%	1%
50	10%	20%	5%
51	5%	10%	5%
52	5%	10%	5%

53	5%	10%	5%
54	5%	20%	10%
55	15%	40%	20%
56	10%	50%	30%
57	5%	50%	40%
58	60%	60%	50%
59	50%	60%	50%
60	50%	60%	50%
61	50%	60%	50%
62	100%	100%	100%

100% retirement assumed once total of benefit multipliers reach 90%.

Current terminated vested participants are assumed to retire at age 50.

Future terminated vested participants are assumed to retire at age 58.

DROP Distribution

Current retirees - For those who were retirees as of January 1, 2016, 57.50% of the January 1, 2016 balance was assumed to be paid out in 2016 and 10% of the January 1, 2017 account balance is assumed to be paid out in 2017. Beginning January 1, 2018, the remainder of the DROP accounts are assumed to be paid out over the expected lifetime of the participant upon their retirement based on the mortality tables in effect at the time of their retirement; the expected lifetime is currently assumed to be 23 years. It is understood that the actual date of the change in DROP account distributions may occur prior to January 1, 2018.

Current actives - 10% of the January 1, 2017 account balances are assumed to be paid out in 2017 for participants that retire in 2017. Beginning January 1, 2018, DROP accounts are assumed to be paid out over the expected lifetime of the participant upon their retirement, based on the mortality tables in effect at the time of their retirement; the expected lifetime is currently assumed to be 21 years if the Normal Retirement Age is 58. It is understood that the actual date of the change in DROP account distributions may occur prior to January 1, 2018.

DROP Account Interest

Current retirees - 2.75%;

Current actives - 2.75%; only the DROP account balance as of September 1, 2017 receives interest upon retirement. DROP contributions into existing DROP accounts after September 1, 2017 and future DROP participants receive 0% interest during the DROP and upon retirement.

SYNOPSIS OF PROVISIONS

CR2H HB 3158 would amend and add sections to Title 109, Revised Civil Statutes Article 6243a-1 to reduce benefits (summarized in the table below), increase both employee and City contributions, change the board's composition and governance structure, and require the creation of an investment advisory committee.

Board Composition

The bill would change the board composition by establishing new requirements for trustee positions. Six of the board trustees would be selected by the mayor in consultation with city council and five would be selected by the pension system. The board may not take any action until there are at least 10 initial trustees have been appointed.

Board Governance

The bill would clarify that the executive director is a fiduciary of the pension system if acting in their own discretion, whereas currently the statute states that the "administrator" of the plan is *not* a fiduciary. If the executive director is acting at the discretion of the board and not exercising their own discretion, the executive director does not owe a fiduciary duty.

The bill would require at least a two-thirds vote of the full board (8 out of 11 trustees) for creating an alternative benefit plan, reducing the city contribution rate, increasing the member contribution rate, lowering benefits or otherwise reducing amounts payable to, or accrued for, the benefit of any member, or any rules requiring the

equitable return of funds paid to or credited to the benefit of a member or pensioner. An alternative benefit plan may only be established if the pension system's actuary determines that its implementation would allow the pension system to continue to comply with funding and amortization period requirements, and if the PRB conducts a review of and validates this determination.

The PRB would be entitled to all documents and other information provided by DPFPS to the public, which would then be subject to an independent review by the PRB. Any employee or other agent acting on behalf of DPFPS or the city must certify to the PRB that any information provided is accurate and based on realistic assumptions.

The bill would also require the board to adopt a code of ethics and require the board members to take pension-related training from a manual created by the DPFPS executive director.

Actuarial Analysis

Prior to July 1, 2024 the PRB would select an actuary without conflicts to be hired by the board to perform an analysis based on the January 1, 2024 actuarial valuation prepared by the pension system. The analysis would include a conclusion by the actuary on whether the plan meets then-current PRB pension funding guidelines, and the actuary would recommend changes to benefits, member or city contributions to be submitted to the board by October 1, 2024. The board will consider the recommendations and adopt the changes it deems necessary. The legislature must approve the changes for them to become part of the statute.

City Contributions

The bill increases both employee and City contributions. The contribution policy for the City would be a fixed percentage of pay plus a flat dollar contribution per year through the end of 2024. However, the fixed percentage contribution would be subject to a minimum dollar floor in each year through 2024.

Investment Advisory Committee

The bill would require the board to establish an investment advisory committee. The committee would be composed of a majority of outside investment professionals, as well as sitting board members. The committee would review investment-related matters and make recommendations to the board. In addition, the bill would require at least a two-thirds vote by the board to approve each alternative investment.

Equitable Adjustments to Benefits

The bill would allow the board to consider and adopt rules requiring the equitable return of funds paid or credited to the benefit of a member or a pensioner before 9/1/17, including the return of excessive interest credited to a member's DROP account and excessive adjustments made as disability or COLA benefits. The bill also outlines the adjudication process for any judicial challenges to the equitable return of funds as required by the board.

DROP Payment Options

A member who terminated service before 9/1/2017 shall have their DROP account annuitized in either monthly or yearly distributions based on the member's election. Additionally, a member who has a financial hardship that was not reasonably foreseeable may obtain a distribution from the member's DROP account resulting in a corresponding reduction in the total number or amount of annuity payments. The board shall adopt rules regarding what constitutes an unforeseeable emergency or hardship, and in adopting the rules, the board shall provide flexibility to members.

Prohibition on Certain Distributions

If the bill receives the required votes, distributions from DROP accounts are immediately prohibited, except in certain cases including a minimum annual distribution until August 31, 2017. The board of trustees shall provide data or other information requested to the PRB in order for the PRB to determine whether DPFPS has violated the prohibition of certain distributions provision by August 31, 2017. All changes enacted by this bill would be rescinded if the PRB determines that the board violates this restriction.

Effective Date

Except as otherwise provided by the Act, the Act takes effect on September 1, 2017.

The following table outlines the primary changes to benefit provisions included in the bill.

Summary of Plan Changes

Normal Retirement Benefit

Eligibility

Current Tier 3: Age 55 and 10 Years of Service

Proposed Tier 3: Age 58 and 5 Years of Service

Amount

Current Tiers 1 & 2: 3.0% x Years of Service x Final Average Salary, no more than 96% x Final Average Salary or less than \$2,200 per month (minimum is prorated for periods of service less than 20)

Tier 3: [Years of Service (up to 20) x 2.0% Years of Service (>20, <=25) x 2.5% Years of Service (>25) x 3.0%] x Final Average Salary, not less than \$110 x Years of Service (up to 20)

Proposed Tiers 1 & 2: [3.0% x Years of Service (prior to September 1, 2017) Percent Multiplier (in table below) x Years of Service (after September 1, 2017)] x Final Average Salary, max is the greater of i. 90% or ii. the vested accrued benefit as of August 31, 2017

Age at Retirement	Percent Multiplier
57	2.40%
56	2.30%
55	2.20%
54	2.10%
53 and younger	2.00%

Tier 3: Years of Service x 2.5% x Final Average Salary, max 90%

Final Average Salary

Current Tiers 1 & 2: Highest 36 month period

Proposed Tiers 1 & 2: Highest 36 month period for service prior to September 1, 2017 and highest 60 month period for service after September 1, 2017

Early Retirement Benefit

Eligibility

Current Tiers 1 & 2: Age 45 and 5 Years of Service or 20 Years of Service

Tier 3: N/A

Proposed Tiers 1 & 2: Age 45 and 5 Years of Service, if 45 years or older as of September 1, 2017, age 53 and 5 Years of Service otherwise, or 20 Years of Service

Tier 3: Age 53 and 5 Years of Service or 20 Years of Service

Amount

Current Tiers 1 & 2 with 20 Years of Service - replace 3% multiplier with the following based on age at retirement:

Age at Retirement	Multiplier
48 & 49	2.75%
47	2.50%
46	2.25%
45 or younger	2.00%

Tiers 1 & 2 with less than 20 Years of Service: Reduction equal to 2/3 of 1% per month retirement date precedes age 50.

Proposed Tiers 1 & 2 with 20 Years of Service accrued as of September 1, 2017 - replace 3% multiplier with the following based on age at retirement:

Age at Retirement	Multiplier
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48 & 49	2.75%
47	2.50%
46	2.25%
45 and younger	2.00%

All others with 20 Years of Service - replace 2.5% multiplier with the following based on age at retirement:

Age at Retirement	Multiplier
57	2.40%
56	2.30%
55	2.20%
54	2.10%
53 and younger	2.00%

With less than 20 Years of Service: Reduction equal to 2/3 of 1% per month retirement date precedes age 45 if 45 years or older as of September 1, 2017, age 53 otherwise.

Unreduced at any retirement age if a member's pension is equal to 90% of Final Average Salary.

Supplemental Retirement Benefit

Current The greater of \$75 per month or 3% of their Normal or Early Retirement Benefit, payable beginning at age 55

Proposed Payable only to those receiving the supplement as of September 1, 2017

Vesting

Current Tier 3: 10 Year Cliff

Proposed Tier 3: 5 Year Cliff

Cost of Living Adjustment

Current Tier 1: 4.0% simple

Proposed Ad-hoc which may only be paid if the plan is at least 70% funded after taking into account the COLA equal to a simple crediting rate on October 1 equal to 100% of the average annual rate of actual investment return for the five-year period ending on the preceding December 31 minus 5%, and not to exceed 4%, beginning at the earlier of age 62 or 3 years after retirement.

Deferred Retirement Option Plan

Active

Current Interest credited is 6% effective October 1, 2016 dropping to 5% effective October 1, 2017 and variable based on the plan's funded ratio thereafter.

Funded Ratio	Crediting Rate
≥95%	7.0%
90%-94%	6.5%
85%-89%	6.0%
65%-84%	5.0%
60%-64%	4.0%
55%-59%	3.0%
<55%	0.0%

COLA credited to account

No maximum participation period

May elect a lump sum distribution or leave up to 100% of account balance in plan at separation of service and continue to accrue interest credit

Proposed No interest credited to account

No COLA credited to account
10 year maximum participation period
DROP balance distributed over the life expectancy at separation of service,
DROP account balance as of September 1, 2017 will be annuitized using a rate on a United States Treasury or other federal treasury note with a reasonable duration, as determined by the Board.

Contributions

Employee

Current 8.5% for non-DROP active participants & 4.0% for DROP active participants
Proposed 13.5% as of the effective date

Employer

Current 27.5% of total pay
Proposed A B, as described below
A. 34.5% of computation pay

The employer contribution above will be no less than

- i. \$5,173,000 for each of the pay periods beginning in 2017;
- ii. \$5,344,000 for each of the pay periods beginning in 2018;
- iii. \$5,571,000 for each of the pay periods beginning in 2019;
- iv. \$5,724,000 for each of the pay periods beginning in 2020;
- v. \$5,882,000 for each of the pay periods beginning in 2021;
- vi. \$6,043,000 for each of the pay periods beginning in 2022;
- vii. \$5,812,000 for each of the pay periods beginning in 2023;
- viii. \$6,024,000 for each of the pay periods beginning in 2024; and
- ix. \$0 thereafter

B. 1/26th of \$13 million per pay period for each pay period beginning after September 1, 2017 and before December 31, 2024

The contributions outlined above would remain in force as long as the system has a UAAL. If the plan is fully funded, contributions would be split equally between the city and members.

FINDINGS AND CONCLUSIONS

Given that the bill provisions for DPFPS would increase the total contribution rate and reduce current liabilities, it would increase the long-term funding security for all members of the affected retirement systems. It would impact all current and future active members because it increases the employee contributions for all groups of members. In addition, certain classes of active and inactive members are impacted by changes in plan provisions. Current active members would see changes to their prospective and retroactive benefit multiplier, as well as changes to retirement eligibility requirements and contribution requirements. Limits would be placed on the total DROP participation period and future interest accruals for current and future DROP participants. The bill would also make changes to future cost of living adjustments (COLA) that will impact current and future retirees and beneficiaries.

The actuarial review states that the actuarial assumptions and methods are the same as used by Segal for the January 1, 2016 actuarial valuation, except as noted in the Summary of Changes in Assumptions table above. The assumptions and methods used by Segal are reasonable.

Finally, based on the results outlined in the actuarial analysis, DPFPS is likely to be subject to the Funding Soundness Restoration Plan (FSRP) requirements outlined in Texas Government Code Section 802.2015 once the January 1, 2017 actuarial valuation is finalized. However, based on the actuarial analysis, the changes made under the bill will be sufficient to satisfy the Funding Soundness Restoration Plan requirements.

METHODOLOGY AND STANDARDS

According to the PRB actuaries, to the best of their knowledge, no material biases exist with respect to the data, methods or assumptions used to develop the analysis other than those specifically identified above and in the

actuarial review. The PRB did not audit the information provided but has reviewed the information for reasonableness and consistency with other information provided by or for the affected retirement systems. The PRB is not responsible for the accuracy or completeness of the information provided to the agency. All actuarial projections have a degree of uncertainty because they are based on the probability of occurrence of future contingent events. Accordingly, actual results will be different from the results contained in the analysis to the extent actual future experience varies from the experience implied by the assumptions. This analysis is based on the assumption that no other legislative changes affecting the funding or benefits of DPFPS will be adopted. It should be noted that when several proposals are adopted, the effect of each may be compounded, resulting in a cost that is greater (or less) than the sum of each proposal considered independently.

SOURCES

Actuarial Analysis by Jeffery S. Williams, FCA, ASA, MAAA, EA, Vice President and Consulting Actuary, Segal Consulting, May 19, 2017.

Actuarial Review by Kenneth J. Herbold, ASA, EA, MAAA, Staff Actuary, Pension Review Board, May 23, 2017.

GLOSSARY

Actuarial Accrued Liability (AAL) - The portion of the PVFB that is attributed to past service.

Actuarial Value of Assets (AVA) - The smoothed value of system's assets.

Amortization Payments - The yearly payments made to reduce the Unfunded Actuarial Accrued Liability (UAAL).

Amortization Period - The number of years required to pay off the unfunded actuarial accrued liability. The State Pension Review Board recommends that funding should be adequate to amortize the UAAL over a period which should not exceed 40 years, with 15-25 years being a more preferable target. An amortization period of 0-15 years is also a more preferable target.

Actuarial Cost Method - A method used by actuaries to divide the Present Value of Future Benefits (PVFB) into the Actuarial Accrued Liability (AAL), the Present Value of Future Normal Costs (PVFNC), and the Normal Cost (NC).

Funded Ratio (FR) - The ratio of actuarial assets to the actuarial accrued liabilities.

Market Value of Assets (MVA) - The fair market value of the system's assets.

Normal Cost (NC) - The portion of the PVFB that is attributed to the current year of service.

Present Value of Future Benefits (PVFB) - The present value of all benefits expected to be paid from the plan to current plan participants.

Present Value of Future Normal Costs (PVFNC) - The portion of the PVFB that will be attributed to future years of service.

Unfunded Actuarial Accrued Liability (UAAL) - The Actuarial Accrued Liability (AAL) less the Actuarial Value of Assets (AVA).

Source Agencies: 338 Pension Review Board

LBB Staff: UP, KFa

**LEGISLATIVE BUDGET BOARD
Austin, Texas**

ACTUARIAL IMPACT STATEMENT

85TH LEGISLATIVE REGULAR SESSION

May 19, 2017

TO: Honorable Joan Huffman, Chair, Senate Committee on State Affairs

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB3158 by Flynn (Relating to the retirement systems for and the provision of other benefits to police and fire fighters in certain municipalities; creating a criminal offense.), **Committee Report 2nd House, Substituted**

The following information was supplied by Agency 338 - Pension Review Board:

CR2H HB 3158 would make significant changes to Article 6243a-1, Title 109 Revised Civil Statutes (affecting the Dallas Police and Fire Pension System (DPFPS)) to increase both employee and City of Dallas (City) contributions; modify future benefit accruals; provide a retroactive multiplier increase for certain members; modify DROP participation and cost of living adjustments; make changes to the composition and governance structure of the DPFPS board (board); and require the establishment of an investment advisory committee. Article 6243a-1 establishes the basic governing structure of the DPFPS.

The proposed changes to the bill, if enacted, would significantly improve the actuarial soundness of the system. Under the existing plan structure, the plan is expected to become insolvent within the next 10 years. While the bill does not immediately bring the amortization period down to 40 years, which is the maximum recommended amortization period according to PRB *Guidelines for Actuarial Soundness* currently in effect, it sets the system on a path to full funding within a finite period.

The actuarial analysis provides the following details regarding the impact of the bill on projected January 1, 2017 actuarial valuation results:

Dallas Police and Fire Pension System Estimated Impact As of 1/1/2017 (\$Millions)	Current Plan	If Bill Enacted (w/ COLA)	If Bill Enacted (w/o COLA)*
City Contribution**	27.5%	34.5%	34.5%
Employee Contribution	<u>8.5%</u>	<u>13.5%</u>	<u>13.5%</u>
Total Contribution	36.0%	48.0%	48.0%
Total Normal Cost, before administrative expenses	\$84	\$62	\$60
Total Normal Cost as a % of Pay	22.6%	16.7%	16.1%
Actuarial Accrued Liabilities (AAL)	\$5,849	\$4,333	\$4,402
Actuarial Value of Assets (AVA)	(\$2,153)	(\$2,153)	(\$2,153)
Unfunded Actuarial Accrued Liability (millions)	\$3,696	\$2,280	\$2,249
Funded Ratio	36.8%	48.6%	48.9%
Amortization Period***	Infinite (never)	55	46

* This scenario was included because it was discussed at the Senate State Affairs committee hearing on May 18, 2017 that the automatic COLA will be changed to an ad-hoc COLA through a floor amendment to the bill.

** Amount is a percentage of total pay for current plan and a percentage of computation pay for the If Bill Enacted scenarios, but does not include additional flat dollar annual contributions or the minimum dollar floor, as outlined in the Summary of Plan Changes.

*** Based on the primary contribution requirements, not the alternative contribution requirements, as outlined in the Summary of Plan Changes.

The results presented under the If Bill Enacted (w/COLA) scenario assumes a 2.0% COLA is paid in all years beginning with the year 2047. As written, the bill requires a COLA to be paid in any future year in which the funded ratio is at least 70%. However, as was discussed at the Senate State Affairs committee hearing on May 18, 2017, PRB believes that this automatic COLA will be changed to an ad-hoc COLA through a floor amendment to the bill, giving the board discretion regarding whether to provide the stated COLA. The impact of assuming no COLA is paid unless the plan is fully funded after taking into account any ad-hoc COLA, results in the amortization period under the If Bill Enacted (w/o COLA) scenario. Please note that the PRB recommends that the costs of benefit changes, including any ad-hoc COLAs, should be actuarially valued prior to adoption to ensure that additional costs will be funded adequately and continuously.

The contribution policy for the City would be a fixed percentage of pay plus a flat dollar contribution per year through the end of 2024. However, the fixed percentage contribution would be subject to a minimum dollar floor in each year (Primary Employer Contributions as outlined in the Summary of Plan Changes section). The amount of the floor, as well as the flat dollar contribution, could potentially be lowered if legislation impacting the City's property tax cap is passed by the 85th Legislature, Regular Session, and the City is unsuccessful in increasing this cap via a local election (Alternative Employer Contributions).

Further, the amortization periods above assume the Primary Employer Contributions, are in effect in all years. If the Alternative Employer Contributions are in effect, the amortization periods shown above would increase to 62 years for the w/COLA scenario and 51 years for the w/o COLA scenario. The result would be an immediate need to make additional changes to bring the amortization period down to 40 years within a 10 year period, in accordance with the Funding Soundness Restoration Plan (FSRP) requirements outlined in Texas Government Code Section 802.2015. However, the PRB believes that the Alternative Employer Contributions will be removed from the bill through a floor amendment.

ACTUARIAL EFFECTS

The actuarial analysis provided by the plan's actuary states that although the retirement system is not projected to reach 100% funding within 30 years, it is projected to eventually become fully funded. The plan's actuary further states that currently the System is projected to become insolvent within the next 10 years. PRB's actuarial review states that the bill would make the retirement system less unsound and would set it on a path to full funding within a finite period.

Based on the results outlined in the actuarial analysis, DPFPS is likely to be immediately subject to the FSRP requirements in Texas Government Code Section 802.2015 once the January 1, 2017 actuarial valuation is finalized, and would therefore need to make additional adjustments to contributions and/or benefits to further reduce the amortization period. However, as was discussed at the Senate State Affairs committee hearing on May 18, 2017, the PRB believes additional changes will be introduced as floor amendments to address some of these specific concerns. These changes have not been included in the actuarial analysis, but are discussed in further detail below.

Furthermore, the PRB actuarial review states that it is important to recognize that even after the changes enacted by the bill and the proposed amendments, if all assumptions are met, the UAAL is still expected to grow and the funded ratio is expected to decline in the near term. Also, 90% or more of the City's contribution will be used to pay off the unfunded actuarial accrued liability (UAAL) and therefore any reduction in the City contribution will increase the expected time to fully fund the plan. The actuarial analysis also illustrates the impact or funding risk associated with a prolonged reduction in payroll, which would have the effect of lowering the total dollar amount contributed by the City, by assuming actual payroll is 90% of the projected payroll provided by the City. The worst case scenario shown results in an amortization period in excess of 100 years. However, the minimum contribution requirement under the Primary Employer Contribution provisions of the bill ensures this has minimal impact until after the floor and additional dollar contribution expire at the

end of 2024. During the seventh year, the bill requires the system to engage an independent actuary, selected by the PRB, to provide recommendations regarding potential contribution or benefit changes that ensure the system remains actuarially sound after the contribution floor, including the additional flat dollar contribution, expires.

In addition, the expected floor amendments would require the board to adopt rules and submit a plan to the PRB to comply with any funding and amortization period requirements contained in the Texas Government Code (Funding soundness Restoration Plan). This plan would be required to take into consideration the independent actuary's recommendations and outline steps to ensure the retirement system remains on a path to financial solvency. Therefore, the worst case scenarios are unlikely to come to fruition because the board would be required to be proactive.

Below is a table of the total projected contribution amounts (City plus employee contributions) under the current and proposed plans for the next 10 years:

**Projected Total Contributions
(in millions)**

<u>Valuation</u> <u>Year</u>	<u>Current</u> <u>Plan</u>	<u>CR2H HB</u> <u>3158 with</u> <u>COLA</u>	<u>CR2H</u> <u>HB 3158</u> <u>w/o</u> <u>COLA</u>
2017	\$140	\$158	\$158
2018	137	199	199
2019	144	208	208
2020	149	213	213
2021	153	219	219
2022	159	225	225
2023	165	221	221
2024	171	229	229
2025	177	226	226
2026	184	234	234
2027	191	243	243

Actuarial Assumptions and Methods

The assumptions and methods are the same as used in the January 1, 2016 actuarial valuation report except as noted in the following table.

Summary of Changes in Assumptions

Discount Rate

7.25% - same as the January 1, 2016 actuarial valuation

Investment Return

Market value returns assumed to be 5.00% in 2016, -1.74% in 2017, 5.00% in 2018, 6.50% in 2019, 7.00% in 2020, and 7.25% thereafter. Assumed rates of return were provided by the System.

Actuarial Value of Assets

Set equal to market value of assets

Administrative Expenses

The greater of \$10 million or 1% of computation pay

DROP Utilization

It is assumed that there will be no future entrants into DROP

Salary Increases

Select rates added for years 2016 - 2018.

2016 and 2018 - 10% if 0 - 10 years, 7% if 11 - 12 years, and 2% if 12 years

2017 - 5% if 0 - 10 years, 2% for all others

Current salary scale applies in 2019 and beyond

Total Computation Payroll

Year	Payroll
2017	\$372,000,000
2018	\$364,000,000
2019	\$383,000,000
2020	\$396,000,000
2021	\$408,000,000
2022	\$422,000,000
2023	\$438,000,000
2024	\$454,000,000
2025	\$471,000,000
2026	\$488,000,000
2027	\$507,000,000
2028	\$525,000,000
2029	\$545,000,000
2030	\$565,000,000
2031	\$581,000,000
2032	\$597,000,000
2033	\$614,000,000
2034	\$631,000,000
2035	\$648,000,000
2036	\$666,000,000
2037	\$684,000,000

2.75% in all other years

Overtime

The City is no longer assumed to contribute an amount 11% greater than computation pay for overtime work. This assumption does not impact benefits or liabilities.

Cost of Living Adjustment (COLA)

Two percent simple COLA assumed to be paid starting in 2047 and every year thereafter, based on the System's benchmark that the Plan must be at least 70% funded on a market value basis prior to and after a COLA is paid. Market returns must meet a certain level over a five-year period before COLA payments can be enacted; it is assumed these levels are met for purposes of these calculations.

Retirement Rates

Retirements are assumed to occur on January 1st.

In 2016, rates are increased by 5 percentage points for those participants who have been in DROP for six years or more.

Beginning in 2017, the current valuation retirement rates apply, with the following exception:

Current Active DROP Participants

- If at least 8 years in DROP as of 1/1/2017, 100% retirement rate in 2018
- If less than 8 years in DROP as of 1/1/2017, 50% retirement rate in 2018

Retirement Rates Beginning in 2018 for those not in DROP:

Age	Tiers 1 & 2, <20 YOS		Tier 1, at least 20 YOS	Tier 3
	as of 9/1/2017		as of 9/1/2017	
<50	1%		1%	1%
50	10%		20%	5%

51	5%	10%	5%
52	5%	10%	5%
53	5%	10%	5%
54	5%	20%	10%
55	15%	40%	20%
56	10%	50%	30%
57	5%	50%	40%
58	60%	60%	50%
59	50%	60%	50%
60	50%	60%	50%
61	50%	60%	50%
62	100%	100%	100%

100% retirement assumed once total of benefit multipliers reach 90%.

Current terminated vested participants are assumed to retire at age 50.

Future terminated vested participants are assumed to retire at age 58.

DROP Distribution

Current retirees - For those who were retirees as of January 1, 2016, 57.50% of the January 1, 2016 balance was assumed to be paid out in 2016 and 10% of the January 1, 2017 account balance is assumed to be paid out in 2017. Beginning January 1, 2018, the remainder of the DROP accounts are assumed to be paid out over the expected lifetime of the participant upon their retirement based on the mortality tables in effect at the time of their retirement; the expected lifetime is currently assumed to be 23 years. It is understood that the actual date of the change in DROP account distributions may occur prior to January 1, 2018.

Current actives - 10% of the January 1, 2017 account balances are assumed to be paid out in 2017 for participants that retire in 2017. Beginning January 1, 2018, DROP accounts are assumed to be paid out over the expected lifetime of the participant upon their retirement, based on the mortality tables in effect at the time of their retirement; the expected lifetime is currently assumed to be 21 years if the Normal Retirement Age is 58. It is understood that the actual date of the change in DROP account distributions may occur prior to January 1, 2018.

DROP Account Interest

Current retirees - 2.75%;

Current actives - 2.75%; only the DROP account balance as of September 1, 2017 receives interest upon retirement. DROP contributions into existing DROP accounts after September 1, 2017 and future DROP participants receive 0% interest during the DROP and upon retirement.

SYNOPSIS OF PROVISIONS

CR2H HB 3158 would amend and add sections to Title 109, Revised Civil Statutes Article 6243a-1 to reduce benefits (summarized in the table below), increase both employee and City contributions, change the board's composition and governance structure, and require the creation of an investment advisory committee.

Board Composition

The bill would change the board composition by establishing new requirements for trustee positions. Six of the board trustees would be selected by the mayor and five would be selected by the pension system. The board may not take any action until there are at least 10 initial trustees have been appointed.

Board Governance

The bill would clarify that the executive director is a fiduciary of the pension system, whereas currently the statute states that the "administrator" of the plan is *not* a fiduciary. The bill would require a two-thirds vote of the full board to implement any rule change concerning board governance. The bill would also require a two-thirds vote of the board for creating an alternative benefit plan, reducing the city contribution rate, increasing the member contribution rate, lowering benefits or otherwise reducing amounts payable to, or accrued for, the benefit of any member, or any rules requiring the equitable return of funds paid to or credited to the benefit of a

member or pensioner.

The PRB would be entitled to all documents and other information provided by DPFPS to the public, which would then be subject to an independent review by the PRB. Any employee or other agent acting on behalf of DPFPS commits a Class B misdemeanor offense if the person knowingly provides false information to the PRB.

The bill would also require the board to adopt a code of ethics and require the board members to take pension-related training from a manual created by the DPFPS executive director.

Actuarial Analysis

Prior to July 1, 2024 the PRB would select an actuary without conflicts to be hired by the board to perform an analysis based on the January 1, 2024 actuarial valuation prepared by the pension system. The analysis would include a conclusion by the actuary on whether the plan is actuarially sound based on then-current PRB guidelines, and the actuary would recommend changes to benefits, member or city contributions to be submitted to the board by October 1, 2024. The board will consider the recommendations and adopt the changes it deems necessary. The legislature must approve the changes for them to become part of the statute.

City Contributions

The bill increases both employee and City contributions. The contribution policy for the City would be a fixed percentage of pay plus a flat dollar contribution per year through the end of 2024. However, the fixed percentage contribution would be subject to a minimum dollar floor in each year, which is the primary contribution floor through 2024.

The amount of the floor, as well as the flat dollar contribution, could potentially be lowered if legislation impacting the City's property tax cap were passed by the 85th Legislature, Regular Session, and the City is unsuccessful in increasing this cap via local election.

Investment Advisory Committee

The bill would require the board to establish an investment advisory committee. The committee would be composed of a majority of outside investment professionals, as well as sitting board members. The committee would review investment-related matters and make recommendations to the board. In addition, the bill would require a two-thirds vote by the board to approve each alternative investment.

Equitable Adjustments to Benefits

The bill would allow the board to consider and adopt rules requiring the equitable return of funds paid or credited to the benefit of a member or a pensioner before 9/1/17, including the return of excessive interest credited to a member's DROP account and excessive adjustments made as disability or COLA benefits. The bill also outlines the adjudication process for any judicial challenges to the equitable return of funds as required by the board.

DROP Payment Options

A member who terminated service before 9/1/2017 shall have their DROP account annuitized in either monthly or yearly distributions based on the member's election. Additionally, a member who has a financial hardship that was not reasonably foreseeable may obtain a lump-sum distribution from the member's DROP account resulting in a corresponding reduction in the total number or amount of annuity payments. The board shall adopt rules regarding what constitutes an unforeseeable emergency or hardship, and in adopting the rules, the board shall provide flexibility to members.

Prohibition on Certain Lump Sum Distributions

If the bill receives the required votes, lump sum distributions from DROP accounts are immediately prohibited, except in certain cases. All changes enacted by this bill would be rescinded if the PRB determines that the board violates this restriction.

Effective Date

Except as otherwise provided by the Act, the Act takes effect on September 1, 2017.

The following table outlines the primary changes to benefit provisions included in the bill.

Summary of Plan Changes

Normal Retirement Benefit

Eligibility

Current Tier 3: Age 55 and 10 Years of Service
 Proposed Tier 3: Age 58 and 5 Years of Service

Amount

Current Tiers 1 & 2: 3.0% x Years of Service x Final Average Salary, no more than 96% x Final Average Salary or less than \$2,200 per month (minimum is prorated for periods of service less than 20)
 Tier 3: [Years of Service (up to 20) x 2.0% Years of Service (>20, <=25) x 2.5% Years of Service (>25) x 3.0%] x Final Average Salary, not less than \$110 x Years of Service (up to 20)
 Proposed Tiers 1 & 2: [3.0% x Years of Service (prior to September 1, 2017) Percent Multiplier (in table below) x Years of Service (after September 1, 2017)] x Final Average Salary, max is the greater of i. 90% or ii. the vested accrued benefit as of August 31, 2017

<u>Age at Retirement</u>	<u>Percent Multiplier</u>
57	2.40%
56	2.30%
55	2.20%
54	2.10%
53 and younger	2.00%

Tier 3: Years of Service x 2.5% x Final Average Salary, max 90%

Final Average Salary

Current Tiers 1 & 2: Highest 36 month period
 Proposed Tiers 1 & 2: Highest 36 month period for service prior to September 1, 2017 and highest 60 month period for service after September 1, 2017

Early Retirement Benefit

Eligibility

Current Tiers 1 & 2: Age 45 and 5 Years of Service or 20 Years of Service
 Tier 3: N/A
 Proposed Tiers 1 & 2: Age 45 and 5 Years of Service, if 45 years or older as of September 1, 2017, age 53 and 5 Years of Service otherwise, or 20 Years of Service
 Tier 3: Age 53 and 5 Years of Service or 20 Years of Service

Amount

Current Tiers 1 & 2 with 20 Years of Service - replace 3% multiplier with the following based on age at retirement:

<u>Age at Retirement</u>	<u>Multiplier</u>
48 & 49	2.75%
47	2.50%
46	2.25%
45 or younger	2.00%

Tiers 1 & 2 with less than 20 Years of Service: Reduction equal to 2/3 of 1% per month retirement date precedes age 50.

Proposed Tiers 1 & 2 with 20 Years of Service accrued as of September 1, 2017 - replace 3% multiplier with the following based on age at retirement:

Age at Retirement	Multiplier
48 & 49	2.75%
47	2.50%
46	2.25%
45 and younger	2.00%

All others with 20 Years of Service - replace 2.5% multiplier with the following based on age at retirement:

Age at Retirement	Multiplier
57	2.40%
56	2.30%
55	2.20%
54	2.10%
53 and younger	2.00%

With less than 20 Years of Service: Reduction equal to 2/3 of 1% per month retirement date precedes age 45 if 45 years or older as of September 1, 2017, age 53 otherwise.

Unreduced at any retirement age if a member's pension is equal to 90% of Final Average Salary.

Supplemental Retirement Benefit

Current The greater of \$75 per month or 3% of their Normal or Early Retirement Benefit, payable beginning at age 55

Proposed Payable only to those receiving the supplement as of September 1, 2017

Vesting

Current Tier 3: 10 Year Cliff

Proposed Tier 3: 5 Year Cliff

Cost of Living Adjustment

Current Tier 1: 4.0% simple

Proposed If the plan is at least 70% funded after taking into account the COLA, a simple crediting rate on October 1 equal to 100% of the average annual rate of actual investment return for the five-year period ending on the preceding December 31 minus 5%, and not to exceed 4%, beginning at the earlier of age 62 or 3 years after retirement.

Deferred Retirement Option Plan

Active

Current Interest credited is 6% effective October 1, 2016 dropping to 5% effective October 1, 2017 and variable based on the plans funded ratio thereafter.

Funded Ratio Crediting Rate

>=95%	7.0%
90%-94%	6.5%
85%-89%	6.0%
65%-84%	5.0%
60%-64%	4.0%
55%-59%	3.0%
<55%	0.0%

COLA credited to account

No maximum participation period

May elect a lump sum distribution or leave up to 100% of account balance in plan at separation of service and continue to accrue interest credit

Proposed No interest credited to account

No COLA credited to account

10 year maximum participation period

DROP balance distributed over the life expectancy at separation of service,

DROP account balance as of September 1, 2017 will be annuitized using a rate on a United States Treasury or other federal treasury note with a reasonable duration, as determined by the Board.

Contributions

Employee

Current 8.5% for non-DROP active participants & 4.0% for DROP active participants

Proposed 13.5% as of the effective date

Employer

Current 27.5% of pay

Proposed

Employer

Current 27.5% of total pay

Proposed A B, as described below

Primary A. 34.5% of computation pay

The employer contribution above will be no less than

- i. \$5,173,000 for each of the pay periods beginning in 2017;
- ii. \$5,344,000 for each of the pay periods beginning in 2018;
- iii. \$5,571,000 for each of the pay periods beginning in 2019;
- iv. \$5,724,000 for each of the pay periods beginning in 2020;
- v. \$5,882,000 for each of the pay periods beginning in 2021;
- vi. \$6,043,000 for each of the pay periods beginning in 2022;
- vii. \$5,812,000 for each of the pay periods beginning in 2023;

- viii. \$6,024,000 for each of the pay periods beginning in 2024; and
- ix. \$0 thereafter

B. 1/26th of \$11 million per pay period for each pay period beginning after September 1, 2017 and before December 31, 2024

Alternative However, in the event that

- a. SB 2 or similar legislation of the 85th Legislature, Regular Session, 2017 has the effect of lowering the rollback tax rate of the City is enacted and becomes law; and
- b. For the applicable tax year the City holds an election to increase the applicable tax rate; and
- c. That election fails to increase the tax rate; the employer contribution outlined in A above will be no less than
 - i. \$4,936,000 for each of the pay periods beginning in 2017;
 - ii. \$4,830,000 for each of the pay periods beginning in 2018;
 - iii. \$5,082,000 for each of the pay periods beginning in 2019;
 - iv. \$5,255,000 for each of the pay periods beginning in 2020;
 - v. \$5,414,000 for each of the pay periods beginning in 2021;
 - vi. \$5,600,000 for each of the pay periods beginning in 2022;
 - vii. \$5,812,000 for each of the pay periods beginning in 2023;
 - viii. \$6,024,000 for each of the pay periods beginning in 2024;
 - ix. \$0 thereafter; and

The \$11 million outlined in B above would be replaced with \$5 million.

The contributions outlined above would remain in force as long as the system has a UAAL. If the plan is fully funded, contributions would be split equally between the city and members.

FINDINGS AND CONCLUSIONS

Given that the bill provisions for DPFPS would increase the total contribution rate and reduce current liabilities, it would increase the long-term funding security for all members of the affected retirement systems. It would impact all current and future active members because it increases the employee contributions for all groups of members. In addition, certain classes of active and inactive members are impacted by changes in plan provisions. Current active members would see changes to their prospective and retroactive benefit multiplier, as well as changes to retirement eligibility requirements and contribution requirements. Limits would be placed on the total DROP participation period and future interest accruals for current and future DROP participants. The bill would also make changes to future cost of living adjustments (COLA) that will impact current and future retirees and beneficiaries.

The actuarial review states that the actuarial assumptions and methods are the same as used by Segal for the January 1, 2016 actuarial valuation, except as noted in the Summary of Changes in Assumptions table above. The assumptions and methods used by Segal are reasonable.

Finally, based on the results outlined in the actuarial analysis, DPFPS is likely to be subject to the Funding Soundness Restoration Plan (FSRP) requirements outlined in Texas Government Code Section 802.2015 once the January 1, 2017 actuarial valuation is finalized, and will therefore need to make additional adjustments to contributions and/or benefits to further reduce their amortization period. However, the PRB believes that the current bill with the additional changes expected to be included in floor amendments, will be sufficient to satisfy the Funding Soundness Restoration Plan Requirements.

METHODOLOGY AND STANDARDS

According to the PRB actuaries, to the best of their knowledge, no material biases exist with respect to the data, methods or assumptions used to develop the analysis other than those specifically identified above and in the actuarial review. The PRB did not audit the information provided but has reviewed the information for reasonableness and consistency with other information provided by or for the affected retirement systems. The PRB is not responsible for the accuracy or completeness of the information provided to the agency. All actuarial projections have a degree of uncertainty because they are based on the probability of occurrence of future contingent events. Accordingly, actual results will be different from the results contained in the analysis to the extent actual future experience varies from the experience implied by the assumptions. This analysis is based on the assumption that no other legislative changes affecting the funding or benefits of DPFPS will be adopted. It should be noted that when several proposals are adopted, the effect of each may be compounded, resulting in a cost that is greater (or less) than the sum of each proposal considered independently.

SOURCES

Actuarial Analysis by Jeffery S. Williams, FCA, ASA, MAAA, EA, Vice President and Consulting Actuary, Segal Consulting, May 17, 2017.

Actuarial Review by Kenneth J. Herbold, ASA, EA, MAAA, Staff Actuary, Pension Review Board, May 19, 2017.

GLOSSARY

Actuarial Accrued Liability (AAL) - The portion of the PVFB that is attributed to past service.

Actuarial Value of Assets (AVA) - The smoothed value of system's assets.

Amortization Payments - The yearly payments made to reduce the Unfunded Actuarial Accrued Liability (UAAL).

Amortization Period - The number of years required to pay off the unfunded actuarial accrued liability. The State Pension Review Board recommends that funding should be adequate to amortize the UAAL over a period which should not exceed 40 years, with 15-25 years being a more preferable target. An amortization period of 0-15 years is also a more preferable target.

Actuarial Cost Method - A method used by actuaries to divide the Present Value of Future Benefits (PVFB) into the Actuarial Accrued Liability (AAL), the Present Value of Future Normal Costs (PVFNC), and the Normal Cost (NC).

Funded Ratio (FR) - The ratio of actuarial assets to the actuarial accrued liabilities.

Market Value of Assets (MVA) - The fair market value of the system's assets.

Normal Cost (NC) - The portion of the PVFB that is attributed to the current year of service.

Present Value of Future Benefits (PVFB) - The present value of all benefits expected to be paid from the plan to current plan participants.

Present Value of Future Normal Costs (PVFNC) - The portion of the PVFB that will be attributed to future years of service.

Unfunded Actuarial Accrued Liability (UAAL) - The Actuarial Accrued Liability (AAL) less the Actuarial Value of Assets (AVA).

Source Agencies: 338 Pension Review Board

LBB Staff: UP

**LEGISLATIVE BUDGET BOARD
Austin, Texas**

ACTUARIAL IMPACT STATEMENT

85TH LEGISLATIVE REGULAR SESSION

May 12, 2017

TO: Honorable Joan Huffman, Chair, Senate Committee on State Affairs

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB3158 by Flynn (Relating to the retirement systems for and the provision of other benefits to police and fire fighters in certain municipalities; creating a criminal offense.),
As Engrossed

The following information was supplied by Agency 338 - Pension Review Board:

HB 3158, as engrossed, would make significant changes to Article 6243a-1, Title 109 Revised Civil Statutes (affecting the Dallas Police and Fire Pension System (DPFPS)) to increase both employee and City of Dallas (City) contributions; modify future benefit accruals; provide a retroactive multiplier increase for certain members; modify DROP participation and cost of living adjustments; make changes to the composition and governance structure of the DPFPS board (board); and require the establishment of an investment advisory committee. Article 6243a-1 establishes the basic governing structure of the DPFPS. While changes to the benefit structure can be made by the Legislature or members of the system, the employee contributions may only be modified by the Legislature, whereas City contributions can be modified by the Legislature or a majority vote of the City voters.

The proposed changes to the bill, if enacted, would significantly improve the actuarial soundness of the system. Under the existing plan structure, the plan is expected to become insolvent within the next 10 years. While the bill does not immediately bring the amortization period down to 40 years, which is the maximum recommended amortization period according to PRB *Guidelines for Actuarial Soundness* currently in effect, it sets the system on a path to full funding within a finite period.

The following table outlines the changes between the current plan and HB 3158, as engrossed:

Dallas Police and Fire Pension System <small>Estimated As of 1/1/2017 (\$Millions)</small>	Current Plan	If Bill Enacted	Change
City Contribution*	27.5%	34.5%	7.0%
Employee Contribution	<u>8.5%</u>	<u>13.5%</u>	<u>5.0%</u>
Total Contribution	36.0%	48.0%	12.0%
Total Normal Cost, before administrative expenses	\$88	\$66	(\$22)
Total Normal Cost as a % of Pay**	22.6%	16.7%	(5.9%)
Actuarial Accrued Liabilities (AAL)	\$5,849	\$4,333	(\$1,416)
Actuarial Value of Assets (AVA)	2,153	2,153	\$0
Unfunded Actuarial Accrued Liability (millions)	\$3,696	\$2,280	(\$1,416)
Funded Ratio	36.8%	48.6%	11.8%
Amortization Period***	Infinite (never)	58	N/A

* Amount is a percentage of total pay for the Current Plan scenario and a percentage of computation pay for the If Bill Enacted scenario. The If Bill Enacted scenario does not include additional \$11 million annual contributions.

** Based on estimated 2017 computation pay of \$392 Million as provided by the City.

*** Takes into account the additional \$11 million annual contribution for the period October 1, 2017 - September 30, 2019 under the If Bill Enacted scenario, but assumes the \$11 million will not be contributed in future years when the amortization period falls below 35 years.

ACTUARIAL EFFECTS

The actuarial analysis provided by the plan's actuary states that although the retirement system is not projected to reach 100% funding within 30 years, it is projected to eventually become fully funded. The plan's actuary further states that currently the System is projected to become insolvent within the next 10 years. PRB's actuarial review states that the bill would make the retirement system less unsound and would set it on a path to full funding within a finite period.

The actuarial review notes that as part of raising the City's contribution requirement, the bill establishes a contribution policy for the City that is worth noting. The bill would increase the City's contribution rate to 34.5% of aggregate computation pay paid to members and an additional annual contribution equal to \$11 million, but only for the period of October 1, 2017 through September 30, 2019. For periods beginning October 1, 2019, the \$11 million additional annual contribution would only be required when the amortization period is less than or equal to 35 years. This means that the City contribution would be a fixed percentage of pay plus a flat dollar amount per year. However, after the first two years, the City's flat dollar contribution is only required when the system has an amortization period under 35 years and is not required if the amortization period is over 35 years. In other words, the additional contribution is not made when there is a greater need for it.

The retirement system's actuarial analysis notes that effective October 1, 2019, the system is projected to have an amortization period above 35 years and therefore the additional \$11 million annual contribution would no longer be required. Also, the actuarial analysis notes that if this contribution were made every year regardless of the calculated amortization period for that year, the amortization period reported as of January 1, 2017 would be 48 years.

Even though the bill indicates the additional \$11 million annual contribution is required again once the amortization period is less than or equal to 35 years, the analysis assumes this contribution will not resume in the future. Based on the PRB's estimates, stopping the additional \$11 million contribution effective September 1, 2019 and restarting it when the calculated amortization period decreases to 35 years (projected for 2036) would likely lower the estimated January 1, 2017 amortization period from 58 to 55 years.

The benefit and DROP distribution changes proposed in the bill would also improve the funded ratio of the plan from approx. 37% to 49%.

Below is a table of the total projected contribution amounts (City plus employee contributions) under the current plan and HB 3158, as engrossed:

Projected Total Contributions (in millions)		
Valuation Year	Current Plan	HB 3158, as engrossed, Proposed Plan
2017	\$147	\$157
2018	151	204
2019	158	209
2020	162	207
2021	167	213
2022	171	219
2023	176	225
2024	181	231

2025	186	237
2026	191	244
2027	196	250

Actuarial Assumptions and Methods

The actuarial review states that while the PRB believes a 2.25% assumed COLA would be more appropriate given the bill language, the use of a 2.0% assumed COLA is not unreasonable for the If Bill Enacted scenario the actuarial analysis uses a 2.0% COLA assumption for the If Bill Enacted scenario. Otherwise, the PRB actuaries noted in their review that the assumptions and methods used in the actuarial analysis are reasonable.

The assumptions and methods are the same as used in the January 1, 2016 actuarial valuation report except as noted in the following table.

Summary of Changes in Assumptions

Discount Rate

7.25% - same as the January 1, 2016 actuarial valuation

Investment Return

Market value returns assumed to be 5.00% in 2016, -1.74% in 2017, 5.00% in 2018, 6.50% in 2019, 7.00% in 2020, and 7.25% thereafter. Assumed rates of return were provided by the System.

Actuarial Value of Assets

Set equal to market value of assets

DROP Utilization

It is assumed that there will be no future entrants into DROP

Salary Increases

Select rates added for years 2016 - 2018.

2016 and 2018 - 10% if 0 - 10 years, 7% if 11 - 12 years, and 2% if 12 years

2017 - 5% if 0 - 10 years, 2% for all others

Current salary scale applies in 2019 and beyond

Payroll Growth Rate

4.25% in 2018; 2.75% in all other years

Overtime

The City is no longer assumed to contribute an amount 11% greater than computation pay for overtime work. This assumption does not impact benefits or liabilities.

Cost of Living Adjustment (COLA)

Two percent simple COLA assumed to be paid starting in 2047 and every year thereafter, based on the System's benchmark that the Plan must be at least 70% funded on a market value basis prior to and after a COLA is paid. Market returns must meet a certain level over a five-year period before COLA payments can be enacted; it is assumed these levels are met for purposes of these calculations.

Retirement Rates

Retirements are assumed to occur on January 1st.

In 2016, rates are increased by 5 percentage points for those participants who have been in DROP for six years or more.

Beginning in 2017, the current valuation retirement rates apply, with the following exception:

Current Active DROP Participants

- If at least 8 years in DROP as of 1/1/2017, 100% retirement rate in 2018
- If less than 8 years in DROP as of 1/1/2017, 50% retirement rate in 2018

Retirement Rates Beginning in 2018 for those not in DROP

<u>Age</u>	Tiers 1 & 2, <20 YOS		Tier 1, at least 20 YOS	<u>Tier 3</u>
	<u>as of 9/1/2017</u>		<u>as of 9/1/2017</u>	
<50	1%		1%	1%
50	10%		20%	5%
51	5%		10%	5%
52	5%		10%	5%
53	5%		10%	5%
54	5%		20%	10%
55	15%		40%	20%
56	10%		50%	30%
57	5%		50%	40%
58	60%		60%	50%
59	50%		60%	50%
60	50%		60%	50%
61	50%		60%	50%
62	100%		100%	100%

100% retirement assumed once total of benefit multipliers reach 90%.

Current terminated vested participants are assumed to retire at age 50.

Future terminated vested participants are assumed to retire at age 58.

DROP Distribution

Current retirees - For those who were retirees as of January 1, 2016, 57.50% of the January 1, 2016 balance was assumed to be paid out in 2016 and 10% of the January 1, 2017 account balance is assumed to be paid out in 2017. Beginning January 1, 2018, the remainder of the DROP accounts are assumed to be paid out over the expected lifetime of the participant upon their retirement based on the mortality tables in effect at the time of their retirement; the expected lifetime is currently assumed to be 23 years. It is understood that the actual date of the change in DROP account distributions may occur prior to January 1, 2018.

Current actives - 10% of the January 1, 2017 account balances are assumed to be paid out in 2017 for participants that retire in 2017. Beginning January 1, 2018, DROP accounts are assumed to be paid out over the expected lifetime of the participant upon their retirement, based on the mortality tables in effect at the time of their retirement; the expected lifetime is currently assumed to be 21 years if the Normal Retirement Age is 58. It is understood that the actual date of the change in DROP account distributions may occur prior to January 1, 2018.

DROP Account Interest

Current retirees - 2.75%;

Current actives - 2.75%; only the DROP account balance as of September 1, 2017 receives interest upon retirement. DROP contributions into existing DROP accounts after September 1, 2017 and future DROP participants receive 0% interest during the DROP and upon retirement.

SYNOPSIS OF PROVISIONS

HB 3158, as engrossed, would amend and add sections to Title 109, Revised Civil Statutes Article 6243a-1 to reduce benefits (summarized in the table below), increase both employee and City contributions, change the board's composition and governance structure, and require the creation of an investment advisory committee.

Board Composition

The bill would change the board composition by establishing new requirements for trustee positions. The changes to the board are to be executed on the effective date of the bill.

Board Governance

The bill would clarify that the executive director is a fiduciary of the pension system, whereas currently the statute states that the “administrator” of the plan is *not* a fiduciary. The bill would require a two-thirds vote of the board to implement any rule change concerning board governance.

Also, the bill would require the PRB to review any board rule to determine that the implementation of the rule would not cause the amortization period to exceed 35 years. The PRB would also be entitled to all documents and other information provided by DPFPS to the public, which would then be subject to an independent review by the PRB. Any employee or other agent acting on behalf of DPFPS commits a Class B misdemeanor offense if the person knowingly provides false information to the PRB.

The bill would also require the board to adopt a code of ethics and require the board members to take pension-related training from a manual created by the DPFPS executive director.

City Contributions

The bill would require the City to make biweekly contributions to the system of 34.5% of aggregate computation pay paid to members with additional biweekly payments of 1/26 of \$11 million between September 2017 and September 2019. The additional \$11 million contribution would not be made if the unfunded actuarial accrued liability is not projected to be paid off within 35 years while including the \$11 million contribution.

Investment Advisory Committee

The bill would require the board to establish an investment advisory committee. The committee would be composed of a majority of outside investment professionals, as well as sitting board members. The committee would review investment-related matters and make recommendations to the board. In addition, the bill would require a two-thirds vote by the board to approve each alternative investment.

Equitable Adjustments to Benefits

The bill would require the board to consider and adopt rules requiring the equitable return of funds paid or credited to the benefit of a member or a pensioner before 9/1/17, including the return of excessive interest credited to a member's DROP account and excessive adjustments made as disability or COLA benefits. The bill also outlines the adjudication process for any judicial challenges to the equitable return of funds as required by the board.

DROP Payment Options

A member who terminated service before 9/1/2017 shall have their DROP account annuitized in either monthly or yearly distributions based on the member's election. Additionally, a member who has a financial hardship that was not reasonably foreseeable may obtain a lump-sum distribution from the member's DROP account resulting in a corresponding reduction in the total number or amount of annuity payments. The board shall adopt rules regarding what constitutes an unforeseeable emergency or hardship, and in adopting the rules, the board shall provide flexibility to members.

Effective Date

Except as otherwise provided by the Act, the Act takes effect on September 1, 2017.

The following table outlines the primary changes to benefit provisions included in the bill.

Summary of Plan Changes

Normal Retirement Benefit

Eligibility

Current	Tier 3: Age 55 and 10 Years of Service
Proposed	Tier 3: Age 58 and 5 Years of Service

Amount

- Current** Tiers 1 & 2: 3.0% x Years of Service x Final Average Salary, no more than 96% x Final Average Salary or less than \$2,200 per month (minimum is prorated for periods of service less than 20)
- Tier 3: [Years of Service (up to 20) x 2.0% Years of Service (>20, <=25) x 2.5% Years of Service (>25) x 3.0%] x Final Average Salary, not less than \$110 x Years of Service (up to 20)
- Proposed** Tiers 1 & 2: [3.0% x Years of Service (prior to September 1, 2017) Percent Multiplier (in table below) x Years of Service (after September 1, 2017)] x Final Average Salary, max is the greater of i. 90% or ii. the vested accrued benefit as of August 31, 2017

<u>Age at Retirement</u>	<u>Percent Multiplier</u>
57	2.40%
56	2.30%
55	2.20%
54	2.10%
53 and younger	2.00%

Tier 3: Years of Service x 2.5% x Final Average Salary, max 90%

Final Average Salary

- Current** Tiers 1 & 2: Highest 36 month period
- Proposed** Tiers 1 & 2: Highest 36 month period for service prior to September 1, 2017 and highest 60 month period for service after September 1, 2017

Early Retirement Benefit

Eligibility

- Current** Tiers 1 & 2: Age 45 and 5 Years of Service or 20 Years of Service
- Tier 3: N/A
- Proposed** Tiers 1 & 2: Age 45 and 5 Years of Service, if 45 years or older as of September 1, 2017, age 53 and 5 Years of Service otherwise, or 20 Years of Service
- Tier 3: Age 53 and 5 Years of Service or 20 Years of Service

Amount

- Current** Tiers 1 & 2 with 20 Years of Service - replace 3% multiplier with the following based on age at retirement:

<u>Age at Retirement</u>	<u>Multiplier</u>
48 & 49	2.75%
47	2.50%
46	2.25%
45 or younger	2.00%

Tiers 1 & 2 with less than 20 Years of Service: Reduction equal to 2/3 of 1% per month retirement date precedes age 50.

- Proposed** Tiers 1 & 2 with 20 Years of Service accrued as of September 1, 2017 - replace 3% multiplier with the following based on age at retirement:

Age at

<u>Retirement</u>	<u>Multiplier</u>
48 & 49	2.75%
47	2.50%
46	2.25%
45 and younger	2.00%

All others with 20 Years of Service - replace 2.5% multiplier with the following based on age at retirement:

<u>Retirement</u>	<u>Multiplier</u>
57	2.40%
56	2.30%
55	2.20%
54	2.10%
53 and younger	2.00%

With less than 20 Years of Service: Reduction equal to 2/3 of 1% per month retirement date precedes age 45 if 45 years or older as of September 1, 2017, age 53 otherwise.

Unreduced at any retirement age if a member's pension is equal to 90% of Final Average Salary.

Supplemental Retirement Benefit

Current	The greater of \$75 per month or 3% of their Normal or Early Retirement Benefit, payable beginning at age 55
Proposed	Payable only to those receiving the supplement as of September 1, 2017

Vesting

Current	Tier 3: 10 Year Cliff
Proposed	Tier 3: 5 Year Cliff

Cost of Living Adjustment

Current	Tier 1: 4.0% simple
Proposed	If the plan is at least 70% funded after taking into account the COLA, a simple crediting rate on October 1 equal to 100% of the average annual rate of actual investment return for the five-year period ending on the preceding December 31 minus 5%, and not to exceed 4%, beginning at the earlier of age 62 or 3 years after retirement. (The actuarial analysis indicates the COLA is ad-hoc, however, it assumes a COLA is paid every year once the plan reaches the necessary funding target.)

Deferred Retirement Option Plan

Active

Current	Interest credited is 6% effective October 1, 2016 dropping to 5% effective October 1, 2017 and variable based on the plans funded ratio thereafter.
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<u>Funded Ratio</u>	<u>Crediting Rate</u>
≥95%	7.0%

90%-94%	6.5%
85%-89%	6.0%
65%-84%	5.0%
60%-64%	4.0%
55%-59%	3.0%
<55%	0.0%

COLA credited to account

No maximum participation period

May elect a lump sum distribution or leave up to 100% of account balance in plan at separation of service and continue to accrue interest credit

Proposed No interest credited to account

No COLA credited to account

10 year maximum participation period

DROP balance distributed over the life expectancy at separation of service,

DROP account balance as of September 1, 2017 will be annuitized using a rate on a United States Treasury or other federal treasury note with a reasonable duration, as determined by the Board.

Contributions

Employee

Current 8.5% for non-DROP active participants & 4.0% for DROP active participants

Proposed 13.5% as of the effective date

Employer

Current 27.5% of pay

Proposed 34.5% of computation pay plus \$11,000,000 per year, subject to certain restrictions (34.5% of pay shall not be less than \$5,173,000 for each of the bi-weekly pay periods ending during September 1, 2017 - December 31, 2017; \$5,344,000 for each of the bi-weekly pay periods ending during January 1, 2018 - December 31, 2018; \$5,571,000 for each of the bi-weekly pay periods ending during January 1, 2019 - December 31, 2019; and \$5,571,000 increased by 2.75%, compounded annually, for each bi-weekly pay period ending during the calendar years thereafter. Beginning September 1, 2019, for any year in which the 34.5% of pay plus \$11 million is not sufficient to amortize the existing UAAL within a 35 year period, the city is not required to make the \$11 million contribution.)

The contributions outlined above will remain in force as long as the system has a UAAL. If the plan is fully funded, contributions will be split equally between the city and members.

FINDINGS AND CONCLUSIONS

Given that the bill provisions for DPFPS would increase the total contribution rate and reduce current liabilities, it would increase the long-term funding security for all members of the affected retirement systems. It would impact all current and future active members because it increases the employee contributions for all groups of members. In addition, certain classes of active and inactive members are impacted by changes in plan provisions. Current active members would see changes to their prospective and retroactive benefit multiplier, as well as changes to retirement eligibility requirements and contribution requirements. Limits would be placed on the total DROP participation period and future interest accruals for current and future DROP participants. The bill would also make changes to future cost of living adjustments (COLA) that will impact current and future retirees and beneficiaries.

The actuarial analysis assumes a COLA of 2.0%, although given an assumed rate of return of 7.25%; the actuarial review determined that a 2.25% assumed COLA would be more appropriate. The PRB's actuaries do not have sufficient data to determine the magnitude of the impact of using a 2.25% assumed COLA, but this change would increase the projected liabilities and increase the calculated amortization period. However, the impact of an additional 0.25% simple COLA is likely to be small, given that the bill also requires the plan to be at least 70% funded prior to providing a COLA, and the actuarial analysis projects the plan will not be 70% funded until the year 2047.

The actuarial review states that the actuarial assumptions and methods are the same as used by Segal for the January 1, 2016 actuarial valuation, except as noted in the Summary of Changes in Assumptions table above. The assumptions and methods used by Segal are reasonable. Also, in the actuarial analysis, Segal uses a 2.0% COLA for the If Bill Enacted scenario. While the PRB actuaries believe a 2.25% COLA would be more appropriate given the bill language, the impact of this difference is expected to be small, and therefore, the use of a 2.0% assumed COLA is not unreasonable.

Finally, based on the results outlined in the actuarial analysis, DPFPS is likely to be subject to the Funding Soundness Restoration Plan (FSRP) requirements, as outlined in Texas Government Code Section 802.2015, once the January 1, 2017 actuarial valuation is finalized and will therefore need to make additional adjustments to contributions and/or benefits to further reduce their amortization period.

METHODOLOGY AND STANDARDS

According to the PRB actuaries, to the best of their knowledge, no material biases exist with respect to the data, methods or assumptions used to develop the analysis other than those specifically identified above and in the actuarial review. The PRB did not audit the information provided but has reviewed the information for reasonableness and consistency with other information provided by or for the affected retirement systems. The PRB is not responsible for the accuracy or completeness of the information provided to the agency. All actuarial projections have a degree of uncertainty because they are based on the probability of occurrence of future contingent events. Accordingly, actual results will be different from the results contained in the analysis to the extent actual future experience varies from the experience implied by the assumptions. This analysis is based on the assumption that no other legislative changes affecting the funding or benefits of DPFPS will be adopted. It should be noted that when several proposals are adopted, the effect of each may be compounded, resulting in a cost that is greater (or less) than the sum of each proposal considered independently.

SOURCES

Actuarial Analysis by Jeffery S. Williams, FCA, ASA, MAAA, EA, Vice President and Consulting Actuary, Segal Consulting, March, 31, 2017.

Actuarial Review by Robert M. May, FSA, EA, MAAA, Board Actuary; and Kenneth J. Herbold, ASA, EA, MAAA, Staff Actuary, Pension Review Board, April 13, 2017.

GLOSSARY

Actuarial Accrued Liability (AAL) - The portion of the PVFB that is attributed to past service.

Actuarial Value of Assets (AVA) - The smoothed value of system's assets.

Amortization Payments - The yearly payments made to reduce the Unfunded Actuarial Accrued Liability (UAAL).

Amortization Period - The number of years required to pay off the unfunded actuarial accrued liability. The State Pension Review Board recommends that funding should be adequate to amortize the UAAL over a period which should not exceed 40 years, with 15-25 years being a more preferable target. An amortization period of 0-15 years is also a more preferable target.

Actuarial Cost Method - A method used by actuaries to divide the Present Value of Future Benefits (PVFB) into the Actuarial Accrued Liability (AAL), the Present Value of Future Normal Costs (PVFNC), and the Normal Cost (NC).

Funded Ratio (FR) - The ratio of actuarial assets to the actuarial accrued liabilities.

Market Value of Assets (MVA) - The fair market value of the system's assets.

Normal Cost (NC) - The portion of the PVFB that is attributed to the current year of service.

Present Value of Future Benefits (PVFB) - The present value of all benefits expected to be paid from the plan to current plan participants.

Present Value of Future Normal Costs (PVFNC) - The portion of the PVFB that will be attributed to future years of service.

Unfunded Actuarial Accrued Liability (UAAL) - The Actuarial Accrued Liability (AAL) less the Actuarial Value of Assets (AVA).

Source Agencies: 338 Pension Review Board

LBB Staff: UP, KFa

LEGISLATIVE BUDGET BOARD
Austin, Texas

ACTUARIAL IMPACT STATEMENT

85TH LEGISLATIVE REGULAR SESSION

April 17, 2017

TO: Honorable Dan Flynn, Chair, House Committee on Pensions

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB3158 by Flynn (Relating to the retirement systems for and the provision of other benefits to police and fire fighters in certain municipalities.), **Committee Report 1st House, Substituted**

The following information was supplied by Agency 338 - Pension Review Board:

CSHB 3158 would make significant changes to Article 6243a-1, Title 109 Revised Civil Statutes (affecting the Dallas Police and Fire Pension System (DPFPS)) to increase both employee and City of Dallas (City) contributions; modify future benefit accruals; provide a retroactive multiplier increase for certain members; modify DROP participation and cost of living adjustments; make changes to the composition and governance structure of the DPFPS board (board); and require the establishment of an investment advisory committee. Article 6243a-1 establishes the basic governing structure of the DPFPS. While changes to the benefit structure can be made by the Legislature or members of the system, the employee contributions may only be modified by the Legislature, whereas City contributions can be modified by the Legislature or a majority vote of the City voters.

The proposed changes to the bill, if enacted, would significantly improve the actuarial soundness of the system. Under the existing plan structure, the plan is expected to become insolvent within the next 10 years. While the bill does not immediately bring the amortization period down to 40 years, which is the maximum recommended amortization period according to PRB *Guidelines for Actuarial Soundness* currently in effect, it sets the system on a path to full funding within a finite period.

The following table outlines the changes between the current plan and CSHB 3158:

Dallas Police and Fire Pension System	Current Plan	If Bill Enacted	Change
<i>Estimated As of 1/1/2017 (\$Millions)</i>			
City Contribution*	27.5%	34.5%	7.0%
Employee Contribution	<u>8.5%</u>	<u>13.5%</u>	<u>5.0%</u>
Total Contribution	36.0%	48.0%	12.0%
Total Normal Cost, before administrative expenses	\$88	\$66	(\$22)
Total Normal Cost as a % of Pay**	22.6%	16.7%	(5.9%)
Actuarial Accrued Liabilities (AAL)	\$5,849	\$4,333	(\$1,416)

Actuarial Value of Assets (AVA)	2,153	2,153	\$0
Unfunded Actuarial Accrued Liability (millions)	\$3,696	\$2,280	(\$1,416)
Funded Ratio	36.8%	48.6%	11.8%
Amortization Period***	Infinite (never)	58	N/A

* Amount is a percentage of total pay for the Current Plan scenario and a percentage of computation pay for the If Bill Enacted scenario. The If Bill Enacted scenario does not include additional \$11 million annual contributions.

** Based on estimated 2017 computation pay of \$329 Million as provided by the City.

*** Takes into account the additional \$11 million annual contribution for the period October 1, 2017 - September 30, 2019 under the If Bill Enacted scenario, but assumes the \$11 million will not be contributed in future years when the amortization period falls below 35 years.

ACTUARIAL EFFECTS

The actuarial analysis provided by the plan's actuary states that although the retirement system is not projected to reach 100% funding within 30 years, it is projected to eventually become fully funded. The plan's actuary further states that currently the System is projected to become insolvent within the next 10 years. PRB's actuarial review states that the bill would make the retirement system less unsound and would set it on a path to full funding within a finite period.

The actuarial review notes that as part of raising the City's contribution requirement, the bill establishes a contribution policy for the City that is worth noting. The bill would increase the City's contribution rate to 34.5% of aggregate computation pay paid to members and an additional annual contribution equal to \$11 million, but only for the period of October 1, 2017 through September 30, 2019. For periods beginning October 1, 2019, the \$11 million additional annual contribution would only be required when the amortization period is less than or equal to 35 years. This means that the City contribution would be a fixed percentage of pay plus a flat dollar amount per year. However, after the first two years, the City's flat dollar contribution is only required when the system has an amortization period under 35 years and is not required if the amortization period is over 35 years. In other words, the additional contribution is not made when there is a greater need for it.

The retirement system's actuarial analysis notes that effective October 1, 2019, the system is projected to have an amortization period above 35 years and therefore the additional \$11 million annual contribution would no longer be required. Also, the actuarial analysis notes that if this contribution were made every year regardless of the calculated amortization period for that year, the amortization period reported as of January 1, 2017 would be 48 years.

Even though the bill indicates the additional \$11 million annual contribution is required again once the amortization period is less than or equal to 35 years, the analysis assumes this contribution will not resume in the future. Based on the PRB's estimates, stopping the additional \$11 million contribution effective September 1, 2019 and restarting it when the calculated amortization period decreases to 35 years (projected for 2036) would likely lower the estimated January 1, 2017 amortization period from 58 to 55 years.

The benefit and DROP distribution changes proposed in the bill would also improve the funded ratio of the plan from approx. 37% to 49%.

Below is a table of the total projected contribution amounts (City plus employee contributions) under the

current plan and CSHB 3158:

**Projected Total Contributions
(in millions)**

Valuation		CSHB 3158
<u>Year</u>	<u>Current Plan</u>	<u>Proposed Plan</u>
2017	\$147	\$157
2018	151	204
2019	158	209
2020	162	207
2021	167	213
2022	171	219
2023	176	225
2024	181	231
2025	186	237
2026	191	244
2027	196	250

-

Actuarial Assumptions and Methods

The actuarial review states that while the PRB believes a 2.25% assumed COLA would be more appropriate given the bill language, the use of a 2.0% assumed COLA is not unreasonable for the If Bill Enacted scenario the actuarial analysis uses a 2.0% COLA assumption for the If Bill Enacted scenario. Otherwise, the PRB actuaries noted in their review that the assumptions and methods used in the actuarial analysis are reasonable.

The assumptions and methods are the same as used in the January 1, 2016 actuarial valuation report except as noted in the following table.

Summary of Changes in Assumptions

Discount Rate

7.25% - same as the January 1, 2016 actuarial valuation

Investment Return

Market value returns assumed to be 5.00% in 2016, -1.74% in 2017, 5.00% in 2018, 6.50% in 2019, 7.00% in 2020, and 7.25% thereafter. Assumed rates of return were provided by the System.

Actuarial Value of Assets

Set equal to market value of assets

DROP Utilization

It is assumed that there will be no future entrants into DROP

Salary Increases

Select rates added for years 2016 - 2018.

2016 and 2018 - 10% if 0 - 10 years, 7% if 11 - 12 years, and 2% if 12 years

2017 - 5% if 0 - 10 years, 2% for all others

Current salary scale applies in 2019 and beyond

Payroll Growth Rate

4.25% in 2018; 2.75% in all other years

Overtime

The City is no longer assumed to contribute an amount 11% greater than computation pay for overtime work. This assumption does not impact benefits or liabilities.

Cost of Living Adjustment (COLA)

Two percent simple COLA assumed to be paid starting in 2047 and every year thereafter, based on the System's benchmark that the Plan must be at least 70% funded on a market value basis prior to and after a COLA is paid. Market returns must meet a certain level over a five-year period before COLA payments can be enacted; it is assumed these levels are met for purposes of these calculations.

Retirement Rates

Retirements are assumed to occur on January 1st.

In 2016, rates are increased by 5 percentage points for those participants who have been in DROP for six years or more.

Beginning in 2017, the current valuation retirement rates apply, with the following exception:

Current Active DROP Participants

- If at least 8 years in DROP as of 1/1/2017, 100% retirement rate in 2018
- If less than 8 years in DROP as of 1/1/2017, 50% retirement rate in 2018

Retirement Rates Beginning in 2018 for those not in DROP

Tiers 1 & 2, <20 YOS Tier 1, at least 20 YOS

<u>Age</u>	<u>as of 9/1/2017</u>	<u>as of 9/1/2017</u>	<u>Tier 3</u>
<50	1%	1%	1%
50	10%	20%	5%
51	5%	10%	5%
52	5%	10%	5%
53	5%	10%	5%
54	5%	20%	10%
55	15%	40%	20%
56	10%	50%	30%
57	5%	50%	40%
58	60%	60%	50%
59	50%	60%	50%
60	50%	60%	50%
61	50%	60%	50%
62	100%	100%	100%

100% retirement assumed once total of benefit multipliers reach 90%.

Current terminated vested participants are assumed to retire at age 50.

Future terminated vested participants are assumed to retire at age 58.

DROP Distribution

Current retirees - For those who were retirees as of January 1, 2016, 57.50% of the January 1, 2016 balance was assumed to be paid out in 2016 and 10% of the January 1, 2017 account balance is assumed to be paid out in 2017. Beginning January 1, 2018, the remainder of the DROP accounts are assumed to be paid out over the expected lifetime of the participant upon their retirement based on the mortality tables in effect at the time of their retirement; the expected lifetime is currently assumed to be 23 years. It is understood that the actual date of the change in DROP account distributions may occur prior to January 1, 2018.

Current actives - 10% of the January 1, 2017 account balances are assumed to be paid out in 2017 for participants that retire in 2017. Beginning January 1, 2018, DROP accounts are assumed to be paid out over the expected lifetime of the participant upon their retirement, based on the mortality tables in effect at the time of their retirement; the expected lifetime is currently assumed to be 21 years if the Normal Retirement Age is 58. It is understood that the actual date of the change in DROP account distributions may occur prior to January 1, 2018.

DROP Account Interest

Current retirees - 2.75%;

Current actives - 2.75%; only the DROP account balance as of September 1, 2017 receives interest upon retirement. DROP contributions into existing DROP accounts after September 1, 2017 and future DROP participants receive 0% interest during the DROP and upon retirement.

SYNOPSIS OF PROVISIONS

CSHB 3158 would amend and add sections to Title 109, Revised Civil Statutes Article 6243a-1 to reduce benefits (summarized in the table below), increase both employee and City contributions, change the board's composition and governance structure, and require the creation of an investment advisory committee.

Board Composition

The bill would change the board composition by establishing new requirements for trustee positions. The changes to the board are to be executed on the effective date of the bill.

Board Governance

The bill would clarify that the executive director is a fiduciary of the pension system, whereas currently the statute states that the "administrator" of the plan is *not* a fiduciary. The bill would require a two-thirds vote of the board to implement any rule change concerning board governance.

Also, the bill would require the PRB to review any board rule to determine that the implementation of the rule would not cause the amortization period to exceed 35 years. The bill would also require the board to adopt a code of ethics and require the board members to take pension-related training from a manual created by the DPFPS executive director.

City Contributions

The bill would require the City to make biweekly contributions to the system of 34.5% of aggregate computation pay paid to members with additional biweekly payments of 1/26 of \$11 million between September 2017 and September 2019. The additional \$11 million contribution would not be made if the unfunded actuarial accrued liability is not projected to be paid off within 35 years while including the \$11 million contribution.

Investment Advisory Committee

The bill would require the board to establish an investment advisory committee. The committee would be composed of a majority of outside investment professionals, as well as sitting board members. The committee would review investment-related matters and make recommendations to the board. In addition, the bill would require a two-thirds vote by the board to approve each alternative investment.

Equitable Adjustments to Benefits

The bill would require the board to consider and adopt rules requiring the equitable return of funds paid or credited to the benefit of a member or a pensioner before 9/1/17, including the return of excessive interest credited to a member's DROP account and excessive adjustments made as disability or COLA benefits. The bill also outlines the adjudication process for any judicial challenges to the equitable return of funds as required by the board.

Effective Date

Except as otherwise provided by the Act, the Act takes effect on September 1, 2017.

The following table outlines the primary changes to benefit provisions included in the bill.

Summary of Plan Changes

Normal Retirement Benefit

Eligibility

Current Tier 3: Age 55 and 10 Years of Service
 Proposed Tier3: Age 58 and 5 Years of Service

Amount

Current Tiers 1 & 2: 3.0% x Years of Service x Final Average Salary, no more than 96% x Final Average Salary or less than \$2,200 per month (minimum is prorated for periods of service less than 20)
 Tier 3:[Years of Service (up to 20) x 2.0% Years of Service (>20, <=25) x 2.5% Years of Service (>25) x 3.0%] x Final Average Salary, not less than \$110 x Years of Service (up to 20)
 Proposed Tiers 1 & 2: [3.0% x Years of Service (prior to September 1, 2017) Percent Multiplier (in table below) x Years of Service (after September 1, 2017)] x Final Average Salary, max is the greater of i. 90% or ii. the vested accrued benefit as of August 31, 2017

Age at Retirement	Percent Multiplier
57	2.40%
56	2.30%
55	2.20%
54	2.10%
53 and younger	2.00%

Tier 3: Years of Service x 2.5% x Final Average Salary, max 90%

Final Average Salary

Current Tiers 1 & 2: Highest 36 month period

Proposed Tiers 1 & 2: Highest 36 month period for service prior to September 1, 2017 and highest 60 month period for service after September 1, 2017

Early Retirement Benefit

Eligibility

Current Tiers 1 & 2: Age 45 and 5 Years of Service or 20 Years of Service

Tier 3: N/A

Proposed Tiers 1 & 2: Age 45 and 5 Years of Service, if 45 years or older as of September 1, 2017, age 53 and 5 Years of Service otherwise, or 20 Years of Service

Tier 3: Age 53 and 5 Years of Service or 20 Years of Service

Amount

Current Tiers 1 & 2 with 20 Years of Service - replace 3% multiplier with the following based on age at retirement:

Age at

<u>Retirement</u>	<u>Multiplier</u>
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48 & 49	2.75%
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47	2.50%
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46	2.25%
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45 or younger	2.00%
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Tiers 1 & 2 with less than 20 Years of Service: Reduction equal to 2/3 of 1% per month retirement date precedes age 50.

Proposed Tiers 1 & 2 with 20 Years of Service accrued as of September 1, 2017 - replace 3% multiplier with the following based on age at retirement:

Age at

<u>Retirement</u>	<u>Multiplier</u>
-------------------	-------------------

48 & 49	2.75%
---------	-------

47	2.50%
----	-------

46	2.25%
----	-------

45 and younger	2.00%
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All others with 20 Years of Service - replace 2.5% multiplier with the following based on age at retirement:

Age at Retirement	Multiplier
57	2.40%
56	2.30%
55	2.20%
54	2.10%
53 and younger	2.00%

With less than 20 Years of Service: Reduction equal to 2/3 of 1% per month retirement date precedes age 45 if 45 years or older as of September 1, 2017, age 53 otherwise.

Unreduced at any retirement age if a member's pension is equal to 90% of Final Average Salary.

Supplemental Retirement Benefit

- Current The greater of \$75 per month or 3% of their Normal or Early Retirement Benefit, payable beginning at age 55
- Proposed Payable only to those receiving the supplement as of September 1, 2017

Vesting

- Current Tier 3: 10 Year Cliff
- Proposed Tier 3: 5 Year Cliff

Cost of Living Adjustment

- Current Tier 1: 4.0% simple
- Proposed If the plan is at least 70% funded after taking into account the COLA, a simple crediting rate on October 1 equal to 100% of the average annual rate of actual investment return for the five-year period ending on the preceding December 31 minus 5%, and not to exceed 4%, beginning at the earlier of age 62 or 3 years after retirement. (The actuarial analysis indicates the COLA is ad-hoc, however, it assumes a COLA is paid every year once the plan reaches the necessary funding target.)

Deferred Retirement Option Plan

Active

- Current Interest credited is 6% effective October 1, 2016 dropping to 5% effective October 1, 2017 and variable based on the plans funded ratio thereafter.

<u>Funded Ratio</u>	<u>Crediting Rate</u>
>=95%	7.0%

90%-94%	6.5%
85%-89%	6.0%
65%-84%	5.0%
60%-64%	4.0%
55%-59%	3.0%
<55%	0.0%

COLA credited to account

No maximum participation period

May elect a lump sum distribution or leave up to 100% of account balance in plan at separation of service and continue to accrue interest credit

Proposed No interest credited to account

No COLA credited to account

10 year maximum participation period

DROP balance distributed over the life expectancy at separation of service,

DROP account balance as of September 1, 2017 will be annuitized using a rate on a United States Treasury or other federal treasury note with a reasonable duration, as determined by the Board.

Contributions

Employee

Current 8.5%for non-DROP active participants & 4.0% for DROP active participants

Proposed 13.5%as of the effective date

Employer

Current 27.5%of pay

Proposed 34.5% of computation pay plus \$11,000,000 per year, subject to certain restrictions (34.5% of pay shall not be less than \$5,173,000 for each of the bi-weekly pay periods ending during September 1, 2017 -December 31, 2017; \$5,344,000 for each of the bi-weekly pay periods ending during January 1, 2018 - December 31, 2018; \$5,571,000 for each of the bi-weekly pay periods ending during January 1, 2019 - December 31, 2019; and\$5,571,000 increased by 2.75%, compounded annually, for each bi-weekly pay period ending during the calendar years thereafter. Beginning September 1, 2019, for any year in which the 34.5% of pay plus \$11 million is not sufficient to amortize the existing UAAL within a 35 year period, the city is not required to make the \$11 million contribution.)

The contributions outlined above will remain in force as long as the system has a UAAL. If the plan is fully funded, contributions will be split equally between the city and members.

FINDINGS AND CONCLUSIONS

Given that the bill provisions for DPFPS would increase the total contribution rate and reduce current liabilities, it would increase the long-term funding security for all members of the affected retirement systems. It would impact all current and future active members because it increases the employee contributions for all groups of

members. In addition, certain classes of active and inactive members are impacted by changes in plan provisions. Current active members would see changes to their prospective and retroactive benefit multiplier, as well as changes to retirement eligibility requirements and contribution requirements. Limits would be placed on the total DROP participation period and future interest accruals for current and future DROP participants. The bill would also make changes to future cost of living adjustments (COLA) that will impact current and future retirees and beneficiaries.

The actuarial analysis assumes a COLA of 2.0%, although given an assumed rate of return of 7.25%; the actuarial review determined that a 2.25% assumed COLA would be more appropriate. The PRB's actuaries do not have sufficient data to determine the magnitude of the impact of using a 2.25% assumed COLA, but this change would increase the projected liabilities and increase the calculated amortization period. However, the impact of an additional 0.25% simple COLA is likely to be small, given that the bill also requires the plan to be at least 70% funded prior to providing a COLA, and the actuarial analysis projects the plan will not be 70% funded until the year 2047.

The actuarial review states that the actuarial assumptions and methods are the same as used by Segal for the January 1, 2016 actuarial valuation, except as noted in the Summary of Changes in Assumptions table above. The assumptions and methods used by Segal are reasonable. Also, in the actuarial analysis, Segal uses a 2.0% COLA for the If Bill Enacted scenario. While the PRB actuaries believe a 2.25% COLA would be more appropriate given the bill language, the impact of this difference is expected to be small, and therefore, the use of a 2.0% assumed COLA is not unreasonable.

Finally, based on the results outlined in the actuarial analysis, DPFPS is likely to be subject to the Funding Soundness Restoration Plan (FSRP) requirements, as outlined in Texas Government Code Section 802.2015, once the January 1, 2017 actuarial valuation is finalized and will therefore need to make additional adjustments to contributions and/or benefits to further reduce their amortization period

METHODOLOGY AND STANDARDS

According to the PRB actuaries, to the best of their knowledge, no material biases exist with respect to the data, methods or assumptions used to develop the analysis other than those specifically identified above and in the actuarial review. The PRB did not audit the information provided but has reviewed the information for reasonableness and consistency with other information provided by or for the affected retirement systems. The PRB is not responsible for the accuracy or completeness of the information provided to the agency. All actuarial projections have a degree of uncertainty because they are based on the probability of occurrence of future contingent events. Accordingly, actual results will be different from the results contained in the analysis to the extent actual future experience varies from the experience implied by the assumptions. This analysis is based on the assumption that no other legislative changes affecting the funding or benefits of DPFPS will be adopted. It should be noted that when several proposals are adopted, the effect of each may be compounded, resulting in a cost that is greater (or less) than the sum of each proposal considered independently.

SOURCES

Actuarial Analysis by Jeffery S. Williams, FCA, ASA, MAAA, EA, Vice President and Consulting Actuary, Segal Consulting, March, 31, 2017.

Actuarial Review by Robert M. May, FSA, EA, MAAA, Board Actuary; and Kenneth J. Herbold, ASA, EA, MAAA, Staff Actuary, Pension Review Board, April 13, 2017.

GLOSSARY

Actuarial Accrued Liability(AAL) -The portion of the PVFB that is attributed to past service.

Actuarial Value of Assets (AVA)- The smoothed value of system's assets.

Amortization Payments - The yearly payments made to reduce the Unfunded Actuarial Accrued Liability (UAAL).

Amortization Period - The number of years required to pay off the unfunded actuarial accrued liability. The State Pension Review Board recommends that funding should be adequate to amortize the UAAL over a period which should not exceed 40 years, with 15-25 years being a more preferable target. An amortization period of 0-15 years is also a more preferable target.

Actuarial Cost Method - A method used by actuaries to divide the Present Value of Future Benefits (PVFB)into the Actuarial Accrued Liability (AAL), the Present Value of Future Normal Costs (PVFNC), and the Normal Cost (NC).

Funded Ratio (FR) - The ratio of actuarial assets to the actuarial accrued liabilities.

Market Value of Assets (MVA) -The fair market value of the system's assets.

Normal Cost (NC) - The portion of the PVFB that is attributed to the current year of service.

Present Value of Future Benefits (PVFB) - The present value of all benefits expected to be paid from the plan to current plan participants.

Present Value of Future Normal Costs (PVFNC) - The portion of the PVFB that will be attributed to future years of service.

Unfunded Actuarial Accrued Liability (UAAL) - The Actuarial Accrued Liability (AAL) less the Actuarial Value of Assets (AVA).

Source Agencies: 338 Pension Review Board

LBB Staff: UP, KFa

**LEGISLATIVE BUDGET BOARD
Austin, Texas**

ACTUARIAL IMPACT STATEMENT

85TH LEGISLATIVE REGULAR SESSION

April 2, 2017

TO: Honorable Dan Flynn, Chair, House Committee on Pensions

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB3158 by Flynn (Relating to the retirement systems for and the provision of other benefits to police and fire fighters in certain municipalities.), **As Introduced**

The following information was supplied by Agency 338 - Pension Review Board:

HB 3158 would make significant changes to Article 6243a-1, Title 109 Revised Civil Statutes (affecting the Dallas Police and Fire Pension System (DPFPS)) to increase both employee and City of Dallas (City) contributions; modify future benefit accruals; provide a retroactive multiplier increase for certain members; modify DROP participation and cost of living adjustments; make changes to the composition and governance structure of the DPFPS board (board); and require the establishment of an investment advisory committee. Article 6243a-1 establishes the basic governing structure of the DPFPS. While changes to the benefit structure can be made by the Legislature or members of the system, the employee contributions may only be modified by the Legislature, whereas City contributions can be modified by the Legislature or a majority vote of the City voters.

The proposed changes to the bill, if enacted, would significantly improve the actuarial soundness of the system. Under the existing plan structure, the plan is expected to become insolvent within the next 10 years. While the bill does not immediately bring the amortization period down to 40 years, which is the maximum recommended amortization period according to PRB *Guidelines for Actuarial Soundness* currently in effect, it sets the system on a path to full funding within a finite period.

The following table outlines the changes between the current plan and HB 3158:

Dallas Police and Fire Pension System Estimated As of 1/1/2017 (\$Millions)	Current Plan	If Bill Enacted	Change
City Contribution*	27.5%	34.5%	7.0%
Employee Contribution	8.5%	13.5%	5.0%
Total Contribution	36.0%	48.0%	12.0%
Total Normal Cost, before administrative expenses	\$88	\$63	(\$25)
Total Normal Cost as a % of Pay**	22.6%	16.0%	(6.6%)
Actuarial Accrued Liabilities (AAL)	\$5,849	\$4,339	(\$1,510)
Actuarial Value of Assets (AVA)	2,153	2,153	\$0
Unfunded Actuarial Accrued Liability (millions)	\$3,696	\$2,186	(\$1,510)
Funded Ratio	36.8%	49.6%	12.8%
Amortization Period***	Infinite (never)	48	N/A

* Amount is a percentage of total pay for the Current Plan scenario and a percentage of

computation pay for the If Bill Enacted scenario. The If Bill Enacted scenario does not include additional \$11 million annual contributions.

** Based on estimated 2017 computation pay of \$329 Million as provided by the City.

*** Takes into account the additional \$11 million annual contribution for the period October 1, 2017 - September 30, 2019 under the If Bill Enacted scenario.

ACTUARIAL EFFECTS

The actuarial analysis provided by the plan's actuary states that although the retirement system is not projected to reach 100% funding within 30 years, it is projected to eventually become fully funded. The plan's actuary further states that currently the System is projected to become insolvent within the next 10 years. PRB's actuarial review states that the bill would make the retirement system less unsound and would set it on a path to full funding within a finite period.

The actuarial review notes that as part of raising the City's contribution requirement, the bill establishes a contribution policy for the City that is worth noting. The bill would increase the City's contribution rate to 34.5% of aggregate computation pay paid to members and an additional annual contribution equal to \$11 million, but only for the period of October 1, 2017 through September 30, 2019. For periods beginning October 1, 2019, the \$11 million additional annual contribution would only be required when the amortization period is less than or equal to 35 years. This means that the City contribution would be a fixed percentage of pay plus a flat dollar amount per year. However, after the first two years, the City's flat dollar contribution is only required when the system has an amortization period under 35 years and is not required if the amortization period is over 35 years. In other words, the additional contribution is not made when there is a greater need for it.

The retirement system's actuarial analysis notes that effective October 1, 2019, the system is projected to have an amortization period above 35 years and therefore the additional \$11 million annual contribution would no longer be required. Also, the actuarial analysis notes that if this contribution were made every year regardless of the calculated amortization period for that year, the amortization period reported as of January 1, 2017 would be 40 years.

Even though the bill indicates the additional \$11 million annual contribution is required again once the amortization period is less than or equal to 35 years, the analysis assumes this contribution will not resume in the future. Based on the PRB's estimates, stopping the additional \$11 million contribution effective September 1, 2019 and restarting it when the calculated amortization period decreases to 35 years (projected for 2027) would likely lower the estimated January 1, 2017 amortization period from 48 to 44 years.

The benefit and DROP distribution changes proposed in the bill would also improve the funded ratio of the plan from approx 37% to 50%.

Below is a table of the total projected contribution amounts (City plus employee contributions) under the current plan and HB 3158:

**Projected Total Contributions
(in millions)**

Valuation Year	Current Plan	HB 3158 Proposed Plan
2017	\$147	\$157
2018	151	204
2019	158	209
2020	162	207
2021	167	213
2022	171	219
2023	176	225
2024	181	231
2025	186	237
2026	191	244
2027	196	250

Actuarial Assumptions and Methods

The actuarial review states that while the PRB believes a 2.25% assumed COLA would be more appropriate given the bill language, the use of a 2.0% assumed COLA is not unreasonable for the If Bill Enacted scenario the actuarial analysis uses a 2.0% COLA assumption for the If Bill Enacted scenario. Otherwise, the PRB actuaries noted in their review that the assumptions and methods used in the actuarial analysis are reasonable.

The following table shows the changes to assumptions and methods the system within the proposed legislation.

Summary of Changes in Assumptions

The assumptions and methods are the same as used in the January 1, 2016 actuarial valuation report except as noted below.

Discount Rate

7.25% - same as the January 1, 2016 actuarial valuation

Investment Return

Market value returns assumed to be 5.00% in 2016, -1.74% in 2017, 5.00% in 2018, 6.50% in 2019, 7.00% in 2020, and 7.25% thereafter. Assumed rates of return were provided by the System.

Retirement Rates

Retirements are assumed to occur on January 1st.

In 2016, rates are increased by 5 percentage points for those participants who have been in DROP for six years or more.

Beginning in 2017, the current valuation retirement rates apply, with the following exception:

Current Active DROP Participants

- If at least 8 years in DROP as of 1/1/2017, 100% retirement rate in 2018
- If less than 8 years in DROP as of 1/1/2017, 50% retirement rate in 2018

Retirement Rates Beginning in 2018 for those not in DROP

<u>Age</u>	<u>Tier 1, <20 YOS or under Age 50 as of 9/1/2017</u>	<u>Tier 1 at least 20 YOS and Age 50</u>	<u>Tiers 2 & 3</u>
<50	1%	N/A	1%
50	5%	10%	5%
51	5%	10%	5%
52	5%	10%	5%
53	5%	10%	5%
54	5%	20%	5%
55	15%	40%	10%
56	10%	50%	20%
57	5%	50%	30%
58	60%	60%	40%
59	50%	60%	50%
60	50%	60%	50%
61	50%	60%	50%
62	100%	100%	100%

100% retirement assumed once total of benefit multipliers reach 90%.

Terminated vested participants are assumed to retire at age 58.

DROP Utilization

It is assumed that there will be no future entrants into DROP.

Salary Increases

Select rates added for years 2016 - 2018.

2016 and 2018 - 10% if 0 - 10 years, 7% if 11 - 12 years, and 2% if 12 years

2017 - 5% if 0 - 10 years, 2% for all others

Current salary scale applies in 2019 and beyond.

Payroll Growth Rate

4.25% in 2018; 2.75% in all other years

Overtime

The City is no longer assumed to contribute an amount 11% greater than computation pay for overtime work. This assumption does not impact benefits or liabilities.

Cost of Living Adjustment (COLA)

Two percent simple COLA assumed to be paid starting in 2047 and every year thereafter, based on the System's benchmark that the Plan must be at least 70% funded on a market value basis prior to and after a COLA is paid. The year 2047 was determined based on the City contributing 34.5% of computation pay, subject to a minimum biweekly contribution, plus 1/26th of \$11 Million per biweekly pay period beginning September 1, 2017 and ending September 1, 2019. Market returns must meet a certain level over a five-year period before COLA payments can be enacted; it is assumed these levels are met for purposes of these calculations.

DROP Distribution

Current retirees - For those who were retirees as of January 1, 2016, 57.50% of the January 1, 2016 balance was assumed to be paid out in 2016 and 10% of the January 1, 2017 account balance is assumed to be paid out in 2017. Beginning January 1, 2018, the remainder of the DROP accounts are assumed to be paid out over the expected lifetime of the participant upon their retirement based on the mortality tables in effect at the time of their retirement; the expected lifetime is currently assumed to be 23 years. It is understood that the actual date of the change in DROP account distributions may occur prior to January 1, 2018.

Current actives - 10% of the January 1, 2017 account balances are assumed to be paid out in 2017 for participants that retire in 2017. Beginning January 1, 2018, DROP accounts are assumed to be paid out over the expected lifetime of the participant upon their retirement, based on the mortality tables in effect at the time of their retirement; the expected lifetime is currently assumed to be 21 years if the Normal Retirement Age is 58. It is understood that the actual date of the change in DROP account distributions may occur prior to January 1, 2018.

DROP Account Interest

Current retirees - 2.41%; based on the March 23, 2017 10-year Treasury rate

Current actives - 2.41%; based on the March 23, 2017 10-year Treasury rate; only the DROP account balance as of September 1, 2017 receives interest upon retirement. DROP contributions into existing DROP accounts after September 1, 2017 and future DROP participants receive 0% interest during the DROP and upon retirement.

Actuarial Value of Assets

Set equal to market value of assets

SYNOPSIS OF PROVISIONS

HB 3158 would amend and add sections to Title 109, Revised Civil Statutes Article 6243a-1 to reduce benefits (summarized in the table below), increase both employee and City contributions, change the board's

composition and governance structure, and require the creation of an investment advisory committee.

Board Composition

The bill would change the board composition by establishing new requirements for trustee positions. The changes to the board are to be executed on the effective date of the bill.

Board Governance

The bill would clarify that the executive director is a fiduciary of the pension system, whereas currently the statute states that the “administrator” of the plan is *not* a fiduciary. The bill would require a two-thirds vote of the board to implement any rule change concerning board governance. Under the provisions of the bill, the board may not adopt a rule conflicting with this article except to comply with federal law, or to achieve an amortization period not exceeding 35 years.

Also, the bill would require the PRB to review any board rule to ensure it will have a positive impact on the system's actuarial soundness. The bill would also require the board to adopt a code of ethics and require the board members to take pension-related training from a manual created by the DPFPS executive director.

City Contributions

The bill would require the City to make biweekly contributions to the system of 34.5% of aggregate computation pay paid to members with additional biweekly payments of 1/26 of \$11 million between September 2017 and September 2019. The additional \$11 million contribution would not be made if the unfunded actuarial accrued liability is not projected to be paid off within 35 years while including the \$11 million contribution.

Investment Advisory Committee

The bill would require the board to establish an investment advisory committee. The committee would be composed of a majority of outside investment professionals, as well as sitting board members. The committee would review investment-related matters and make recommendations to the board. In addition, the bill would require a two-thirds vote by the board to approve each alternative investment.

Equitable Adjustments to Benefits

The bill would require the board to consider and adopt rules requiring the equitable return of funds paid or credited to the benefit of a member or a pensioner before 9/1/17, including the return of excessive interest credited to a member's DROP account and excessive adjustments made as disability or COLA benefits. The bill also outlines the adjudication process for any judicial challenges to the equitable return of funds as required by the board.

Effective Date

Except as otherwise provided by the Act, the Act takes effect on September 1, 2017.

The following table outlines the primary changes to benefit provisions included in the bill.

Summary of Plan Changes

Normal Retirement Benefit

Eligibility

Current	Tiers 1 & 2: Age 50 and 5 Years of Service Tier 3: Age 55 and 10 Years of Service
Proposed	All: Age 58 and 5 Years of Service

Amount

Current	Tiers 1 & 2: 3.0% x Years of Service x Final Average Salary, no more than 96% x Final Average Salary or less than \$2,200 per month (minimum is prorated for periods of service less than 20)
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Tier 3: [Years of Service (up to 20) x 2.0% Years of Service (>20, <=25) x 2.5% Years of Service (>25) x 3.0%] x Final Average Salary, not less than \$110 x Years of Service (up to 20)

Proposed Tiers 1 & 2: [3.0% x Years of Service (prior to September 1, 2017) 2.5% x Years of Service (after September 1, 2017)] x Final Average Salary, max is the greater of i. 90% or ii. the vested accrued benefit as of August 31, 2017

Tier 3: Years of Service x 2.5% x Final Average Salary, max 90%

Final Average Salary

Current Tiers 1 & 2: Highest 36 month period

Proposed Tiers 1 & 2: Highest 36 month period for service prior to September 1, 2017 and highest 60 month period for service after September 1, 2017

Early Retirement Benefit

Eligibility

Current Tiers 1 & 2: Age 45 and 5 Years of Service or 20 Years of Service
Tier 3: N/A

Proposed All: Age 53 and 5 Years of Service or 20 Years of Service

Amount

Current Tiers 1 & 2 with 20 Years of Service - replace 3% multiplier with the following based on age at retirement:

Age at

<u>Retirement</u>	<u>Multiplier</u>
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48 & 49	2.75%
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47	2.50%
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46	2.25%
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45 or younger	2.00%
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Tiers 1 & 2 with less than 20 Years of Service: Reduction equal to 2/3 of 1% per month retirement date precedes age 50.

Proposed Tiers 1 & 2 with 20 Years of Service accrued as of September 1, 2017 - replace 3% multiplier with the following based on age at retirement:

Age at

<u>Retirement</u>	<u>Multiplier</u>
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51 & 52	2.75%
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50	2.50%
----	-------

49	2.25%
----	-------

48 and younger	2.00%
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(The actuarial analysis assumes the ages in this table are based on ages at the effective date, not age at retirement and are the same as the ages listed in the current table for Tiers 1 & 2 with 20 years of service; i.e. age 49 down to age 45 & younger.)

All others with 20 Years of Service - replace 2.5% multiplier with the following based on age at retirement:

Age at

<u>Retirement</u>	<u>Multiplier</u>
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57	2.40%
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56	2.30%
55	2.20%
54	2.10%
53 and younger	2.00%

(Section 6.02(d)(2) uses the following Early Retirement multiplier replacement table for members who accrue 20 Years of Service after September 1, 2017. It is the PRB's and the actuarial analysis understanding this is not the intent of the bill:

Age at Retirement	Multiplier
58 and older	2.40%
57	2.30%
56	2.20%
55	2.10%
54	2.00%
53 and younger	1.99%

With less than 20 Years of Service: Reduction equal to 2/3 of 1% per month retirement date precedes age 50.

Unreduced at any retirement age if a member's pension is equal to 90% of Final Average Salary.

Supplemental Retirement Benefit

Current	The greater of \$75 per month or 3% of their Normal or Early Retirement Benefit, payable beginning at age 55
Proposed	No payments after August 31, 2017 (The actuarial analysis assumes the Supplemental Retirement Benefit will continue for participants who are currently receiving it and have attained age 62 as of September 1, 2017)

Vesting

Current	Tier 3: 10 Year Cliff
Proposed	Tier 3: 5 Year Cliff

Cost of Living Adjustment

Current	Tier 1: 4.0% simple
Proposed	If the plan is at least 70% funded after taking into account the COLA, a simple crediting rate on October 1 equal to 100% of the average annual rate of actual investment return for the five-year period ending on the preceding December 31 minus 5%, and not to exceed 4%, beginning at the earlier of age 62 or 3 years after retirement. (The actuarial analysis indicates the COLA is ad-hoc, however, it assumes a COLA is paid every year once the plan reaches the necessary funding target.)

Deferred Retirement Option Plan

Active

Current	Interest credited is 6% effective October 1, 2016 dropping to 5% effective October 1, 2017 and variable based on the plans funded ratio thereafter.
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<u>Funded Ratio</u>	<u>Crediting Rate</u>
>=95%	7.0%
90%-94%	6.5%
85%-89%	6.0%
65%-84%	5.0%
60%-64%	4.0%
55%-59%	3.0%
<55%	0.0%

COLA credited to account

No maximum participation period

May elect a lump sum distribution or leave up to 100% of account balance in plan at separation of service and continue to accrue interest credit

Proposed No further interest would be earned while in Active DROP. Only DROP account balances as of September 1, 2017 would receive interest upon retirement. The interest paid on account balances would be based on the 10-year Treasury rate. DROP account balances would be paid out as an annuity for a period comparable to the participant's life expectancy upon retirement.

No COLA credited to account

10 year maximum participation period

Account balance will be distributed as a life annuity using the 10-year Treasury rate

Contributions

Employee

Current 8.5% for non-DROP active participants & 4.0% for DROP active participants

Proposed 13.5% as of the effective date

Employer

Current 27.5% of pay

Proposed 34.5% of computation pay plus \$11,000,000 per year, subject to certain restrictions (34.5% of pay shall not be less than \$5,173,000 for each of the bi-weekly pay periods ending during September 1, 2017 - December 31, 2017; \$5,344,000 for each of the bi-weekly pay periods ending during January 1, 2018 - December 31, 2018; \$5,571,000 for each of the bi-weekly pay periods ending during January 1, 2019 - December 31, 2019; and \$5,571,000 increased by 2.75%, compounded annually, for each bi-weekly pay period ending during the calendar years thereafter. Beginning September 1, 2019, for any year in which the 34.5% of pay plus \$11 million is not sufficient to amortize the existing UAAL within a 35 year period, the city is not required to make the \$11 million contribution.)

The contributions outlined above will remain in force as long as the system has a UAAL. If the plan is fully funded, contributions will be split equally between the city and members.

FINDINGS AND CONCLUSIONS

Given that the bill provisions for DPFPS would increase the total contribution rate and reduce current liabilities, it would increase the long-term funding security for all members of the affected retirement systems. It would impact all current and future active members because it increases the employee contributions for all groups of members. In addition, certain classes of active and inactive members are impacted by changes in plan provisions. Current active members would see changes to their prospective and retroactive benefit multiplier, as well as changes to retirement eligibility requirements and contribution requirements. Limits would be placed on

the total DROP participation period and future interest accruals for current and future DROP participants. The bill would also make changes to future cost of living adjustments (COLA) that will impact current and future retirees and beneficiaries.

The actuarial analysis assumes a COLA of 2.0%, although given an assumed rate of return of 7.25%; the actuarial review determined that a 2.25% assumed COLA would be more appropriate. The PRB's actuaries do not have sufficient data to determine the magnitude of the impact of using a 2.25% assumed COLA, but this change would increase the projected liabilities and increase the calculated amortization period. However, the impact of an additional 0.25% simple COLA is likely to be small, given that the bill also requires the plan to be at least 70% funded prior to providing a COLA, and the actuarial analysis projects the plan will not be 70% funded until the year 2047.

The actuarial review states that the actuarial assumptions and methods are the same as used by Segal for the January 1, 2016 actuarial valuation, except as noted in the Summary of Changes in Assumptions table above. The assumptions and methods used by Segal are reasonable. Also, in the actuarial analysis, Segal uses a 2.0% COLA for the If Bill Enacted scenario. While the PRB actuaries believe a 2.25% COLA would be more appropriate given the bill language, the impact of this difference is expected to be small, and therefore, the use of a 2.0% assumed COLA is not unreasonable.

METHODOLOGY AND STANDARDS

According to the PRB actuaries, to the best of their knowledge, no material biases exist with respect to the data, methods or assumptions used to develop the analysis other than those specifically identified above and in the actuarial review. The PRB did not audit the information provided but has reviewed the information for reasonableness and consistency with other information provided by or for the affected retirement systems. The PRB is not responsible for the accuracy or completeness of the information provided to the agency. All actuarial projections have a degree of uncertainty because they are based on the probability of occurrence of future contingent events. Accordingly, actual results will be different from the results contained in the analysis to the extent actual future experience varies from the experience implied by the assumptions. This analysis is based on the assumption that no other legislative changes affecting the funding or benefits of DPFPS will be adopted. It should be noted that when several proposals are adopted, the effect of each may be compounded, resulting in a cost that is greater (or less) than the sum of each proposal considered independently.

SOURCES

Actuarial Analysis by Jeffery S. Williams, FCA, ASA, MAAA, EA, Vice President and Consulting Actuary, Segal Consulting, March, 28, 2017.

Actuarial Review by Robert M. May, FSA, EA, MAAA, Board Actuary; and Kenneth J. Herbold, ASA, EA, MAAA, Staff Actuary, Pension Review Board, March 31, 2017.

GLOSSARY

Actuarial Accrued Liability (AAL) - The portion of the PVFB that is attributed to past service.

Actuarial Value of Assets (AVA) - The smoothed value of system's assets.

Amortization Payments - The yearly payments made to reduce the Unfunded Actuarial Accrued Liability (UAAL).

Amortization Period - The number of years required to pay off the unfunded actuarial accrued liability. The State Pension Review Board recommends that funding should be adequate to amortize the UAAL over a period which should not exceed 40 years, with 15-25 years being a more preferable target. An amortization period of 0-15 years is also a more preferable target.

Actuarial Cost Method - A method used by actuaries to divide the Present Value of Future Benefits (PVFB) into the Actuarial Accrued Liability (AAL), the Present Value of Future Normal Costs (PVFNC), and the Normal Cost (NC).

Funded Ratio (FR) - The ratio of actuarial assets to the actuarial accrued liabilities.

Market Value of Assets (MVA) - The fair market value of the system's assets.

Normal Cost (NC) - The portion of the PVFB that is attributed to the current year of service.

Present Value of Future Benefits (PVFB) - The present value of all benefits expected to be paid from the plan to current plan participants.

Present Value of Future Normal Costs (PVFNC) - The portion of the PVFB that will be attributed to future years of service.

Unfunded Actuarial Accrued Liability (UAAL) - The Actuarial Accrued Liability (AAL) less the Actuarial Value of Assets (AVA).

Source Agencies: 338 Pension Review Board

LBB Staff: UP, KFa