89R21072 KFF-F

By:  Harless, Perez of Harris, Metcalf H.B. No. 2688

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

By:  Schoolcraft C.S.H.B. No. 2688

A BILL TO BE ENTITLED

AN ACT

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

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

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

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

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

(10-a-1)  "Entry age normal actuarial cost method" means 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. For purposes of this definition, the attribution period of a member's anticipated covered service:

(A)  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

(B)  as to each benefit, ends with the member's assumed exit age, which for retirement benefits is:

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

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

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

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

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

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

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

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

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

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

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

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

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

(2) [~~(3)~~]  extend the amortization period of a liability layer to more than 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 layer is first recognized; or

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

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

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

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

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

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

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

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

(a-2)  Except as provided by Subsection (a-3) of this section, the monthly benefit of a DROP participant who had less than 20 years of participation on the year 2017 effective date is increased at retirement 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. For the member's final year of participation, but not beyond the member's 10th year in the DROP, if a full year of participation is not completed, the member shall receive a prorated increase of 0.083 percent of the member's original benefit for each month of participation in that year.

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

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

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

(b)  A member may elect to participate in the DROP by complying with the election process established by the board. The member's election may be made at any time beginning on the date the member has completed 20 years of participation in the fund and is otherwise eligible for a service pension under Section 4 [~~4(a)(1)~~] of this article. Beginning on the first day of the month following the month in which the member makes an election to participate in the DROP, subject to board approval, and ending on the year 2017 effective date, amounts equal to the deductions made from the member's salary under Section 13(c) of this article shall be credited to the member's DROP account. Beginning after the year 2017 effective date, amounts equal to the deductions made from the member's salary under Section 13(c) of this article may not be credited to the member's DROP account.

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

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

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

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

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

(d)  In computing a member's years of participation, time served in the armed forces of the nation during war or national emergency is considered continuous service. Except for that military service, credit for prior service shall be given only if a member returns to active service as a firefighter before the 10th [~~fifth~~] anniversary of a previous effective date of termination. Notwithstanding any provision of this article to the contrary, contributions, benefits, and service credit with respect to qualified military service shall be provided in accordance with Section 414(u) of the code. A member who is engaged in active duty in any of the military services of the United States shall receive credited pension service for the period of the military service if the member returns to employment with the employer municipality's fire department with an honorable discharge within the period required by the federal reemployment Act and the period of military service does not exceed the period prescribed by that Act. If a member sustains an injury while on military leave under the terms of the federal reemployment Act, pension benefits are payable based on the off-duty disability benefit provisions prescribed by Section 6(e) of this article. If a member dies while on military leave under the terms of the federal reemployment Act, death benefits are payable to eligible survivors based on the off-duty death benefits prescribed by Section 7 of this article. This subsection is intended to comply with the federal reemployment Act. The board may make, maintain, and amend policies and procedures as desirable or necessary to implement the federal reemployment Act. In this subsection, "federal reemployment Act" means the Uniformed Services Employment and Reemployment Rights Act of 1994 (38 U.S.C. Section 4301 et seq.), as amended.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(E)  except as provided by Subsection (a-1) of this section, each liability loss layer amortized over a period of 15 [~~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[~~, except that the legacy liability must be amortized from July 1, 2016, for a 30-year period beginning July 1, 2017~~];

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

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

(ii)  if there is no liability loss layer, a period of 15 [~~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;

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

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

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

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

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

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

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

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

(a-1)  With respect to any liability loss layer with a payoff year that was accelerated under Section 13E(c)(4) of this article, the board and municipality may at any time 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.

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

(g)  The municipality and the board may agree on a written transition plan for resetting the corridor midpoint:

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

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

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

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

(b)  If the funded ratio is:

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

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

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

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

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

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

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

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

(4)  fourth, accelerate the payoff year of the existing liability loss layers, including the legacy liability, by accelerating the oldest liability loss layers first, to an amortization period that is not less than 10 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.

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

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

SECTION 14.  Section 5, Article 6243e.2(1), Revised Statutes, as amended by this Act, applies to a member who participates in the deferred retirement option plan on or after the effective date of this Act regardless of whether the member began participation in the plan before, on, or after the effective date of this Act.

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

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

(c)  For purposes of this section and Section 13B(a)(6)(F)(ii), Article 6243e.2(1), Revised Statutes, 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.

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