



Ohio Retirement Study Council

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Bethany Rhodes

To: Senator Romanchuk
From: Jeffery A. Bernard, Senior Research Associate
Date: June 25, 2024
Subject: Texas State Pension Review Board (PRB)

You asked ORSC staff to detail the authority and responsibilities of the Texas State Pension Review Board (PRB). The PRB is mandated to oversee all Texas public retirement systems, both state and local, in regard to their actuarial soundness and compliance with state reporting requirements. The PRB has a staff of 12 including two actuaries, an investment analyst, and a financial analyst. The PRB has 100 systems under their review, 76 of which are small local or district level systems. While the PRB is an oversight body, because of this large number of smaller systems their orientation is more to serve as a professional assistance body for these numerous smaller funds. While ORSC information is oriented towards the General Assembly, the PRB information is oriented towards the pension funds themselves.

Staff reviewed relevant Texas Government Code provisions and PRB policies and activities. We summarized their activities under four broad categories: Informal Guidance, Actuarial Reviews, PRB Board specific involvement, and Staff reports.

I was unable to find tools the PRB have to address non-compliance from systems. Included as enclosures are two representative documents of PRB activities: a plan flow for complying with the development of a Funding Soundness Restoration Plan (FSRP) and an investment policy statement tool designed to assist local plans develop their own policies.

Informal Guidance:

- 1) Development of Minimum Educational Training (MET) program for retirements system trustees and administrators, including online training by the PRB itself;
- 2) Development of guidance policy, including funding, investment policy statements, asset class categorizations, and performance evaluations.

Actuarial Reviews:

- 1) Conducts "Intensive Actuarial Reviews" of systems that reach certain funded metrics;
- 2) Development of "Funding Soundness Restoration Plans "(FSRP)" for systems not meeting state mandated funding levels.

PRB Board Level Activities:

- 1) Board composed of 7 members (5 professional members appointed by the Governor and one active and one retired member);
- 2) Typically meet quarterly for an entire 1-3 days and include direct review of specific system policies and establishment of suggested legislative changes.

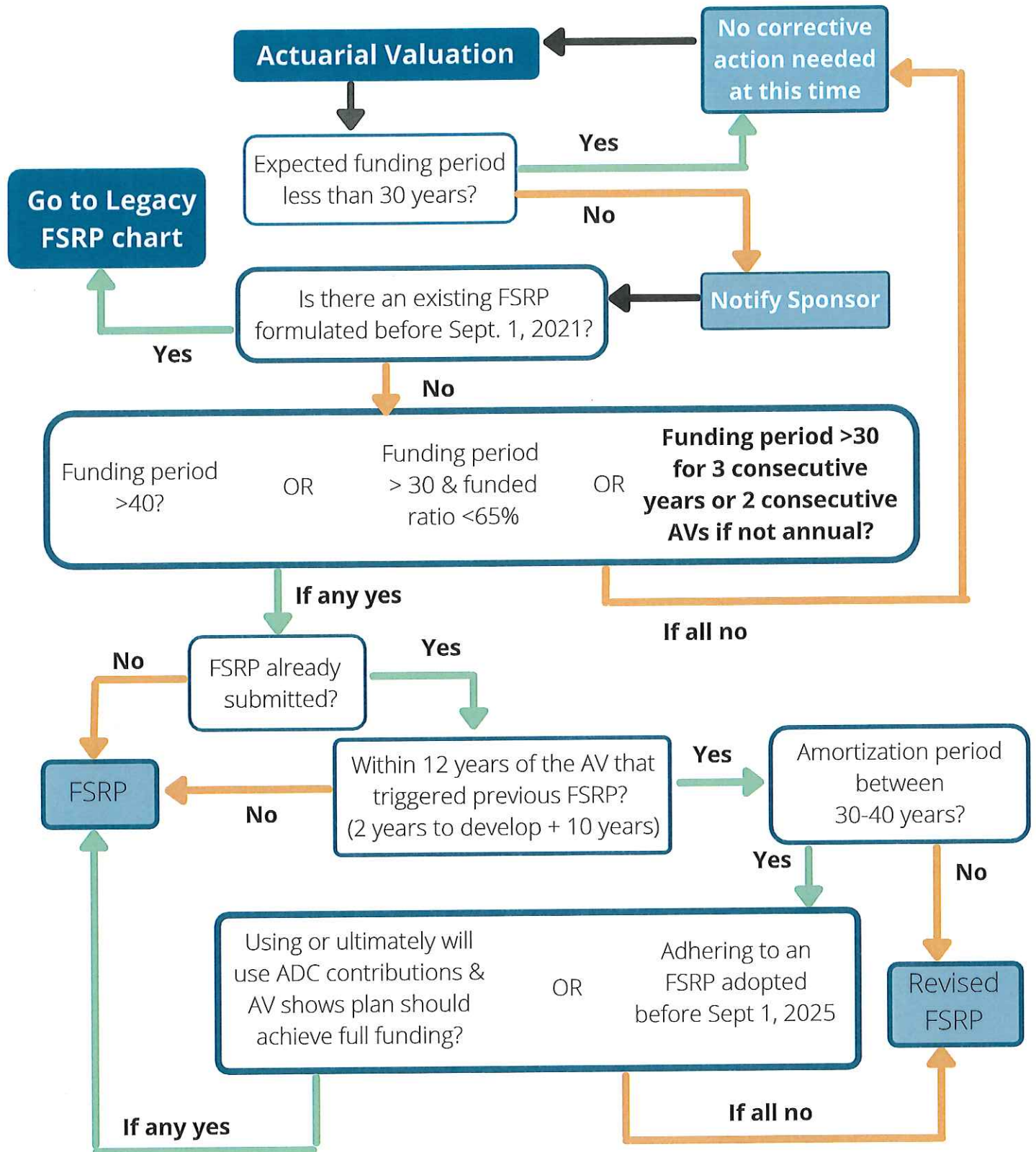
Staff Reports and Data Collection:

- 1) Data collection and establishment of standard submission forms for system data;
- 2) Aggregate data for the 100 systems;
- 3) Educational materials, similar to ORSC's Issue Brief but more technical in nature (these are aimed more at system administrators rather than general public or PRB members).

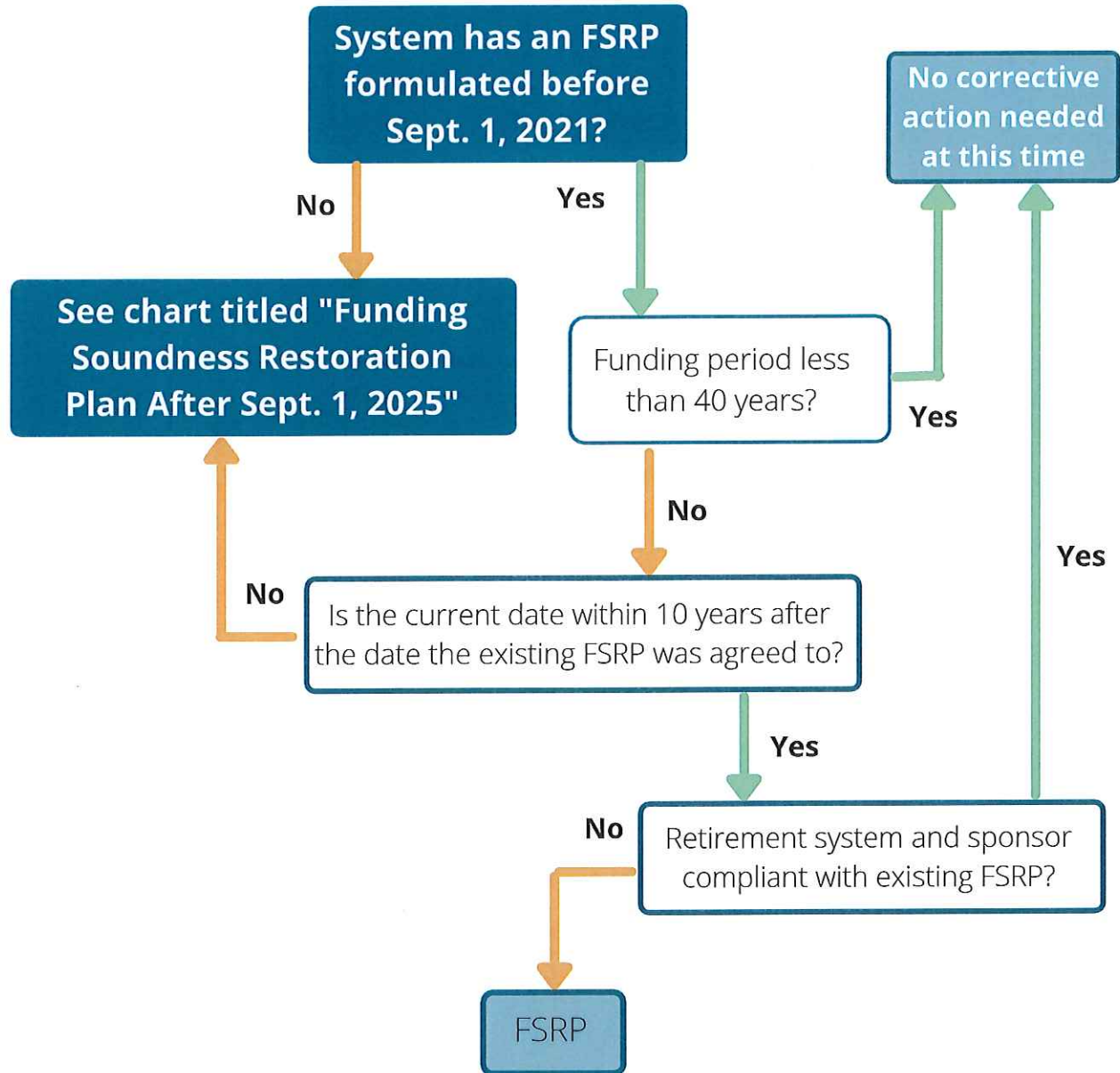
Comparison of FSRP Provisions

	Legacy FSRP (old law)	FSRP after HB 3898 (87R) takes effect Sept. 1, 2021
Target Funding Period	≤40 years	≤ 30 years no later than 2 years after the triggering actuarial valuation or Sept. 1, 2025, whichever is later
Time to develop	6 months after triggering AV	2 years after triggering actuarial valuation
Time allowed to reach target	10 years	2 years after triggering actuarial valuation
Updates to the PRB	Every 2 years	Progress report by within 1 year of triggering AV, Updates every 6 months afterwards
Documentation	Unspecified in statute	AV or analysis that includes an actuarial projection of expected future assets and liabilities, the date the plan is expected to achieve full funding, and a description of the methods used and how they comply with actuarial standards of practice
May include future changes?	Unspecified in statute	No, changes may only be included if they have already been approved when the FSRP is adopted
Effects on funding policy	None	Adoption triggers funding policy revision so provisions are consistent
Effects of not adhering to FSRP	Revise FSRP to achieve 30 year funding period by original target date	R-FSRP that includes an expected funding period of ≤25 years and includes risk sharing mechanisms, ADC-based contributions, and other automatic adjustments to benefit or contribution structures
Exceptions	None	<ul style="list-style-type: none"> • If adhering to previous L-FSRP • Exempt from Revised FSRP if am. period between 30-40 years AND EITHER: <ul style="list-style-type: none"> ◦ using or ultimately will use ADC-based contributions & AV shows plan should achieve full funding; OR ◦ adhering to FSRP formulated before Sept. 1, 2025

Updated Based on Current Understanding (11-9-2021)
Funding Soundness Restoration Plan After Sept. 1, 2025



Funding Soundness Restoration Plan for Legacy FSRP Systems



If a retirement system with an Legacy FSRP is not compliant with the L-FSRP, the retirement system and sponsor shall prepare an FSRP under requirements as they stand after Sept. 1, 2021 instead of a revised FSRP under previous statute.

FSRP Reporting to PRB

Retirement system & sponsor work together after FSRP is triggered

Within 1 year of triggering AV:

Send progress report to PRB that includes a draft of any plan or changes being considered + updates every 6 months afterwards

Within 2 years of triggering AV:

Both retirement system & sponsor **adopt FSRP/R-FSRP** at open meetings

Update funding policy based on the FSRP/R-FSRP

Within 31 days of adoption:
submit FSRP/R-FSRP to PRB

Within 90 days of adoption:
submit AV showing combined impact of all changes adopted in FSRP/R-FSRP

OR

Within 90 days of request from PRB:
submit separate analysis of combined impact of all changes adopted in FSRP/R-FSRP

Follow the FSRP/R-FSRP & return to regular actuarial valuation schedule

FSRP Changes through HB 3898 (87R)

Legacy Funding Soundness Restoration Plan

L-FSRPs must comply with Section 802.2015, Texas Government Code
(before 2021 changes made by HB 3898, 87R)

- **Formulated before Sept. 1, 2021.**
- Must be designed to achieve a contribution rate sufficient to amortize the UAAL within **40 years** by the 10th anniversary of FSRP adoption (which should be within 6 months after adoption of triggering AV).
- System and sponsor shall report progress to PRB every two years.
- A copy of any changes must be submitted to PRB within 31 days.
- **If a system does not adhere to existing L-FSRP** (is no longer able to achieve a 40-year amortization period by the target date), a new FSRP must be prepared that achieves **30 years** no later than 2 years after the triggering AV or Sept. 1, 2025, whichever is later.

Funding Soundness Restoration Plan

Effective Sept. 1, 2021 (HB 3898, 87R)

- Must be designed to achieve a contribution rate sufficient to amortize the UAAL within **30 years** no later than **2 years** after the triggering AV **or Sept. 1, 2025**, whichever is later.
- Adopted at open meetings of the governing bodies of both system and sponsor.
- Is not required if amortization period is between 30-40 years **AND**
 - system is using or ultimately will use ADC-based contributions & AV shows plan should achieve full funding; **OR**
 - the system and sponsor are adhering to an FSRP adopted before Sept. 1, 2025.

Revised Funding Soundness Restoration Plan

R-FSRP required if another FSRP is triggered within 10 years

Effective Sept. 1, 2021 (HB 3898, 87R)

- Must be designed to achieve a contribution rate sufficient to amortize the UAAL within **25 years** no later than 2 years after the AV triggering the R-FSRP.
- Must include **automatic risk-sharing mechanisms, ADC-based contributions, and other adjustable benefit or contribution mechanisms.**
- Adopted at open meetings of the governing bodies of both system and sponsor.



PENSION REVIEW BOARD

Investment Policy Statement Review Tool

Policy	Does policy exist? Y/N	Action needed	Status (such as in progress, complete, etc.)
1. <u>Fund mission or goal</u>			
a. <u>Acknowledge relevant parties</u>			
b. <u>Stated purpose</u>			
c. <u>(If appropriate) Reference relevant governing statutes</u>			
2. <u>Roles and responsibilities</u>			
a. <u>Identify fiduciary standards and related requirements</u>			
b. <u>List of important roles and define responsibilities</u>			
c. <u>Describe how a role is reviewed</u>			
d. <u>Document the frequency of competitive procurement</u>			
3. <u>Investment objective</u>			
4. <u>Liquidity</u>			
5. <u>Risk tolerance</u>			
a. <u>Identify risk factors</u>			
b. <u>Define risk metrics</u>			
c. <u>(If appropriate) Liquidity</u>			
6. <u>Investment assets</u>			
a. <u>Establish investable asset classes</u>			
b. <u>Specify portfolio process</u>			
c. <u>(If appropriate) Expected volatility and risk levels</u>			
d. <u>(If appropriate) Asset liability study</u>			
e. <u>(If appropriate) Alternative investments</u>			
f. <u>(If appropriate) Cash flow and liquidity</u>			
7. <u>Proxy voting</u>			
8. <u>Performance evaluation</u>			
a. <u>Specify metrics</u>			
b. <u>Identify benchmarks</u>			
c. <u>Cost management</u>			

d. <u>(If appropriate) Performance attribution</u>			
e. <u>(If appropriate) Performance appraisal and active vs. passive</u>			
9. <u>Investment manager selection and monitoring</u>			
a. <u>Selection criteria</u>			
b. <u>Procedure and metrics used for monitoring</u>			
c. <u>Compliance</u>			
d. <u>Watch list policy</u>			
10. <u>Ethics</u>			
Governance Procedures	Procedure Completed? Y/N	Action Needed	Policy Creation or Update Status
1. <u>IPS reviewed within last 2 years and reapproved within the last 5 years with documented changes filed with the PRB</u>			
2. <u>The IPS consider both pension funding constraints and benefit liabilities</u>			
3. <u>Existing practices are documented</u>			
4. <u>The IPS document is on a publicly available website and a physical copy is available at the main office</u>			

Board Meeting Date: _____

IPS Last Approved Date: _____

Comments and Notes