AN ACT relating to the restructuring of certain fund accounts of the Texas County and District Retirement System.

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

SECTION 1. Section 842.056, Government Code, is amended to read as follows:

Sec. 842.056. CLASS C. If any assets remain after the transfers are made under Sections 842.054 and 842.055, the retirement system shall make a transfer to the closed subdivision [current service] annuity reserve fund in an amount computed as necessary to fund the basic and supplemental annuities of the annuitants of the subdivision and a transfer to the individual account of each member of the class eligible to retire in an amount that equals the multiple matching credits and prior service credits of the member. If necessary, the retirement system shall proportionately reduce an individual's total credits or supplemental annuity, as applicable, based on the ratio that the individual's total actuarial equivalent of benefits described by this section bears to the aggregate total actuarial equivalent of all those benefits of the class.

SECTION 2. Section 844.002(b), Government Code, is amended to read as follows:

(b) A basic annuity is an amount payable from the subdivision accumulation [current service annuity reserve] fund
and is actuarially determined from the sum of a member's:

(1) accumulated contributions; and
(2) current service credit.

SECTION 3. Section 844.309(a), Government Code, is amended to read as follows:

(a) If a disability retirement is canceled and the retirement annuity terminated under this subchapter, the person automatically resumes membership in the retirement system and the retirement system shall transfer

[(1)] from the subdivision accumulation [current service annuity reserve] fund and credit to the person's individual account in the employees saving fund an amount equal to the amount of accumulated contributions transferred to the subdivision accumulation [current service annuity reserve] fund at the time of retirement reduced by one percent for each year or part of a year during which disability annuity payments were made[ and

[(2)] from the current service annuity reserve fund to the subdivision accumulation fund an amount equal to the amount transferred from the subdivision accumulation fund to the current service annuity reserve fund at the time of retirement reduced by one percent for each year or part of a year during which disability annuity payments were made].

SECTION 4. Section 844.402, Government Code, is amended by amending Subsection (c) and adding Subsection (d) to read as follows:

(c) The benefit provided by this section is payable from the [current service annuity reserve fund and the] subdivision
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accumulation fund [in the ratio that the parts of the retirement annuity that were payable from the funds bear to the entire benefit as determined on the effective date of retirement].

(d) For plans terminated under Subchapter A-1, Chapter 842, the benefit provided by this section is payable from the closed subdivision annuity reserve fund.

SECTION 5. Section 845.305(b), Government Code, is amended to read as follows:

(b) All assets of the pension trust of the retirement system shall be credited according to the purpose for which they are held to one of the following funds:

(1) employees saving fund;
(2) subdivision accumulation fund;
(3) closed subdivision [current service] annuity reserve fund;
(4) income fund;
(5) endowment fund; or
(6) expense fund.

SECTION 6. Section 845.307(b), Government Code, is amended to read as follows:

(b) Subject to Subsection (c), the retirement system shall pay from the subdivision accumulation fund all payments for annuities and other benefit payments [under prior service annuities granted before January 1, 1979, and currently in force and all payments under supplemental annuities from credits] granted by a participating subdivision. [The retirement system shall charge payments from the fund to the participating subdivision's account.]
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SECTION 7. Section 845.308, Government Code, is amended to read as follows:

Sec. 845.308. CLOSED SUBDIVISION [CURRENT SERVICE] ANNUITY RESERVE FUND. (a) The retirement system shall deposit and hold in the closed subdivision [current service] annuity reserve fund all reserves for annuities payable to annuitants who were members of subdivisions that terminated participation with the retirement system under Subchapter A-1, Chapter 842:

[(1) current service annuities in force that were granted before January 1, 1978, and

[(2) all basic annuities granted on or after January 1, 1978].

(b) The retirement system shall pay from the closed subdivision [current service] annuity reserve fund annuities described by Subsection (a) and all benefits in lieu of those annuities as provided by this subtitle.

SECTION 8. Section 845.315(a), Government Code, is amended to read as follows:

(a) As of December 31 of each year, the board of trustees shall make the following allocations that in the aggregate equal the net investment income or loss for the year:

(1) to the closed subdivision [current service] annuity reserve fund, interest as allowed under this subtitle on the mean amount in the closed subdivision [current service] annuity reserve fund during that year;

(2) to the optional group term life fund, interest as allowed under this subtitle on the mean amount in the optional group.
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(3) to the general reserves account of the endowment fund, a positive or negative amount determined by the board;
(4) to the employees saving fund, current interest as allowed under this subtitle on the member account balances on January 1 of that year of all persons who are members on December 31 of that year;
(5) to the accounts of subdivisions, other than subdivisions otherwise described by this section, positive or negative amounts as determined under rules adopted by the board prescribing the allocation methodology for the accounts; and
(6) to the accounts of subdivisions to which Section 842.052 or 842.053 applies, positive or negative amounts as determined by the board, and if a subdivision terminates participation before December 31 of that year, the board shall determine the allocation amount and transfer date before December 31 of that year.

SECTION 9. Section 845.316, Government Code, is amended by amending Subsection (a) and adding Subsection (b) to read as follows:

(a) When a member retires, the retirement system shall transfer from the employees saving fund to the subdivision accumulation [current service annuity reserve] fund, the member's accumulated contributions plus

[(2) from the subdivision accumulation fund to the current service annuity reserve fund, an amount equal to the]
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1 member's current service credit].

2 (b) When a member retires from a subdivision that has
3 terminated participation with the retirement system under
4 Subchapter A-1, Chapter 842, the retirement system shall transfer
5 the member's individual account to the closed subdivision annuity
6 reserve fund.

7 SECTION 10. (a) Effective January 1, 2017, the current
8 service annuity reserve fund is renamed the closed subdivision
9 annuity reserve fund and consists of the assets and liabilities of
10 each of the respective accounts in the current service annuity
11 reserve fund for each formerly participating subdivision that has
12 terminated participation with the Texas County and District
13 Retirement System under Subchapter A-1, Chapter 842, Government
14 Code.

15 (b) Effective January 1, 2017, the Texas County and District
16 Retirement System shall transfer, if appropriate, the assets and
17 corresponding liabilities of each participating subdivision's
18 accounts in the closed subdivision annuity reserve fund, formerly
19 known as the current service annuity reserve fund, to the
20 appropriate account in the subdivision accumulation fund, as
21 determined by the board of trustees of the retirement system in
22 consultation with the retirement system's actuary.

23 (c) In administering Subtitle F, Title 8, Government Code,
24 as amended by this Act, including crediting interest and conducting
25 the actuarial valuation required under that subtitle, the Texas
26 County and District Retirement System shall make all necessary
27 computations to reflect the transfers of assets and liabilities
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required by Subsection (b) of this section based on a valuation date of December 31, 2016.

SECTION 11. This Act takes effect immediately if it receives a vote of two-thirds of all the members elected to each house, as provided by Section 39, Article III, Texas Constitution. If this Act does not receive the vote necessary for immediate effect, this Act takes effect January 1, 2016.

I hereby certify that S.B. No. 463 passed the Senate on April 9, 2015, by the following vote: Yeas 31, Nays 0.

I hereby certify that S.B. No. 463 passed the House on May 19, 2015, by the following vote: Yeas 146, Nays 0, two present not voting.

Approved:

5-30-2015

Date

Secretary of State
The bill would amend the Government Code to restructure the fund obligations and accounts of the Texas County and District Retirement System (TCDRS). The bill would authorize TCDRS to hold certain monies in two separate funds, the "Closed Subdivision Annuity Reserve Fund" and the "Subdivision Accumulation Fund".

Local Government Impact

The Texas County and District Retirement System (TCDRS) reported there would no significant fiscal impact. According to TCDRS, the bill has no impact for participating subdivisions.

Source Agencies:

LBB Staff: UP, AG, SD, EK, KFa
TO: Honorable Joan Huffman, Chair, Senate Committee on State Affairs

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: SB463 by Huffman (Relating to the restructuring of certain fund accounts of the Texas County and District Retirement System.), As Introduced

No fiscal implication to the State is anticipated.

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Local Government Impact

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Source Agencies:
LBB Staff: UP, AG, SD, EK, KFa
TO: Honorable Dan Flynn, Chair, House Committee on Pensions

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: SB463 by Huffman (Relating to the restructuring of certain fund accounts of the Texas County and District Retirement System.), As Engrossed

BACKGROUND
The Texas County & District Retirement System (TCDRS) is the statewide system that administers retirement, disability, and survivor benefits for employees of those Texas counties and districts which voluntarily elect to participate in the system. The plan for each of the 656 participating counties and districts is separately funded; funding is provided by employee contributions at a percentage of compensation selected by the county or district and by employer contributions actuarially determined as necessary to provide the level of benefits selected.

ACTUARIAL EFFECTS
The provisions of the bill would restructure the existing three main TCDRS fund accounts, including the Employees Saving Fund (ESF), Subdivision Accumulation Fund (SAF) and Current Service Annuity Reserve Fund (CSARF). Under the current fund account structure, the ESF and CSARF are credited by statute with 7 percent interest, and the SAF investment return reflects the total actual return net of these interest credits. (The SAF asset value is then smoothed, i.e., averaged.) Most of the retirement and beneficiary annuity payments are paid out of the CSARF and any supplemental annuity payments are paid out of the SAF.

The proposed restructuring would eliminate the CSARF, so that pension benefits of current and future retirees would be paid entirely out of the SAF. At retirement, employee's account balance from the ESF would be transferred to the SAF, instead of the CSARF, as is done currently. Additionally, the bill would create a new fund, the Closed Subdivision Annuity Fund (CSAF), from which future benefit payments to members of subdivisions that have terminated participation in the retirement system would be made.

According to the actuarial analysis, the proposed fund restructuring would not impact any member benefit amounts, eligibility, or participation requirements. Therefore, the proposed changes would not impact the overall liabilities of the retirement system and would have no cost to the system as a whole. But there would be an effect on the allocation of costs to the individual counties and districts (i.e., subdivisions) participating in TCDRS.

TCDRS, as a whole, and each of its individual employer plans are currently funded on an actuarially sound basis, as defined by the Texas Pension Review Board (PRB). Adoption of this legislation would not affect that status. The actuarial review notes that TCDRS is actuarially sound
under current provisions, and would remain actuarially sound if the bill is enacted.

SYNOPSIS OF PROVISIONS
The bill, to be effective January 1, 2016 (or immediately if it receives the required votes), would provide the following changes:
• Restructure the current three TCDRS internal fund accounts by eliminating CSARF, so that benefit payments to participants of active subdivisions would be made entirely from the SAF. A one-time allocation and transfer of the CSARF funds would be made, with active subdivision assets being transferred to the SAF, effective January 1, 2017.
• A new fund, the CSAF, would be created from which future benefit payments to participants of closed subdivisions would be made.

FINDINGS AND CONCLUSIONS
The provisions of the bill, if enacted, would streamline and simplify TCDRS's fund accounting structure. The proposed structure would reduce the burden of complying with GASB 68 by eliminating a cost sharing aspect of the current fund structure. The result would be a significant simplification of TCDRS's required process of reporting the GASB 68 Net Pension Liability to each of the participating employers.

The actuarial review notes that the employee and retiree benefits would not be affected by the bill, so the bill would have no cost to the retirement system as a whole. Also, the bill would not affect the retirement system's overall funded status. However, there would be an impact on the allocation of the total system cost to the individual employers (i.e., subdivisions) within TCDRS. The cost reallocation results from the elimination of the current pooling of retiree longevity within the CSARF among all employers, and the redistribution of investment risk/reward among employers due to the asset transfer from the CSARF to the SAF. The transfer of the CSARF assets to the SAF would also make the future SAF investment return less volatile.

The actuarial review also notes that TCDRS is currently actuarially sound, as participating county and district employers are required to amortize their unfunded actuarial accrued liability (UAAL) over a closed 15 or 20 year period. The bill, if enacted, is projected to keep the retirement system sound, as participating employers would still be required to amortize their UAAL over a closed 15 or 20 year period. Under the current PRB Guidelines for Actuarial Soundness, funding should be adequate to amortize the UAAL over a period which should never exceed 40 years, with 15-25 years being a more preferable target. If the bill is enacted, PRB projects that the TCDRS's amortization period would continue to meet PRB Guidelines.

METHODOLOGY AND STANDARDS
The analysis relies on the participant data, financial information, benefit structure and actuarial assumptions and methods used in the December 31, 2013 actuarial valuation of TCDRS. The actuarial analysis did not anticipate any changes in member behavior in the assumptions used in the analysis, as the member behavior is not expected to be impacted by the proposed change. According to the PRB actuary, the actuarial assumptions, methods and procedures appear to be reasonable. 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.

SOURCES
Actuarial Review by Robert M. May, FSA, EA, MAAA, Board Actuary and Mr. Daniel P. Moore,
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 - The payment on the Unfunded Actuarial Accrued Liability (UAAL).
Amortization Period - The number of years required to pay off the unfunded liability. Public retirement systems have found that amortization periods ranging from 20 to 40 years are acceptable.
Cost Method A method to divide the Present Value 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 the assets to the liabilities.
GASB 68 and related terminology - A statement of the Governmental Accounting Standards Board (GASB) concerning accounting for pension by governmental employers effective for FYE 6/30/2015 and later:
   Net Pension Liability (NPL): The liability of employers and non-employer contributing entities for pension benefits shown on the entity's balance sheet for FYE 6/30/2015 and later. The NPL equals the TPL minus the market value of plan assets. (If plan assets exceed the TPL, there is a Net Pension Asset.)
   Total Pension Liability (TPL): The portion of the actuarial present value of projected benefit payments attributed to past periods of employee service under the Entry Age Normal valuation method.
   Discount Rate: A single rate used to discount the calculate the TPL which is equivalent to discounting future payments reflected in the TPL at the long-term expected rate of return until plan assets are projected to be exhausted, and discounting at the municipal bond rate for subsequent payments reflected in the TPL.
   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, EP