

SENATE AMENDMENTS

2nd Printing

By: Harless, Oliverson, Perez of Harris,
Metcalf, Thompson

H.B. No. 2688

A BILL TO BE ENTITLED

1 AN ACT

2 relating to the firefighters' relief and retirement fund of certain
3 municipalities.

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

5 SECTION 1. The heading to Article 6243e.2(1), Revised
6 Statutes, is amended to read as follows:

7 Art. 6243e.2(1). FIREFIGHTERS' RELIEF AND RETIREMENT FUND
8 IN MUNICIPALITIES OF AT LEAST 2,000,000 [~~1,600,000~~] POPULATION.

9 SECTION 2. Section 1, Article 6243e.2(1), Revised Statutes,
10 is amended by adding Subdivision (10-a-1) and amending Subdivisions
11 (13-e) and (15-f) to read as follows:

12 (10-a-1) "Entry age normal actuarial cost method"
13 means an actuarial cost method under which a calculation is made to
14 determine the average uniform and constant percentage rate of
15 contributions that, if applied to the compensation of each member
16 during the entire period of the member's anticipated covered
17 service, would be required to meet the cost of all benefits payable
18 on the member's behalf. For purposes of this definition, the
19 attribution period of a member's anticipated covered service:

20 (A) begins with the member's entry age, which is
21 the member's age on the first day of the first period of member
22 service for which the member accrues benefits under the fund,
23 notwithstanding vesting or similar requirements; and

24 (B) as to each benefit, ends with the member's

1 assumed exit age, which for retirement benefits is:

2 (i) the member's age on the member's latest
3 assumed retirement date; and

4 (ii) if a member elects to participate in
5 the DROP, the member's age on subsequently terminating active
6 service after the election.

7 (13-e) "Normal retirement age" means:

8 (A) [~~for a member, including a member who was~~
9 ~~hired before the year 2017 effective date and who involuntarily~~
10 ~~separated from service but has been retroactively reinstated in~~
11 ~~accordance with an arbitration, civil service, or court ruling,~~
12 ~~hired before the year 2017 effective date,~~] the age at which a the
13 member attains 20 years of service; or

14 (B) [~~except as provided by Paragraph (A) of this~~
15 ~~subdivision, for a member hired or rehired on or after the year 2017~~
16 ~~effective date,~~] the age at which a member first attains both the
17 age of at least 50 and at least 10 years of service [~~the sum of the~~
18 ~~member's age, in years, and the member's years of participation in~~
19 ~~the fund equals at least 70].~~

20 (15-f) "PROP account" means the notional account
21 established to reflect the credits and contributions of a member or
22 surviving spouse who made a PROP election in accordance with
23 Section 5A of this article [~~before the year 2017 effective date~~].

24 SECTION 3. Sections 2(a) and (h-2), Article 6243e.2(1),
25 Revised Statutes, are amended to read as follows:

26 (a) A firefighters' relief and retirement fund is
27 established in each incorporated municipality that has a population

1 of at least 2,000,000 [~~1,600,000~~] and a fully paid fire department.

2 (h-2) If the board establishes a pension benefits committee
3 under Subsection (h-1) of this section, that committee, even if it
4 is composed of fewer than all the trustees of the board, may
5 deliberate and act in place of the board regarding each application
6 for benefits submitted to the fund by a member or the member's
7 survivor. Final action of a pension benefits committee on an
8 application for benefits is binding, subject only to any right of
9 appeal to the board under law, rule, or policy at the time the
10 application is filed. Except to the extent the final action of a
11 pension benefits committee may be appealed to the board, the final
12 action of the pension benefits committee on an application for
13 benefits constitutes the final action of the board[~~, including for~~
14 ~~purposes of filing an appeal to a district court under Section 12 of~~
15 ~~this article~~].

16 SECTION 4. Section 3A(b), Article 6243e.2(1), Revised
17 Statutes, is amended to read as follows:

18 (b) In a written agreement entered into between the
19 municipality and the board under this section, the parties may not:

20 (1) [~~alter Sections 13A through 13F of this article,~~
21 ~~except and only to the extent necessary to comply with federal law,~~

22 [~~2~~] increase the assumed rate of return to more than
23 seven percent per year;

24 (2) [~~3~~] extend the amortization period of a
25 liability layer to more than 30 years from the first day of the
26 fiscal year beginning 12 months after the date of the risk sharing
27 valuation study in which the liability layer is first recognized;

1 or

2 (3) [~~4~~] allow a municipal contribution rate in any
3 year that is less than or greater than the municipal contribution
4 rate required under Section 13E or 13F of this article, as
5 applicable.

6 SECTION 5. Section 4(a), Article 6243e.2(1), Revised
7 Statutes, is amended to read as follows:

8 (a) A member who terminates active service for any reason
9 other than death is entitled to receive a service pension provided
10 by this section if the member was:

11 (1) hired as a firefighter before the year 2017
12 effective date, including a member who was hired before the year
13 2017 effective date and who involuntarily separated from service
14 but has been retroactively reinstated in accordance with an
15 arbitration, civil service, or court ruling, at the age at which the
16 member attains 20 years of service; and

17 (2) except as provided by Subdivision (1) of this
18 subsection and subject to Subsection (b-2) of this section, hired
19 or rehired as a firefighter on or after the year 2017 effective
20 date, at the age at which the member attains 20 years of service
21 [~~when the sum of the member's age in years and the member's years of~~
22 ~~participation in the fund equals at least 70~~].

23 SECTION 6. Section 5, Article 6243e.2(1), Revised Statutes,
24 is amended by amending Subsections (a), (a-1), (b), and (d) and
25 adding Subsections (a-2) and (a-3) to read as follows:

26 (a) A member who is eligible to receive a service pension
27 under Section 4 [~~4(a)(1)~~] of this article and who remains in active

1 service may elect to participate in the deferred retirement option
2 plan provided by this section. [~~A member who is eligible to receive~~
3 ~~a service pension under Section 4(a)(2) of this article may not~~
4 ~~elect to participate in the deferred retirement option plan~~
5 ~~provided by this section.~~] On subsequently terminating active
6 service, a member who elected the DROP may apply for a monthly
7 service pension under Section 4 of this article, except that the
8 effective date of the member's election to participate in the DROP
9 will be considered the member's retirement date for determining the
10 amount of the member's monthly service pension. The member may also
11 apply for any DROP benefit provided under this section on
12 terminating active service. An election to participate in the
13 DROP, once approved by the board, is irrevocable.

14 (a-1) Except as provided by Subsection (a-3) of this
15 section, the [~~The~~] monthly benefit of a DROP participant who has at
16 least 20 years of participation on the year 2017 effective date is
17 increased at retirement by two percent of the amount of the member's
18 original benefit for every full year of participation in the DROP by
19 the member for up to 10 years of participation in the DROP. For the
20 [a] member's final year of participation, but not beyond the
21 member's 10th year in the DROP, if a full year of participation is
22 not completed, the member shall receive a prorated increase of
23 0.166 percent of the member's original benefit for each month of
24 participation in that year.

25 (a-2) Except as provided by Subsection (a-3) of this
26 section, the monthly benefit of a DROP participant who had less than
27 20 years of participation on the year 2017 effective date is

1 increased at retirement by one percent of the amount of the member's
2 original benefit for every full year of participation in the DROP by
3 the member for up to 10 years of participation in the DROP. For the
4 member's final year of participation, but not beyond the member's
5 10th year in the DROP, if a full year of participation is not
6 completed, the member shall receive a prorated increase of 0.083
7 percent of the member's original benefit for each month of
8 participation in that year.

9 (a-3) An increase provided by Subsection (a-1) or (a-2) of
10 this section [~~subsection~~] does not apply to benefits payable under
11 Subsection (1) of this section. An increase under each of those
12 subsections [~~this subsection~~] is applied to the member's benefit at
13 retirement and is not added to the member's DROP account. The total
14 increase under:

15 (1) Subsection (a-1) of this section [~~subsection~~] may
16 not exceed 20 percent for 10 years of participation in the DROP by
17 the member; or

18 (2) Subsection (a-2) of this section may not exceed 10
19 percent for 10 years of participation in the DROP by the member.

20 (b) A member may elect to participate in the DROP by
21 complying with the election process established by the board. The
22 member's election may be made at any time beginning on the date the
23 member has completed 20 years of participation in the fund and is
24 otherwise eligible for a service pension under Section 4 [~~4(a)(1)~~]
25 of this article. Beginning on the first day of the month following
26 the month in which the member makes an election to participate in
27 the DROP, subject to board approval, and ending on the year 2017

1 effective date, amounts equal to the deductions made from the
2 member's salary under Section 13(c) of this article shall be
3 credited to the member's DROP account. Beginning after the year
4 2017 effective date, amounts equal to the deductions made from the
5 member's salary under Section 13(c) of this article may not be
6 credited to the member's DROP account.

7 (d) A member's DROP account shall be credited with earnings
8 at an annual rate equal to 75 [~~65~~] percent of the compounded average
9 annual return earned by the fund over the five years preceding, but
10 not including, the year during which the credit is given.
11 Notwithstanding the preceding, however, the credit to the member's
12 DROP account shall be at an annual rate of not less than 2.5
13 percent, irrespective of actual earnings.

14 SECTION 7. Sections 8(a) and (c), Article 6243e.2(1),
15 Revised Statutes, are amended to read as follows:

16 (a) A [~~On or after the year 2017 effective date, a~~] member
17 who [~~is hired as a firefighter before the year 2017 effective date,~~
18 ~~including a member who was hired before the year 2017 effective date~~
19 ~~and who involuntarily separated from service but has been~~
20 ~~retroactively reinstated in accordance with an arbitration, civil~~
21 ~~service, or court ruling,~~] terminates active service for any reason
22 other than death with at least 10 years of participation, but less
23 than 20 years of participation, is entitled to a monthly deferred
24 pension benefit, beginning at age 50, in an amount equal to 1.7
25 percent of the member's average monthly salary multiplied by the
26 amount of the member's years of participation.

27 (c) A [~~Except as provided by Subsection (a) of this section,~~

1 ~~a member who is hired or rehired as a firefighter on or after the~~
2 ~~year 2017 effective date or a]~~ member who terminates active service
3 ~~[employment]~~ for any reason other than death before the member has
4 completed 10 years of participation is entitled only to a refund of
5 the member's contributions without interest and is not entitled to
6 a deferred pension benefit under this section or to any other
7 benefit under this article. The member's refund shall be paid as
8 soon as administratively practicable after the effective date of
9 the member's termination of active service.

10 SECTION 8. Section 11(d), Article 6243e.2(1), Revised
11 Statutes, is amended to read as follows:

12 (d) In computing a member's years of participation, time
13 served in the armed forces of the nation during war or national
14 emergency is considered continuous service. Except for that
15 military service, credit for prior service shall be given only if a
16 member returns to active service as a firefighter before the 10th
17 ~~[fifth]~~ anniversary of a previous effective date of termination.
18 Notwithstanding any provision of this article to the contrary,
19 contributions, benefits, and service credit with respect to
20 qualified military service shall be provided in accordance with
21 Section 414(u) of the code. A member who is engaged in active duty
22 in any of the military services of the United States shall receive
23 credited pension service for the period of the military service if
24 the member returns to employment with the employer municipality's
25 fire department with an honorable discharge within the period
26 required by the federal reemployment Act and the period of military
27 service does not exceed the period prescribed by that Act. If a

1 member sustains an injury while on military leave under the terms of
2 the federal reemployment Act, pension benefits are payable based on
3 the off-duty disability benefit provisions prescribed by Section
4 6(e) of this article. If a member dies while on military leave
5 under the terms of the federal reemployment Act, death benefits are
6 payable to eligible survivors based on the off-duty death benefits
7 prescribed by Section 7 of this article. This subsection is
8 intended to comply with the federal reemployment Act. The board may
9 make, maintain, and amend policies and procedures as desirable or
10 necessary to implement the federal reemployment Act. In this
11 subsection, "federal reemployment Act" means the Uniformed
12 Services Employment and Reemployment Rights Act of 1994 (38 U.S.C.
13 Section 4301 et seq.), as amended.

14 SECTION 9. Section 13B, Article 6243e.2(1), Revised
15 Statutes, is amended by amending Subsection (a) and adding
16 Subsection (a-1) to read as follows:

17 (a) The fund and the municipality shall separately cause
18 their respective actuaries to prepare a risk sharing valuation
19 study in accordance with this section and actuarial standards of
20 practice. A risk sharing valuation study must:

21 (1) be dated as of the first day of the fiscal year in
22 which the study is required to be prepared;

23 (2) be included in the fund's standard valuation study
24 prepared annually for the fund;

25 (3) calculate the unfunded actuarial accrued
26 liability of the fund;

27 (4) be based on actuarial data provided by the fund

1 actuary or, if actuarial data is not provided, on estimates of
2 actuarial data;

3 (5) estimate the municipal contribution rate, taking
4 into account any adjustments required under Section 13E or 13F of
5 this article for all applicable prior fiscal years;

6 (6) subject to Subsection (g) of this section, be
7 based on the following assumptions and methods that are consistent
8 with actuarial standards of practice:

9 (A) an ~~[ultimate]~~ entry age normal actuarial cost
10 method;

11 (B) for purposes of determining the actuarial
12 value of assets:

13 (i) except as provided by Subparagraph (ii)
14 of this paragraph and Section 13E(c)(1) or 13F(c)(2) of this
15 article, an asset smoothing method recognizing actuarial losses and
16 gains over a five-year period applied prospectively beginning on
17 the year 2017 effective date; and

18 (ii) for the initial risk sharing valuation
19 study prepared under Section 13C of this article, a
20 marked-to-market method applied as of June 30, 2016;

21 (C) closed layered amortization of liability
22 layers to ensure that the amortization period for each layer begins
23 12 months after the date of the risk sharing valuation study in
24 which the liability layer is first recognized;

25 (D) each liability layer is assigned an
26 amortization period;

27 (E) except as provided by Subsection (a-1) of

1 this section, each liability loss layer amortized over a period of
2 15 [~~30~~] years from the first day of the fiscal year beginning 12
3 months after the date of the risk sharing valuation study in which
4 the liability loss layer is first recognized[~~, except that the~~
5 ~~legacy liability must be amortized from July 1, 2016, for a 30-year~~
6 ~~period beginning July 1, 2017]~~;

7 (F) the amortization period for each liability
8 gain layer being:

9 (i) equal to the remaining amortization
10 period on the largest remaining liability loss layer and the two
11 layers must be treated as one layer such that if the payoff year of
12 the liability loss layer is accelerated or extended, the payoff
13 year of the liability gain layer is also accelerated or extended; or

14 (ii) if there is no liability loss layer, a
15 period of 15 [~~30~~] years from the first day of the fiscal year
16 beginning 12 months after the date of the risk sharing valuation
17 study in which the liability gain layer is first recognized;

18 (G) liability layers, including the legacy
19 liability, funded according to the level percent of payroll method;

20 (H) the assumed rate of return, subject to
21 adjustment under Section 13E(c)(2) of this article or, if Section
22 13C(g) of this article applies, adjustment in accordance with a
23 written agreement, except the assumed rate of return may not exceed
24 seven percent per annum;

25 (I) the price inflation assumption as of the most
26 recent actuarial experience study, which may be reset by the board
27 by plus or minus 50 basis points based on that actuarial experience

1 study;

2 (J) projected salary increases and payroll
3 growth rate set in consultation with the municipality's finance
4 director; and

5 (K) payroll for purposes of determining the
6 corridor midpoint and municipal contribution rate must be projected
7 using the annual payroll growth rate assumption, which for purposes
8 of preparing any amortization schedule may not exceed three
9 percent; and

10 (7) be revised and restated, if appropriate, not later
11 than:

12 (A) the date required by a written agreement
13 entered into between the municipality and the board; or

14 (B) the 30th day after the date required action
15 is taken by the board under Section 13E or 13F of this article to
16 reflect any changes required by either section.

17 (a-1) With respect to any liability loss layer with a payoff
18 year that was accelerated under Section 13E(c)(4) of this article,
19 the board and municipality may at any time enter into a written
20 agreement to extend the payoff year of the liability loss layer to a
21 payoff year that is not later than 15 years from the first day of the
22 fiscal year beginning 12 months after the date of the risk sharing
23 valuation study in which the liability loss layer is first
24 recognized.

25 SECTION 10. Section 13C(g), Article 6243e.2(1), Revised
26 Statutes, is amended to read as follows:

27 (g) The municipality and the board may agree on a written

1 transition plan for resetting the corridor midpoint:

2 (1) if at any time the funded ratio is equal to or
3 greater than 100 percent; ~~[or]~~

4 (2) for any fiscal year after the payoff year of the
5 legacy liability; or

6 (3) on a one-time basis other than a time described by
7 Subdivision (1) or (2) of this subsection.

8 SECTION 11. Sections 13E(b) and (c), Article 6243e.2(1),
9 Revised Statutes, are amended to read as follows:

10 (b) If the funded ratio is:

11 (1) less than 90 percent, the municipal contribution
12 rate for the fiscal year equals the corridor midpoint; or

13 (2) equal to or greater than 90 percent and the
14 municipal contribution rate is:

15 (A) equal to or greater than the minimum
16 contribution rate, the estimated municipal contribution rate is the
17 municipal contribution rate for the fiscal year; or

18 (B) except as provided by Subsection (e) of this
19 section, less than the minimum contribution rate for the
20 corresponding fiscal year, the municipal contribution rate for the
21 fiscal year equals the minimum contribution rate ~~[achieved in~~
22 ~~accordance with Subsection (c) of this section]~~.

23 (c) For purposes of Subsection (b)(2)(B) of this section,
24 the following adjustments may, by written agreement between the
25 municipality and board entered into not later than the April 30
26 before the first day of the next fiscal year, ~~[shall]~~ be applied
27 sequentially ~~[to the extent required]~~ to increase the estimated

1 municipal contribution rate to equal the minimum contribution rate:

2 (1) first, adjust the actuarial value of assets equal
3 to the current market value of assets, if making the adjustment
4 causes the municipal contribution rate to increase;

5 (2) second, [~~under a written agreement between the~~
6 ~~municipality and the board entered into not later than April 30~~
7 ~~before the first day of the next fiscal year,~~] reduce the assumed
8 rate of return;

9 (3) third, [~~under a written agreement between the~~
10 ~~municipality and the board entered into not later than April 30~~
11 ~~before the first day of the next fiscal year,~~] prospectively
12 restore all or part of any benefit reductions or reduce increased
13 employee contributions, in each case made after the year 2017
14 effective date; and

15 (4) fourth, accelerate the payoff year of the existing
16 liability loss layers, including the legacy liability, by
17 accelerating the oldest liability loss layers first, to an
18 amortization period that is not less than 10 years from the first
19 day of the fiscal year beginning 12 months after the date of the
20 risk sharing valuation study in which the liability loss layer is
21 first recognized.

22 SECTION 12. Sections 5A(o), 12, and 13G(a), Article
23 6243e.2(1), Revised Statutes, are repealed.

24 SECTION 13. Sections 1(13-e) and 4, Article 6243e.2(1),
25 Revised Statutes, as amended by this Act, apply to a member who
26 retires on or after the effective date of this Act.

27 SECTION 14. Section 5, Article 6243e.2(1), Revised

1 Statutes, as amended by this Act, applies to a member who
2 participates in the deferred retirement option plan on or after the
3 effective date of this Act regardless of whether the member began
4 participation in the plan before, on, or after the effective date of
5 this Act.

6 SECTION 15. (a) Section 13B, Article 6243e.2(1), Revised
7 Statutes, as amended by this Act, applies only to a risk sharing
8 valuation study conducted under that section after June 30, 2026.

9 (b) For purposes of this section and Section 13B(a)(6)(E),
10 Article 6243e.2(1), Revised Statutes, all existing liability loss
11 layers must be re-amortized over a period of 15 years.

12 (c) For purposes of this section and Section
13 13B(a)(6)(F)(ii), Article 6243e.2(1), Revised Statutes, effective
14 on the first day of the fiscal year beginning 12 months after the
15 date of the first risk sharing valuation study conducted after June
16 30, 2026, all existing liability gain layers must be re-amortized
17 over a period of 15 years.

18 SECTION 16. This Act takes effect September 1, 2025.

ADOPTED

MAY 23 2025

Latey Law
Secretary of the Senate

By: HUFFMAN

H.B. No. 2688

Substitute the following for H.B. No. 2688:

By: [Signature]

C.S. H.B. No. 2688

A BILL TO BE ENTITLED

AN ACT

1
2 relating to the public retirement systems of certain
3 municipalities.

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

5 ARTICLE 1. FIREFIGHTERS' RELIEF AND RETIREMENT FUND

6 SECTION 1.01. The heading to Article 6243e.2(1), Revised
7 Statutes, is amended to read as follows:

8 Art. 6243e.2(1). FIREFIGHTERS' RELIEF AND RETIREMENT FUND IN
9 MUNICIPALITIES OF AT LEAST 2,000,000 [~~1,600,000~~] POPULATION.

10 SECTION 1.02. Section 1(13-e), Article 6243e.2(1), Revised
11 Statutes, is amended to read as follows:

12 (13-e) "Normal retirement age" means:

13 (A) [~~for a member, including a member who was~~
14 ~~hired before the year 2017 effective date and who involuntarily~~
15 ~~separated from service but has been retroactively reinstated in~~
16 ~~accordance with an arbitration, civil service, or court ruling,~~
17 ~~hired before the year 2017 effective date,~~] the age at which a [the]
18 member attains 20 years of service; or

19 (B) [~~except as provided by Paragraph (A) of this~~
20 ~~subdivision, for a member hired or rehired on or after the year 2017~~
21 ~~effective date,~~] the age at which a member first attains both the
22 age of at least 50 and at least 10 years of service [~~the sum of the~~
23 ~~member's age, in years, and the member's years of participation in~~
24 ~~the fund equals at least 70~~].

1 SECTION 1.03. Section 1(16-b), Article 6243e.2(1), Revised
2 Statutes, is redesignated as Section 1(10-a-1), Article
3 6243e.2(1), Revised Statutes, and amended to read as follows:

4 (10-a-1) "Entry [~~(16-b)~~ "~~Ultimate entry~~] age normal
5 actuarial cost method" means an actuarial cost method under which a
6 calculation is made to determine the average uniform and constant
7 percentage rate of contributions that, if applied to the
8 compensation of each member during the entire period of the
9 member's anticipated covered service, would be required to meet the
10 cost of all benefits payable on the member's behalf based on the
11 benefits provisions for each individual employee [~~newly hired~~
12 ~~employees~~]. For purposes of this definition, the actuarial accrued
13 liability for each member is the difference between the member's
14 present value of future benefits based on the tier of benefits that
15 apply to the member and the member's present value of future normal
16 costs determined using the normal cost rate.

17 SECTION 1.04. Sections 2(a) and (h-2), Article 6243e.2(1),
18 Revised Statutes, are amended to read as follows:

19 (a) A firefighters' relief and retirement fund is
20 established in each incorporated municipality that has a population
21 of at least 2,000,000 [~~1,600,000~~] and a fully paid fire department.

22 (h-2) If the board establishes a pension benefits committee
23 under Subsection (h-1) of this section, that committee, even if it
24 is composed of fewer than all the trustees of the board, may
25 deliberate and act in place of the board regarding each application
26 for benefits submitted to the fund by a member or the member's
27 survivor. Final action of a pension benefits committee on an

1 application for benefits is binding, subject only to any right of
2 appeal to the board under law, rule, or policy at the time the
3 application is filed. Except to the extent the final action of a
4 pension benefits committee may be appealed to the board, the final
5 action of the pension benefits committee on an application for
6 benefits constitutes the final action of the board~~[, including for~~
7 ~~purposes of filing an appeal to a district court under Section 12 of~~
8 ~~this article]~~.

9 SECTION 1.05. Section 4(a), Article 6243e.2(1), Revised
10 Statutes, is amended to read as follows:

11 (a) A member who terminates active service for any reason
12 other than death is entitled to receive a service pension provided
13 by this section if the member was:

14 (1) hired as a firefighter before the year 2017
15 effective date, including a member who was hired before the year
16 2017 effective date and who involuntarily separated from service
17 but has been retroactively reinstated in accordance with an
18 arbitration, civil service, or court ruling, at the age at which the
19 member attains 20 years of service; and

20 (2) except as provided by Subdivision (1) of this
21 subsection and subject to Subsection (b-2) of this section, hired
22 or rehired as a firefighter on or after the year 2017 effective
23 date, at the age at which the member attains 20 years of service
24 ~~[when the sum of the member's age in years and the member's years of~~
25 ~~participation in the fund equals at least 70]~~.

26 SECTION 1.06. Sections 5(a), (b), (b-1), (c), and (m),
27 Article 6243e.2(1), Revised Statutes, are amended to read as

1 follows:

2 (a) A member who is eligible to receive a service pension
3 under Section 4 [~~4(a)(1)~~] of this article and who remains in active
4 service may elect to participate in the deferred retirement option
5 plan provided by this section. [~~A member who is eligible to receive
6 a service pension under Section 4(a)(2) of this article may not
7 elect to participate in the deferred retirement option plan
8 provided by this section.~~] On subsequently terminating active
9 service, a member who elected the DROP may apply for a monthly
10 service pension under Section 4 of this article, except that the
11 effective date of the member's election to participate in the DROP
12 will be considered the member's retirement date for determining the
13 amount of the member's monthly service pension. The member may also
14 apply for any DROP benefit provided under this section on
15 terminating active service. An election to participate in the
16 DROP, once approved by the board, is irrevocable.

17 (b) A member may elect to participate in the DROP by
18 complying with the election process established by the board. The
19 member's election may be made at any time beginning on the date the
20 member has completed 20 years of participation in the fund and is
21 otherwise eligible for a service pension under Section 4 [~~4(a)(1)~~]
22 of this article. Beginning on the first day of the month following
23 the month in which the member makes an election to participate in
24 the DROP, subject to board approval, and ending on the year 2017
25 effective date, amounts equal to the deductions made from the
26 member's salary under Section 13(c) of this article shall be
27 credited to the member's DROP account. Beginning after the year

1 2017 effective date, amounts equal to the deductions made from the
2 member's salary under Section 13(c) of this article may not be
3 credited to the member's DROP account.

4 (b-1) On or after the year 2017 effective date, an active
5 member may not participate in the DROP for more than 15 [~~13~~] years.
6 If a DROP participant remains in active service after the 15th
7 [~~13th~~] anniversary of the effective date of the member's DROP
8 election:

9 (1) subsequent deductions from the member's salary
10 under Section 13(c) of this article, except for unused leave pay,
11 may not be credited to the member's DROP account; and

12 (2) the account shall continue to be credited with
13 earnings in accordance with Subsection (d) of this section.

14 (c) After a member's DROP election becomes effective, an
15 amount equal to the monthly service pension the member would have
16 received under Section 4 of this article, if applicable, had the
17 member terminated active service on the effective date of the
18 member's DROP election shall be credited to a DROP account
19 maintained for the member. That monthly credit to the member's DROP
20 account shall continue until the earlier of the date the member
21 terminates active service or the 15th [~~13th~~] anniversary of the
22 date of the first credit to the member's DROP account.

23 (m) A DROP participant with a break in service may receive
24 service credit within DROP for days worked after the regular
25 expiration of the maximum DROP participation period prescribed by
26 this section. The service credit shall be limited to the number of
27 days in which the participant experienced a break in service or the

1 number of days required to constitute 15 [~~13~~] years of DROP
2 participation, whichever is smaller. A retired member who
3 previously participated in the DROP and who returns to active
4 service is subject to the terms of this section in effect at the
5 time of the member's return to active service.

6 SECTION 1.07. Sections 8(a) and (c), Article 6243e.2(1),
7 Revised Statutes, are amended to read as follows:

8 (a) A [~~On or after the year 2017 effective date, a~~] member
9 who [~~is hired as a firefighter before the year 2017 effective date,~~
10 ~~including a member who was hired before the year 2017 effective date~~
11 ~~and who involuntarily separated from service but has been~~
12 ~~retroactively reinstated in accordance with an arbitration, civil~~
13 ~~service, or court ruling,~~] terminates active service for any reason
14 other than death with at least 10 years of participation, but less
15 than 20 years of participation, is entitled to a monthly deferred
16 pension benefit, beginning at age 50, in an amount equal to 1.7
17 percent of the member's average monthly salary multiplied by the
18 amount of the member's years of participation.

19 (c) A [~~Except as provided by Subsection (a) of this section,~~
20 ~~a member who is hired or rehired as a firefighter on or after the~~
21 ~~year 2017 effective date or a~~] member who terminates active service
22 [~~employment~~] for any reason other than death before the member has
23 completed 10 years of participation is entitled only to a refund of
24 the member's contributions without interest and is not entitled to
25 a deferred pension benefit under this section or to any other
26 benefit under this article. The member's refund shall be paid as
27 soon as administratively practicable after the effective date of

1 the member's termination of active service.

2 SECTION 1.08. Section 13B(a), Article 6243e.2(1), Revised
3 Statutes, is amended to read as follows:

4 (a) The fund and the municipality shall separately cause
5 their respective actuaries to prepare a risk sharing valuation
6 study in accordance with this section and actuarial standards of
7 practice. A risk sharing valuation study must:

8 (1) be dated as of the first day of the fiscal year in
9 which the study is required to be prepared;

10 (2) be included in the fund's standard valuation study
11 prepared annually for the fund;

12 (3) calculate the unfunded actuarial accrued
13 liability of the fund;

14 (4) be based on actuarial data provided by the fund
15 actuary or, if actuarial data is not provided, on estimates of
16 actuarial data;

17 (5) estimate the municipal contribution rate, taking
18 into account any adjustments required under Section 13E or 13F of
19 this article for all applicable prior fiscal years;

20 (6) subject to Subsection (g) of this section, be
21 based on the following assumptions and methods that are consistent
22 with actuarial standards of practice:

23 (A) an ~~ultimate~~ entry age normal actuarial cost
24 method;

25 (B) for purposes of determining the actuarial
26 value of assets:

27 (i) except as provided by Subparagraph (ii)

1 of this paragraph and Section 13E(c)(1) or 13F(c)(2) of this
2 article, an asset smoothing method recognizing actuarial losses and
3 gains over a five-year period applied prospectively beginning on
4 the year 2017 effective date; and

5 (ii) for the initial risk sharing valuation
6 study prepared under Section 13C of this article, a
7 marked-to-market method applied as of June 30, 2016;

8 (C) closed layered amortization of liability
9 layers to ensure that the amortization period for each layer begins
10 12 months after the date of the risk sharing valuation study in
11 which the liability layer is first recognized;

12 (D) each liability layer is assigned an
13 amortization period;

14 (E) each liability loss layer amortized over a
15 period of 30 years from the first day of the fiscal year beginning
16 12 months after the date of the risk sharing valuation study in
17 which the liability loss layer is first recognized, except that the
18 legacy liability must be amortized from July 1, 2016, for a 30-year
19 period beginning July 1, 2017;

20 (F) the amortization period for each liability
21 gain layer being:

22 (i) equal to the remaining amortization
23 period on the largest remaining liability loss layer and the two
24 layers must be treated as one layer such that if the payoff year of
25 the liability loss layer is accelerated or extended, the payoff
26 year of the liability gain layer is also accelerated or extended; or

27 (ii) if there is no liability loss layer, a

1 period of 30 years from the first day of the fiscal year beginning
2 12 months after the date of the risk sharing valuation study in
3 which the liability gain layer is first recognized;

4 (G) liability layers, including the legacy
5 liability, funded according to the level percent of payroll method;

6 (H) the assumed rate of return, subject to
7 adjustment under Section 13E(c)(2) of this article or, if Section
8 13C(g) of this article applies, adjustment in accordance with a
9 written agreement, except the assumed rate of return may not exceed
10 seven percent per annum;

11 (I) the price inflation assumption as of the most
12 recent actuarial experience study, which may be reset by the board
13 by plus or minus 50 basis points based on that actuarial experience
14 study;

15 (J) projected salary increases and payroll
16 growth rate set in consultation with the municipality's finance
17 director; and

18 (K) payroll for purposes of determining the
19 corridor midpoint and municipal contribution rate must be projected
20 using the annual payroll growth rate assumption, which for purposes
21 of preparing any amortization schedule may not exceed three
22 percent; and

23 (7) be revised and restated, if appropriate, not later
24 than:

25 (A) the date required by a written agreement
26 entered into between the municipality and the board; or

27 (B) the 30th day after the date required action

1 is taken by the board under Section 13E or 13F of this article to
2 reflect any changes required by either section.

3 SECTION 1.09. Section 12, Article 6243e.2(1), Revised
4 Statutes, is repealed.

5 SECTION 1.10. Sections 1(13-e) and 4(a), Article
6 6243e.2(1), Revised Statutes, as amended by this Act, apply to a
7 member who retires on or after the effective date of this Act.

8 SECTION 1.11. Section 5, Article 6243e.2(1), Revised
9 Statutes, as amended by this Act, applies to a member who
10 participates in the deferred retirement option plan on or after the
11 effective date of this Act regardless of whether the member began
12 participation in the plan before, on, or after the effective date of
13 this Act.

14 SECTION 1.12. Section 8, Article 6243e.2(1), Revised
15 Statutes, as amended by this Act, applies to a member who terminates
16 active service on or after the effective date of this Act.

17 ARTICLE 2. POLICE OFFICERS' PENSION SYSTEM

18 SECTION 2.01. Section 2(14-c), Article 6243g-4, Revised
19 Statutes, is amended to read as follows:

20 (14-c) "Normal retirement age" means:

21 (A) ~~[for a member hired before October 9, 2004,~~
22 ~~including a member hired before October 9, 2004, who involuntarily~~
23 ~~separated from service but was retroactively reinstated under an~~
24 ~~arbitration, civil service, or court ruling after October 9, 2004,~~
25 ~~the earlier of:~~

26 [(i)] the age at which a [the] member
27 attains 20 years of service; or

1 (B) [~~(ii)~~] the age at which a a [~~the~~] member first
2 attains both the age of at least 60 and at least 10 years of service
3 [~~or~~

4 [~~(B) except as provided by Paragraph (A) of this~~
5 ~~subdivision, for a member hired or rehired on or after October 9,~~
6 ~~2004, the age at which the sum of the member's age in years and years~~
7 ~~of service equals at least 70].~~

8 SECTION 2.02. Section 2(26), Article 6243g-4, Revised
9 Statutes, is redesignated as Section 2(10-a-1), Article 6243g-4,
10 Revised Statutes, and amended to read as follows:

11 (10-a-1) "Entry [~~(26)~~ "~~Ultimate entry~~] age normal
12 actuarial cost method" means an actuarial cost method under which a
13 calculation is made to determine the average uniform and constant
14 percentage rate of contributions that, if applied to the
15 compensation of each member during the entire period of the
16 member's anticipated covered service, would be required to meet the
17 cost of all benefits payable on the member's behalf based on the
18 benefits provisions for each individual employee [~~newly hired~~
19 ~~employees~~]. For purposes of this definition, the actuarial accrued
20 liability for each member is the difference between the member's
21 present value of future benefits based on the tier of benefits that
22 apply to the member and the member's present value of future normal
23 costs determined using the normal cost rate.

24 SECTION 2.03. Section 9A(a), Article 6243g-4, Revised
25 Statutes, is amended to read as follows:

26 (a) The pension system and the city shall separately cause
27 their respective actuaries to prepare a risk sharing valuation

1 study in accordance with this section and actuarial standards of
2 practice. A risk sharing valuation study must:

3 (1) be dated as of the first day of the fiscal year in
4 which the study is required to be prepared;

5 (2) be included in the pension system's standard
6 valuation study prepared annually for the pension system;

7 (3) calculate the unfunded actuarial accrued
8 liability of the pension system;

9 (4) be based on actuarial data provided by the pension
10 system actuary or, if actuarial data is not provided, on estimates
11 of actuarial data;

12 (5) estimate the city contribution rate, taking into
13 account any adjustments required under Section 9D or 9E of this
14 article for all applicable prior fiscal years;

15 (6) subject to Subsection (g) of this section, be
16 based on the following assumptions and methods that are consistent
17 with actuarial standards of practice:

18 (A) an [~~ultimate~~] entry age normal actuarial cost
19 method;

20 (B) for purposes of determining the actuarial
21 value of assets:

22 (i) except as provided by Subparagraph (ii)
23 of this paragraph and Section 9D(c)(1) or 9E(c)(2) of this article,
24 an asset smoothing method recognizing actuarial losses and gains
25 over a five-year period applied prospectively beginning on the year
26 2017 effective date; and

27 (ii) for the initial risk sharing valuation

1 study prepared under Section 9B of this article, a marked-to-market
2 method applied as of June 30, 2016;

3 (C) closed layered amortization of liability
4 layers to ensure that the amortization period for each layer begins
5 12 months after the date of the risk sharing valuation study in
6 which the liability layer is first recognized;

7 (D) each liability layer is assigned an
8 amortization period;

9 (E) each liability loss layer amortized over a
10 period of 30 years from the first day of the fiscal year beginning
11 12 months after the date of the risk sharing valuation study in
12 which the liability loss layer is first recognized, except that the
13 legacy liability must be amortized from July 1, 2016, for a 30-year
14 period beginning July 1, 2017;

15 (F) the amortization period for each liability
16 gain layer being:

17 (i) equal to the remaining amortization
18 period on the largest remaining liability loss layer and the two
19 layers must be treated as one layer such that if the payoff year of
20 the liability loss layer is accelerated or extended, the payoff
21 year of the liability gain layer is also accelerated or extended; or

22 (ii) if there is no liability loss layer, a
23 period of 30 years from the first day of the fiscal year beginning
24 12 months after the date of the risk sharing valuation study in
25 which the liability gain layer is first recognized;

26 (G) liability layers, including the legacy
27 liability, funded according to the level percent of payroll method;

1 (H) the assumed rate of return, subject to
2 adjustment under Section 9D(c)(2) of this article or, if Section
3 9B(g) of this article applies, adjustment in accordance with a
4 written agreement entered into under Section 27 of this article,
5 except the assumed rate of return may not exceed seven percent per
6 annum;

7 (I) the price inflation assumption as of the most
8 recent actuarial experience study, which may be reset by the board
9 by plus or minus 50 basis points based on that actuarial experience
10 study;

11 (J) projected salary increases and payroll
12 growth rate set in consultation with the city's finance director;
13 and

14 (K) payroll for purposes of determining the
15 corridor midpoint and city contribution rate must be projected
16 using the annual payroll growth rate assumption, which for purposes
17 of preparing any amortization schedule may not exceed three
18 percent; and

19 (7) be revised and restated, if appropriate, not later
20 than:

21 (A) the date required by a written agreement
22 entered into between the city and the board; or

23 (B) the 30th day after the date required action
24 is taken by the board under Section 9D or 9E of this article to
25 reflect any changes required by either section.

26 SECTION 2.04. Section 14(b), Article 6243g-4, Revised
27 Statutes, is amended to read as follows:

1 (b) An active member who ~~[was hired before October 9, 2004,~~
2 ~~including a member hired before October 9, 2004, who]~~ has attained
3 normal retirement age ~~[been reinstated under arbitration, civil~~
4 ~~service, or a court ruling after that date, and has at least 20~~
5 ~~years of service with the police department]~~ may file with the
6 pension system an election to participate in DROP and receive a DROP
7 benefit instead of the standard form of pension provided by this
8 article on or after ~~[as of]~~ the date the ~~[active]~~ member attained
9 normal retirement age ~~[20 years of service]~~. The election may be
10 made, under procedures established by the board~~[, by an eligible~~
11 ~~active member who has attained the required years of service]~~. A
12 DROP election that is made and accepted by the board may not be
13 revoked.

14 ARTICLE 3. CONFLICTS AND EFFECTIVE DATE

15 SECTION 3.01. If this Act conflicts with another Act of the
16 89th Legislature, Regular Session, 2025, this Act controls unless
17 the conflict is expressly resolved by the legislature by reference
18 to this Act.

19 SECTION 3.02. This Act takes effect September 1, 2025.

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 89TH LEGISLATIVE REGULAR SESSION

May 24, 2025

TO: Honorable Dustin Burrows, Speaker of the House, House of Representatives

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB2688 by Harless (Relating to the public retirement systems of certain municipalities.), **As Passed 2nd House**

No significant fiscal implication to the State is anticipated.

The bill would amend Vernon's Civil Statutes as they relate to the Houston Firefighters' Relief and Retirement Fund and the Houston Police Officers Pension System. No significant impact to the state is anticipated from implementing the provisions of the bill.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 338 Pension Review Board

LBB Staff: JMc, SD, KK, JPO, FV

LEGISLATIVE BUDGET BOARD

Austin, Texas

FISCAL NOTE, 89TH LEGISLATIVE REGULAR SESSION

May 21, 2025

TO: Honorable Joan Huffman, Chair, Senate Committee on Finance

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB2688 by Harless (relating to the public retirement systems of certain municipalities.), **Committee Report 2nd House, Substituted**

No significant fiscal implication to the State is anticipated.

The bill would amend Vernon's Civil Statutes as they relate to the Houston Firefighters' Relief and Retirement Fund and the Houston Police Officers Pension System. No significant impact to the state is anticipated from implementing the provisions of the bill.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 338 Pension Review Board

LBB Staff: JMc, KK, JPO, FV, SD

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 89TH LEGISLATIVE REGULAR SESSION

May 20, 2025

TO: Honorable Joan Huffman, Chair, Senate Committee on Finance

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB2688 by Harless (Relating to the firefighters' relief and retirement fund of certain municipalities.),
As Engrossed

No significant fiscal implication to the State is anticipated.

The bill would amend Vernon's Civil Statutes as they relate to the Houston Firefighters' Relief and Retirement Fund. No significant impact to the state is anticipated from implementing the provisions of the bill.

Local Government Impact

According to the Houston Firefighters' Relief and Retirement Fund, the changes made by implementing the provisions of the bill are not fiscally significant and would have no impact on the overall operations of the Fund.

Source Agencies: 338 Pension Review Board

LBB Staff: JMc, FV, SD, JPO

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 89TH LEGISLATIVE REGULAR SESSION

April 30, 2025

TO: Honorable Stan Lambert, Chair, House Committee on Pensions, Investments & Financial Services

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB2688 by Harless (relating to the firefighters ' relief and retirement fund of certain municipalities.),
Committee Report 1st House, Substituted

No significant fiscal implication to the State is anticipated.

The bill would amend Vernon's Civil Statutes as they relate to the Houston Firefighters' Relief and Retirement Fund. No significant impact to the state is anticipated from implementing the provisions of the bill.

Local Government Impact

According to the Houston Firefighters' Relief and Retirement Fund, the changes made by implementing the provisions of the bill are not fiscally significant and would have no impact on the overall operations of the Fund.

Source Agencies: 338 Pension Review Board

LBB Staff: JMc, FV, JPO

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 89TH LEGISLATIVE REGULAR SESSION

April 22, 2025

TO: Honorable Stan Lambert, Chair, House Committee on Pensions, Investments & Financial Services

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB2688 by Harless (Relating to the public retirement systems of certain municipalities.), **As Introduced**

No significant fiscal implication to the State is anticipated.

The bill would amend Vernon's Civil Statutes as they relate to the Houston Firefighters' Relief and Retirement Fund. No significant impact to the state is anticipated from implementing the provisions of the bill.

Local Government Impact

According to the Houston Firefighters' Relief and Retirement Fund, the changes made by implementing the provisions of the bill are not fiscally significant and would have no impact on the overall operations of the Fund.

Source Agencies: 338 Pension Review Board

LBB Staff: JMc, FV, JPO

LEGISLATIVE BUDGET BOARD

Austin, Texas

ACTUARIAL IMPACT STATEMENT

89TH LEGISLATIVE REGULAR SESSION

May 21, 2025

TO: Honorable Joan Huffman, Chair, Senate Committee on Finance

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB2688 by Harless (relating to the public retirement systems of certain municipalities.), **Committee Report 2nd House, Substituted**

COST ESTIMATE

Based on the July 1, 2024 Actuarial Valuation.

Houston Firefighters Relief and Retirement Fund (HFRRF)	Current	Proposed	Difference
2026 Actuarially Determined Contribution (ADC) (% of payroll)	26.48%	26.66%	0.18%
2027 ADC (% of payroll)	13.00%	13.22%	0.22%
Employer Normal Cost (% of payroll)	10.73%	11.26%	0.53%
Unfunded Actuarial Accrued Liability (millions)	\$380.00	\$362.40	\$ (17.60)
Funded Ratio	93.30%	93.60%	0.30%
Within PRB Pension Funding Guidelines	Yes	Yes	N/A

Based on the July 1, 2024 Actuarial Valuation.

Houston Police Officers Pension System (HPOPS)	Current	Proposed	Difference
ADC (% of payroll)	22.58%	22.60%	0.02%
Employer Normal Cost (% of payroll)	14.45%	14.90%	0.45%
Unfunded Actuarial Accrued Liability (millions)	\$636.00	\$599.00	\$(37)
Funded Ratio	92.00%	92.50%	0.50%
Within PRB Pension Funding Guidelines	Yes	Yes	N/A

ACTUARIAL EFFECTS

The bill would make multiple changes to Houston Firefighters Relief and Retirement Fund (HFRRF) and Houston Police Officers Pension System (HPOPS), including changes to normal retirement age, deferred retirement option plan (DROP) eligibility and participation, and actuarial assumptions and methods.

The actuarial analysis for HFRRF showed a decrease in the unfunded actuarial accrued liability (UAAL) of over \$17 million with an increase in normal cost of 0.53 percent. The actuarially determined contribution (ADC) rate would increase by 0.18 percent in 2026 and by 0.22 percent in 2027.

The analysis for HPOPS showed a decrease in the UAAL of \$37 million with an increase in normal cost of 0.45 percent. The ADC rate would increase by 0.02 percent.

The actuarial review states under the current Pension Review Board (PRB) Pension Funding Guidelines, funding should be adequate to amortize the UAAL over a period which should not exceed 30 years as of September 1, 2025, and not to exceed 15 years after September 1, 2040. Under state law, systems with funding periods over 30 years for too long are required to prepare a Funding Soundness Restoration Plan (FSRP) to make changes to the pension plan to put the system on a path to eventually achieve full funding.

The actuarial review notes the HFRRF July 1, 2024, actuarial valuation shows eight liability layers with a remaining amortization period of 5.208 years and one liability layer with an amortization period of 30 years. The HPOPS July 1, 2024, actuarial valuation shows a 23-year funding period if contributions were equal to the ADC. Since projected contributions are greater than the ADC, the HPOPS funding period is estimated to be closer to 12 years.

These current arrangements meet the PRB Pension Funding Guidelines. Since the bill would not be expected to have a material impact on the funding periods based on the relatively small changes in funded ratio and normal cost, the funding periods for both HFRRF and HPOPS would remain within the guidelines as well as statutory funding requirements under Section 802.2015, Texas Government Code.

SYNOPSIS OF PROVISIONS

The bill would change the HFRRF normal retirement age to the earlier of 20 years of service or age 50 with 10 years of service and the HPOPS normal retirement age to the earlier of 20 years of service or age 60 with 10 years of service. Previously HFRRF members who were hired on or after July 1, 2017, and HPOPS members hired on or after October 9, 2004, could retire at the age at which the member's age plus service exceeded 70 years.

The bill would expand the members eligible to participate in a DROP by allowing HFRRF members hired or rehired on or after July 1, 2017, and HPOPS members hired on or after October 9, 2004, to participate.

The bill would provide an optional deferred vested pension benefit for HFRRF members who terminate employment with at least 10, but less than 20, years of service. The bill would also change the cost method used to calculate liabilities from ultimate entry age normal to entry age normal.

FINDINGS AND CONCLUSIONS

The bill would impact all members in the newest tiers, including HFRRF members hired on or after July 1, 2017, and HPOPS members hired on or after October 9, 2004.

METHODOLOGY AND STANDARDS

The HFRRF analysis relies on the participant data, financial information, benefit structure and actuarial assumptions and methods used in the HFRRF actuarial valuation for July 1, 2024, with the exception of the cost method changing from ultimate entry age normal to entry age normal and the assumption that 20 percent of terminating members were assumed to elect the new deferred vested pension benefit.

The HPOPS analysis relies on the participant data, financial information, benefit structure and actuarial assumptions and methods used in the HPOPS actuarial valuation for July 1, 2024, with the exception of the cost method changing from ultimate entry age normal to entry age normal.

According to the PRB actuary, the assumptions and methods for both HFRRF and HPOPS are reasonable for this analysis.

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 HFRRF 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

HFRRF Actuarial Analysis by Michael A. Ribble, FSA, EA, MAAA, FCA, Gallagher Benefit Services, May 19, 2025.

HPOPS Actuarial Analysis by Joseph Newton, FSA, EA, MAAA, Gabriel, Roeder, Smith and Company, May 21, 2025.

Actuarial Review by David Fee, ASA, EA, Staff Actuary, Pension Review Board, May 21, 2025.

GLOSSARY

Actuarial Accrued Liability (AAL) - The current value of benefits attributed to past years.

Actuarial Value of Assets (AVA) - The value of assets used for the actuarial valuation. The AVA can be either the market value (MVA) or a smoothed value of assets.

Amortization Payments - The portion of the total contribution used to reduce the unfunded actuarial accrued liability (UAAL).

Amortization Period - The specified length of time used when calculating the amortization payment portion of an actuarially determined contribution, or as the time it would theoretically take to fully fund the UAAL or fully recognize a surplus. The State Pension Review Board recommends that funding be adequate to amortize the UAAL over a period which should not exceed 30 years as of September 1, 2025, and not to exceed 15 years after September 1, 2040.

Actuarial Cost Method - An actuarial cost method is a way to allocate pieces of a participant's total expected benefit to each year of their working career. In other words, it is a technique to determine how much of the present value of future benefits (PVFB) to assign to past service (AAL) vs. future service (present value of future normal costs, or PVFNC).

Funded Ratio (FR) - The ratio of actuarial assets to the actuarial accrued liabilities.

Normal Cost (NC) - Computed differently under different actuarial cost methods, the normal cost generally represents the current value of benefits attributed to the present year. The employer normal cost equals the total normal cost of the plan reduced by employee contributions.

Unfunded Actuarial Accrued Liability (UAAL) - The difference between the actuarial accrued liability and the actuarial value of assets; therefore, the UAAL is the amount that is still owed to the fund for past obligations.

Source

338 Pension Review Board

Agencies:

LBB Staff: JMc, JPO

LEGISLATIVE BUDGET BOARD
Austin, Texas

ACTUARIAL IMPACT STATEMENT

89TH LEGISLATIVE REGULAR SESSION

May 20, 2025

TO: Honorable Joan Huffman, Chair, Senate Committee on Finance

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB2688 by Harless (Relating to the firefighters' relief and retirement fund of certain municipalities.),
As Engrossed

COST ESTIMATE

Based on the July 1, 2024 Actuarial Valuation.

Houston Firefighters Relief and Retirement Fund (HFRRF)	Current	Proposed	Difference
2027 Actuarially Determined Contribution (ADC) (% of payroll)	13.00%	20.52%	7.52%
2028-2034 ADC (% of payroll)	8.72% - 17.42%	22.44% - 23.51%	5.85% - 13.72%
Employer Normal Cost (% of payroll)	10.73%	12.04%	1.31%
Unfunded Actuarial Accrued Liability (millions)	\$380.00	\$451.10	\$71.10
Funded Ratio	93.30%	92.20%	-1.10%
Within PRB Pension Funding Guidelines	Yes	Yes	N/A

ACTUARIAL EFFECTS

The bill would make multiple changes to Houston Firefighters Relief and Retirement Fund (HFRRF), including changes to normal retirement age, deferred retirement option plan (DROP) eligibility and participation, and actuarial assumptions and methods.

The actuarial analysis showed an increase in the unfunded actuarial accrued liability (UAAL) of over \$71 million with an increase in the normal cost of 1.31 percent. The actuarially determined contribution (ADC) rate would decrease by 0.37 percent in 2026 but increase by 7.52 percent in 2027. Under the bill, the ADC rate would continue to be higher than the current projected ADC rate through at least 2034.

The actuarial review states under the current Pension Review Board (PRB) Pension Funding Guidelines, funding should be adequate to amortize the UAAL over a period which should not exceed 30 years as of September 1, 2025, and not to exceed 15 years after September 1, 2040. Under state law, systems with funding periods over 30 years for too long are required to prepare a Funding Soundness Restoration Plan (FSRP) to make changes to the pension plan to put the system on a path to eventually achieve full funding.

The actuarial review notes the July 1, 2024, actuarial valuation shows eight liability layers with a remaining amortization period of 5.208 years and one liability layer with an amortization period of 30 years. This current arrangement meets the PRB Pension Funding Guidelines. Since the bill would reset all amortization periods to 15 years, which is the 2040 target in the PRB Pension Funding Guidelines, the funding period would remain within the guidelines as well as statutory funding requirements under Section 802.2015, Texas Government Code.

SYNOPSIS OF PROVISIONS

The bill would change several benefits for members of HFRRF.

Previously members who were hired on or after July 1, 2017, could retire at the age at which the member's age plus service exceeded 70 years. The bill would change the normal retirement age to the earlier of 20 years of service or age 50 with 10 years of service for all members.

The bill would also expand the members eligible to participate in a DROP by allowing members hired or rehired on or after July 1, 2017, to participate. The bill would also enhance the DROP interest rate from 65 percent of the five-year average system returns to 75 percent. For DROP participants who had less than 20 years of service on July 1, 2017, the bill would increase the monthly annuity received after exiting DROP with 1 percent annual increases up to a maximum total increase of 10 percent. It would also slightly increase the DROP interest rate for all members.

The bill would provide an optional deferred vested pension benefit for members who terminate employment with at least 10, but less than 20, years of service.

The bill would also change the assumptions and methods used to calculate and amortize unfunded liabilities, including changing the actuarial cost method from ultimate entry age normal to entry age normal, changing the liability loss layer to 15 years, and allowing the system to extend prior amortization periods to 15 years.

FINDINGS AND CONCLUSIONS

The bill would impact all members, with the greatest effect for members hired after July 1, 2017. The actuarial review states the bill allows for the city contribution corridor midpoint to be renegotiated, and it is the PRB's understanding that HFRRF would offer to lower the midpoint from the current 26.89 percent to the ADC rate, thus lowering the plan sponsor's contribution rate in upcoming fiscal years despite the increase in the ADC.

METHODOLOGY AND STANDARDS

The HFRRF analysis relies on the participant data, financial information, benefit structure and actuarial assumptions and methods used in the HFRRF actuarial valuations for July 1, 2024, with the exception of three main differences. The cost method was changed from ultimate entry age normal to entry age normal; the expected DROP crediting rate was set to the assumed investment return, multiplied by 75 percent; and a new assumption was made related to the increased deferred vested pension benefit.

According to the PRB actuary, the assumptions and methods are reasonable for this analysis. 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 HFRRF 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 Michael A. Ribble, FSA, EA, MAAA, FCA, Gallagher Benefit Services, May 5, 2025.
Actuarial Review by David Fee, ASA, EA, Staff Actuary, Pension Review Board, May 7, 2025.

GLOSSARY

Actuarial Accrued Liability (AAL) - The current value of benefits attributed to past years.

Actuarial Value of Assets (AVA) - The value of assets used for the actuarial valuation. The AVA can be either the market value (MVA) or a smoothed value of assets.

Amortization Payments - The portion of the total contribution used to reduce the unfunded actuarial accrued liability (UAAL).

Amortization Period - The specified length of time used when calculating the amortization payment portion of an actuarially determined contribution, or as the time it would theoretically take to fully fund the UAAL or fully recognize a surplus. The State Pension Review Board recommends that funding be adequate to amortize the UAAL over a period which should not exceed 30 years as of September 1, 2025, and not to exceed 15 years after September 1, 2040.

Actuarial Cost Method - An actuarial cost method is a way to allocate pieces of a participant's total expected benefit to each year of their working career. In other words, it is a technique to determine how much of the present value of future benefits (PVFB) to assign to past service (AAL) vs. future service (present value of future normal costs, or PVFNC).

Funded Ratio (FR) - The ratio of actuarial assets to the actuarial accrued liabilities.

Normal Cost (NC) - Computed differently under different actuarial cost methods, the normal cost generally represents the current value of benefits attributed to the present year. The employer normal cost equals the total normal cost of the plan reduced by employee contributions.

Unfunded Actuarial Accrued Liability (UAAL) - The difference between the actuarial accrued liability and the actuarial value of assets; therefore, the UAAL is the amount that is still owed to the fund for past obligations.

Source

338 Pension Review Board

Agencies:

LBB Staff: JMc, JPO

**LEGISLATIVE BUDGET BOARD
Austin, Texas**

ACTUARIAL IMPACT STATEMENT

89TH LEGISLATIVE REGULAR SESSION

April 30, 2025

TO: Honorable Stan Lambert, Chair, House Committee on Pensions, Investments & Financial Services

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB2688 by Harless (relating to the firefighters ' relief and retirement fund of certain municipalities.),
Committee Report 1st House, Substituted

COST ESTIMATE

Based on the July 1, 2024 Actuarial Valuation.

Houston Firefighters Relief and Retirement Fund (HFRRF)	Current	Proposed	Difference
2027 Employer Contribution (% of payroll)	13.00%	20.81%	7.81%
Employer Normal Cost (% of payroll)	10.73%	12.08%	1.35%
Unfunded Actuarial Accrued Liability (millions)	\$380.0	\$458.7	\$78.7
Funded Ratio	93.3%	92.0%	-1.3%
Within PRB Pension Funding Guidelines	Yes	Yes	N/A

ACTUARIAL EFFECTS

The bill would make multiple changes to Houston Firefighters Relief and Retirement Fund (HFRRF), including changes to normal retirement age, deferred retirement option plan (DROP) eligibility and participation, and actuarial assumptions and methods.

The actuarial analysis showed an increase in the unfunded actuarial accrued liability (UAAL) of over \$78 million with an increase in the normal cost of 1.35 percent. The actuarially determined contribution (ADC) rate would decrease by 0.09 percent in 2026 but increase by 7.81 percent in 2027. The ADC rate would continue to be higher under the provisions of the bill than current measures through at least 2036.

The actuarial review states under the current Pension Review Board (PRB) Pension Funding Guidelines, funding should be adequate to amortize the UAAL over a period which should not exceed 30 years as of September 1, 2025, and not to exceed 15 years after September 1, 2040. Under state law, systems with funding periods over 30 years for too long are required to prepare a Funding Soundness Restoration Plan (FSRP) to make changes to the pension plan to put the system on a path to eventually achieve full funding.

The actuarial review notes the July 1, 2024, actuarial valuation shows eight liability layers with a remaining amortization period of 5.208 years and one liability layer with an amortization period of 30 years. This current arrangement meets the PRB Pension Funding Guidelines. Since the bill would reset all amortization periods to 15 years, which is the 2040 target in the PRB Pension Funding Guidelines, the funding period would remain within the guidelines as well as statutory funding requirements under Section 802.2015, Texas Government Code.

SYNOPSIS OF PROVISIONS

The bill would change several benefits for members of HFRRF.

Previously members who were hired on or after July 1, 2017, could retire at the age at which the member's age plus service exceeded 70 years. The bill would change normal retirement age to the earlier of 20 years of service or age 50 with 10 years of service for all members.

The bill would expand the members eligible to participate in a DROP by allowing members hired or rehired on or after July 1, 2017, to participate. The bill would also enhance the DROP interest rate from 65 percent of the five-year average system returns to 75 percent. For DROP participants who had less than 20 years of service on July 1, 2017, the bill would increase the monthly annuity received after exiting DROP with 1 percent annual increases up to a maximum total increase of 10 percent. It would also slightly increase the DROP interest rate for all members.

The bill would provide an optional deferred vested pension benefit for members who terminate employment with at least 10 but less than 20 years of service.

The bill would also change the assumptions and methods used to calculate and amortize unfunded liabilities, including changing the actuarial cost method from ultimate entry age normal to entry age normal, changing the liability loss layer to 15 years, and allowing the system to extend prior amortization periods to 15 years.

FINDINGS AND CONCLUSIONS

The bill would impact all members, with the greatest effect for members hired after July 1, 2017.

The analysis provided a 10-year projection of annual cost to the retirement system. This projection shows a reduction in the expected ADC rate in 2026, but an increase in all subsequent years ranging from 6.13 percent to 14.01 percent.

METHODOLOGY AND STANDARDS

The HFRRF analysis relies on the participant data, financial information, benefit structure, and actuarial assumptions and methods used in the HFRRF actuarial valuations for July 1, 2024, with the exception of three main differences. The cost method was changed from ultimate entry age normal to entry age normal; the expected DROP crediting rate was set to the assumed investment return, multiplied by 75 percent and increased by 0.10 percent; and a new assumption was made related to the increased deferred vested pension benefit.

According to the PRB actuary, the assumptions and methods are reasonable for this analysis, but the DROP crediting rate assumption is questionable. In the 88th Texas legislative session, using stochastic analysis, another actuary had estimated the DROP crediting rate using the same provisions should have increased an additional 0.56 percent to account for the change from geometric to arithmetic average. During the last five years, the system's DROP crediting rate would have been 44 basis points higher due to this change. By using only 10 basis points to account for the change to arithmetic calculation, the system is likely underestimating the liability.

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 HFRRF 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 Michael A. Ribble, FSA, EA, MAAA, FCA, Gallagher Benefit Services, April 8, 2025.
Actuarial Review by David Fee, ASA, EA, Staff Actuary, Pension Review Board, April 29, 2025.

GLOSSARY

Actuarial Accrued Liability (AAL) - The current value of benefits attributed to past years.

Actuarial Value of Assets (AVA) - The value of assets used for the actuarial valuation. The AVA can be either the market value (MVA) or a smoothed value of assets.

Amortization Payments - The portion of the total contribution used to reduce the unfunded actuarial accrued liability (UAAL).

Amortization Period - The specified length of time used when calculating the amortization payment portion of an actuarially determined contribution, or as the time it would theoretically take to fully fund the UAAL or fully recognize a surplus. The State Pension Review Board recommends that funding be adequate to amortize the UAAL over a period which should not exceed 30 years as of September 1, 2025, and not to exceed 15 years after September 1, 2040.

Actuarial Cost Method -An actuarial cost method is a way to allocate pieces of a participant's total expected benefit to each year of their working career. In other words, it is a technique to determine how much of the present value of future benefits (PVFB) to assign to past service (AAL) vs. future service (present value of future normal costs, or PVFNC).

Funded Ratio (FR) - The ratio of actuarial assets to the actuarial accrued liabilities.

Normal Cost (NC) - Computed differently under different actuarial cost methods, the normal cost generally represents the current value of benefits attributed to the present year. The employer normal cost equals the total normal cost of the plan reduced by employee contributions.

Unfunded Actuarial Accrued Liability (UAAL) - The difference between the actuarial accrued liability and the actuarial value of assets; therefore, the UAAL is the amount that is still owed to the fund for past obligations.

Source 338 Pension Review Board
Agencies:

LBB Staff: JMc, JPO

LEGISLATIVE BUDGET BOARD
Austin, Texas

ACTUARIAL IMPACT STATEMENT

89TH LEGISLATIVE REGULAR SESSION

April 22, 2025

TO: Honorable Stan Lambert, Chair, House Committee on Pensions, Investments & Financial Services

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB2688 by Harless (Relating to the public retirement systems of certain municipalities.), **As Introduced**

COST ESTIMATE

Based on the July 1, 2024 Actuarial Valuation.

Houston Firefighters Relief and Retirement Fund (HFRRF)	Current	Proposed	Difference
Employer Contribution	26.48%	26.49%	0.01%
Employer Normal Cost (% of payroll)	10.73%	8.47%	-2.26%
Unfunded Actuarial Accrued Liability (millions)	\$380.0	\$469.7	\$89.7
Funded Ratio	93.3%	91.9%	-1.4%
Within PRB Pension Funding Guidelines	Yes	Yes	N/A

ACTUARIAL EFFECTS

The bill would make multiple changes to Houston Firefighters' Relief and Retirement Fund (HFRRF), including changes to the normal retirement age, deferred retirement option plan (DROP) eligibility and participation, and actuarial assumptions and methods.

The actuarial review states under the current Pension Review Board (PRB) Pension Funding Guidelines, funding should be adequate to amortize the unfunded actuarial accrued liability (UAAL) over a period which should not exceed 30 years as of September 1, 2025, and not to exceed 15 years after September 1, 2040. Under state law, systems with funding periods over 30 years for too long are required to prepare a Funding Soundness Restoration Plan (FSRP) to make changes to the pension plan to put the system on a path to eventually achieve full funding.

The actuarial review notes the July 1, 2024, actuarial valuation shows eight liability layers with a remaining amortization period of 5.208 years and one liability layer with an amortization period of 30 years. This current arrangement meets the PRB Pension Funding Guidelines. The actuarial analysis did not comment on the funding period; however, it is reasonable to assume the funding period would remain within the PRB Pension Funding Guidelines as well as statutory funding requirements under Section 802.2015, Texas Government Code.

SYNOPSIS OF PROVISIONS

The bill would change several benefits for members of HFRRF.

Previously members who were hired on or after July 1, 2017, could retire at the age at which the member's age plus service exceeded 70 years. The bill would change the normal retirement age to the earlier of 20 years of service or age 50 with 10 years of service for all members.

The bill would expand the members eligible to participate in a DROP by allowing members hired or rehired on or after July 1, 2017, to participate. The bill would also enhance the DROP interest rate from 65 percent of the five-year average system returns to 75 percent. For DROP participants who had less than 20 years of service on

July 1, 2017, the bill would increase the monthly annuity received after exiting DROP with 1 percent annual increases up to a maximum total increase of 10 percent. It would also slightly increase the DROP interest rate for all members.

The bill would also change the assumptions and methods used to calculate and amortize unfunded liabilities, including increasing the expected investment rate of return from 7.0 percent to 7.5 percent, and allowing the system to extend the amortization period of liability loss layers back to the period that would have been in effect had they not been accelerated to shorter periods in 2017.

FINDINGS AND CONCLUSIONS

The bill would impact all members, with the greatest effect for members hired after July 1, 2017.

The actuarial analysis showed an increase in the UAAL of over \$89 million, offset by a reduction in normal cost of 2.26 percent. Combined, the increase in the actuarially determined contribution (ADC) rate would increase by .01 percent.

The analysis provided a 10-year projection of annual cost to the retirement system. This projection shows a reduction in the expected ADC rate from 2027 to 2036, ranging from a reduction of 0.14 percent to 0.64 percent of payroll.

METHODOLOGY AND STANDARDS

The HFRRF analysis relies on the participant data, financial information, benefit structure and actuarial assumptions and methods used in the HFRRF actuarial valuations for July 1, 2024, with the exception of two main differences. The expected return on assets was 7.5 percent rather than 7.0 percent; and the expected DROP crediting rate was set to the assumed investment return, multiplied by 75 percent and increased by 0.10 percent.

According to the PRB actuary, there are several questionable and/or unreasonable assumptions and methods being used to calculate the liabilities:

1. The 7.5 percent expected return. It is extremely rare for a Texas public pension system to increase the expected return assumption in any recent year. The system's self-reported 10-year return as of June 30, 2024, was 7.1 percent.
2. The DROP crediting rate. In the 88th legislative session, using stochastic analysis, another actuary had estimated the DROP crediting rate using the same provisions should have increased an additional 0.56 percent to account for the change from geometric to arithmetic average. During the last five years, the system's DROP crediting rate would have been 44 basis points higher due to this change. By using only 10 basis points to account for the change to arithmetic calculation, the system is likely underestimating the liability.
3. The ultimate entry age normal cost method. The system's use of the ultimate entry age normal cost method is no longer supported by Actuarial Standard of Practice No. 4 (ASOP 4). Ultimate entry age normal is specified in statute as the cost method to use for three Houston municipal pension plans including HFRRF. No other Texas public pension systems use ultimate entry age normal. The entry age normal cost method would comply with ASOP 4. Updating benefits for newer hires to be similar to long-term members will limit the effect of changing the cost method.

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 HFRRF 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 Michael A. Ribble, FSA, EA, MAAA, FCA, Gallagher Benefit Services, April 8, 2025.
Actuarial Review by David Fee, ASA, EA, Staff Actuary, Pension Review Board, April 18, 2025.

GLOSSARY

Actuarial Accrued Liability (AAL) - The current value of benefits attributed to past years.

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Actuarial Cost Method - An actuarial cost method is a way to allocate pieces of a participant's total expected benefit to each year of their working career. In other words, it is a technique to determine how much of the present value of future benefits (PVFB) to assign to past service (AAL) vs. future service (present value of future normal costs, or PVFNC).

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Unfunded Actuarial Accrued Liability (UAAL) - The difference between the actuarial accrued liability and the actuarial value of assets; therefore, the UAAL is the amount that is still owed to the fund for past obligations.

Source

338 Pension Review Board

Agencies:

LBB Staff: JMc, JPO