

BILL ANALYSIS

C.S.H.B. 2688

By: Harless

Pensions, Investments & Financial Services
Committee Report (Substituted)

BACKGROUND AND PURPOSE

The bill author has informed the committee that the Houston Firefighters' Relief and Retirement Fund observed that the City of Houston is experiencing issues retaining senior firefighters and having trouble recruiting new firefighters due to inadequate pension benefits. C.S.H.B. 2688 seeks to help the City of Houston recruit and retain firefighters, reduce pension costs, and grow the assets of the fund by making a variety of changes to provisions governing the operation of the fund, including provisions relating to the normal retirement age, deferred retirement option plan, eligibility and participation, and actuarial assumptions and methods.

CRIMINAL JUSTICE IMPACT

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

RULEMAKING AUTHORITY

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

ANALYSIS

C.S.H.B. 2688 amends the Revised Statutes to revise provisions governing the firefighters' relief and retirement fund in a municipality with a population of at least two million in the following manner:

- defines "entry age normal actuarial cost method" as an actuarial cost method under which a calculation is made to determine the average uniform and constant percentage rate of contributions that, if applied to the compensation of each member during the entire period of the member's anticipated covered service, would be required to meet the cost of all benefits payable on the member's behalf and establishes that, for purposes of this definition, the attribution period of a member's anticipated covered service:
 - begins with the member's entry age, which is the member's age on the first day of the first period of member service for which the member accrues benefits under the fund, notwithstanding vesting or similar requirements; and
 - as to each benefit, ends with the member's assumed exit age, which for retirement benefits is the following:
 - the member's age on the member's latest assumed retirement date; and
 - if a member elects to participate in the deferred retirement option plan (DROP), the member's age on subsequently terminating active service after the election;
- removes a separate normal retirement age for members who were hired or rehired before, on, or after the year 2017 effective date and establishes a single definition of "normal retirement age" as the age at which a member either attains 20 years of service or first attains both the age of at least 50 and at least 10 years of service;

- removes a prohibition against the municipality and the fund's board altering provisions relating to the following in a written agreement authorizing the board to alter benefit types or amounts, the means of determining contribution rates, or the contribution rates on behalf of the members or beneficiaries of the fund, except and only to the extent necessary to comply with federal law:
 - municipal contributions;
 - risk sharing valuation studies;
 - initial risk sharing valuation studies and the corridor midpoint;
 - actuarial experience studies;
 - the municipal contribution rate when the estimated municipal contribution rate is lower than the corridor midpoint and authorizations for certain adjustments; and
 - the municipal contribution rate when the estimated municipal contribution rate is equal to or greater than the corridor midpoint and authorizations for certain adjustments;
- replaces a provision entitling a member who was hired or rehired as a firefighter on or after the year 2017 effective date and who terminates active service for any reason other than death to receive a service pension when the sum of the member's age in years and the member's years of participation in the fund equals at least 70 with a provision entitling instead such a member to receive a service pension at the age at which the member attains 20 years of service;
- revises provisions relating to the DROP as follows:
 - extends the optional election to participate in the DROP to any member who is eligible to receive a service pension and who remains in active service;
 - increases at retirement the monthly benefit of a DROP participant who had less than 20 years of participation on the year 2017 effective date by one percent of the amount of the member's original benefit for every full year of participation in the DROP by the member for up to 10 years of participation in the DROP and requires the member to receive, for the member's final year of participation, but not beyond the member's 10th year in the DROP, a prorated increase of 0.083 percent of the member's original benefit for each month of participation in a year in which a full year of participation is not completed;
 - subjects that monthly benefit increase to the same applicability limitations that the existing monthly benefit increase for DROP participants with at least 20 years of participation on the year 2017 effective date is subject to, except that the total increase for the new monthly benefit increase may not exceed 10 percent for 10 years of participation in the DROP by the member; and
 - changes the annual rate at which a member's DROP account is credited with earnings from a rate equal to 65 percent of the compounded average annual return earned by the fund over a certain period to a rate equal to 75 percent of the average annual return earned by the fund over that period;
- removes from provisions providing for a deferred pension at age 50 and for a refund of contributions a specification that those provisions apply only to a member who is hired or rehired before, on, or after the year 2017 effective date, as applicable;
- for purposes of computing a member's years of participation, extends the timeframe within which a member must return to active service as a firefighter to receive credit for applicable prior service from before the fifth anniversary of a previous effective date of termination to before the 10th anniversary of that date;
- does the following for purposes of the assumptions and methods on which risk sharing valuation studies prepared by the respective actuaries of the fund and the municipality must be based:
 - replaces an ultimate entry age normal actuarial method with an entry age normal actuarial cost method, as defined by the bill;
 - with respect to the assumption that each liability loss layer amortized over a period of 30 years from the first day of the fiscal year beginning 12 months after the date of the risk sharing valuation study in which the liability loss layer is first

- recognized and the exception that the legacy liability must be amortized from July 1, 2016, for a 30-year period beginning July 1, 2017, removes that exception and reduces the 30-year period to a 15-year period; and
- with respect to the assumption that the amortization period for each liability gain layer, if there is no liability loss layer, is a period of 30 years from the first day of the fiscal year beginning 12 months after the date of the risk sharing valuation study in which the liability gain layer is first recognized, reduces the 30-year period to a 15-year period;
 - authorizes the board and municipality, with respect to any liability loss layer with a payoff year that was accelerated pursuant to a specified adjustment under a certain provision governing the municipal contribution rate when the estimated municipal contribution rate is lower than the corridor midpoint, at any time to enter into a written agreement to extend the payoff year of the liability loss layer to a payoff year that is not later than 15 years from the first day of the fiscal year beginning 12 months after the date of the risk sharing valuation study in which the liability loss layer is first recognized;
 - revises the authorization for the municipality and the board to agree on a written transition plan for resetting the corridor midpoint if at any time the funded ratio is equal to or greater than 100 percent or for any fiscal year after the payoff year of the legacy liability by also authorizing the municipality and the board to agree on such a plan on a one-time basis other than one of those times;
 - revises the provision that governs the determination of the municipal contribution rate applicable in a fiscal year if the estimated municipal contribution rate is lower than the corridor midpoint, specifically for a funded ratio that is equal to or greater than 90 percent with a municipal contribution rate less than the minimum contribution rate for the corresponding fiscal year, in the following manner:
 - replaces a requirement for four specified adjustments to be applied sequentially to the extent required to increase the estimated municipal contribution rate to equal the minimum contribution rate with an authorization for those adjustments to be applied sequentially to make that same increase; and
 - makes the existing specification that the second and third adjustments be made under a written agreement between the municipality and board entered into not later than April 30 before the first day of the next fiscal year applicable also to the first and fourth adjustments;
 - repeals provisions that authorize certain members and beneficiaries to appeal on the basis of rejection of a claim or of the amount allowed a decision or order of the board and that set out procedures and notice requirements for such an appeal;
 - repeals the provision that prohibits the following, with respect to a post-retirement option plan (PROP), on or after the year 2017 effective date:
 - a PROP participant from having any additional amounts that the participant would otherwise receive as a monthly service pension or other benefits under provisions governing the fund credited to the participant's PROP account; and
 - a person, including a member or surviving spouse, from electing to participate in the PROP; and
 - repeals the provision expressly establishing that nothing in provisions governing the fund, including the powers set out with respect to the board's management of the fund, the final and binding status of certain rules, policies, and procedures adopted by the board, and any authority of the board to construe and interpret provisions governing the fund, to determine any fact, to take any action, or to interpret any terms used in the applicable provisions, may alter or change provisions relating to the following:
 - municipal contributions;
 - risk sharing valuation studies;
 - initial risk sharing valuation studies and the corridor midpoint;
 - actuarial experience studies;
 - the municipal contribution rate when the estimated municipal contribution rate is lower than the corridor midpoint and authorizations for certain adjustments; and

- the municipal contribution rate when the estimated municipal contribution rate is equal to or greater than the corridor midpoint and authorizations for certain adjustments.

C.S.H.B. 2688 establishes the following for purposes of the bill's provisions:

- the bill's provisions relating to the normal retirement age and to the entitlement to receive a service pension for a member who was hired or rehired as a firefighter on or after the year 2017 effective date apply to a member who retires on or after the bill's effective date;
- the bill's provisions relating to the DROP apply to a member who participates in the DROP on or after the bill's effective date regardless of whether the member began participation in the plan before, on, or after the bill's effective date; and
- with respect to the bill's provisions relating to risk sharing valuation studies:
 - those provisions apply only to a risk sharing valuation study conducted after June 30, 2026;
 - for purposes of the bill's provisions revising the existing assumption that each liability loss layer amortized over a period of 30 years from the first day of the fiscal year beginning 12 months after the date of the risk sharing valuation study in which the liability loss layer is first recognized, all existing liability loss layers must be re-amortized over a period of 15 years; and
 - for purposes of the bill's provisions relating to the amortization period for each liability gain layer if there is no liability loss layer, effective on the first day of the fiscal year beginning 12 months after the date of the first risk sharing valuation study conducted after June 30, 2026, all existing liability gain layers must be re-amortized over a period of 15 years.

C.S.H.B. 2688 repeals Sections 5A(o), 12, and 13G(a), Article 6243e.2(1), Revised Statutes.

EFFECTIVE DATE

September 1, 2025.

COMPARISON OF INTRODUCED AND SUBSTITUTE

While C.S.H.B. 2688 may differ from the introduced in minor or nonsubstantive ways, the following summarizes the substantial differences between the introduced and committee substitute versions of the bill.

The substitute omits a provision present in the introduced increasing the assumed market rate of return on fund assets from seven percent per annum unless adjusted as provided by provisions governing the fund to seven and a half percent per annum unless adjusted as provided by those provisions.

The substitute includes a provision absent from the introduced defining "entry age normal actuarial cost method" for purposes of provisions governing the fund.

Both the introduced and the substitute revise provisions relating to the assumptions and methods on which risk sharing valuation studies prepared by the respective actuaries of the fund and the municipality must be based. However, the substitute makes the following revisions that did not appear in the introduced:

- replaces an ultimate entry age normal actuarial method with an entry age normal actuarial cost method, as defined by the substitute;
- with respect to the assumption that each liability loss layer amortized over a period of 30 years from the first day of the fiscal year beginning 12 months after the date of the risk sharing valuation study in which the liability loss layer is first recognized and the exception that the legacy liability must be amortized from July 1, 2016, for a 30-year

period beginning July 1, 2017, removes that exception and reduces the 30-year period to a 15-year period; and

- with respect to the assumption that the amortization period for each liability gain layer, if there is no liability loss layer, is a period of 30 years from the first day of the fiscal year beginning 12 months after the date of the risk sharing valuation study in which the liability gain layer is first recognized, reduces the 30-year period to a 15-year period.

Whereas the substitute revises the authorization for the municipality and the board to agree on a written transition plan for resetting the corridor midpoint if at any time the funded ratio is equal to or greater than 100 percent or for any fiscal year after the payoff year of the legacy liability by also authorizing the municipality and the board to agree on such a plan on a one-time basis other than one of those times, the introduced made the authorization applicable at any time and accordingly removed those specified times under the current authorization.

The substitute includes provisions absent from the introduced providing for the applicability and implementation of its provisions relating to the normal retirement age and to the entitlement to receive a service pension for a member who was hired or rehired as a firefighter on or after the year 2017 effective date, the DROP, and risk sharing valuation studies.