

1-1 By: Harless, et al. H.B. No. 2688  
1-2 (Senate Sponsor - Huffman, et al.)  
1-3 (In the Senate - Received from the House May 8, 2025;  
1-4 May 15, 2025, read first time and referred to Committee on Finance;  
1-5 May 21, 2025, reported adversely, with favorable Committee  
1-6 Substitute by the following vote: Yeas 13, Nays 0; May 21, 2025,  
1-7 sent to printer.)

1-8 COMMITTEE VOTE

| 1-9  |                     | Yea | Nay | Absent | PNV |
|------|---------------------|-----|-----|--------|-----|
| 1-10 | Huffman             | X   |     |        |     |
| 1-11 | Hinojosa of Hidalgo | X   |     |        |     |
| 1-12 | Alvarado            | X   |     |        |     |
| 1-13 | Bettencourt         | X   |     |        |     |
| 1-14 | Campbell            | X   |     |        |     |
| 1-15 | Creighton           | X   |     |        |     |
| 1-16 | Flores              | X   |     |        |     |
| 1-17 | Hall                |     |     | X      |     |
| 1-18 | Kolkhorst           |     |     | X      |     |
| 1-19 | Nichols             | X   |     |        |     |
| 1-20 | Paxton              | X   |     |        |     |
| 1-21 | Perry               | X   |     |        |     |
| 1-22 | Schwertner          | X   |     |        |     |
| 1-23 | West                | X   |     |        |     |
| 1-24 | Zaffirini           | X   |     |        |     |

1-25 COMMITTEE SUBSTITUTE FOR H.B. No. 2688 By: Huffman

1-26 A BILL TO BE ENTITLED  
1-27 AN ACT

1-28 relating to the public retirement systems of certain  
1-29 municipalities.  
1-30 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:  
1-31 ARTICLE 1. FIREFIGHTERS' RELIEF AND RETIREMENT FUND  
1-32 SECTION 1.01. The heading to Article 6243e.2(1), Revised  
1-33 Statutes, is amended to read as follows:  
1-34 Art. 6243e.2(1). FIREFIGHTERS' RELIEF AND RETIREMENT FUND IN  
1-35 MUNICIPALITIES OF AT LEAST 2,000,000 [~~1,600,000~~] POPULATION.  
1-36 SECTION 1.02. Section 1(13-e), Article 6243e.2(1), Revised  
1-37 Statutes, is amended to read as follows:  
1-38 (13-e) "Normal retirement age" means:  
1-39 (A) [~~for a member, including a member who was~~  
1-40 ~~hired before the year 2017 effective date and who involuntarily~~  
1-41 ~~separated from service but has been retroactively reinstated in~~  
1-42 ~~accordance with an arbitration, civil service, or court ruling,~~  
1-43 ~~hired before the year 2017 effective date,~~ the age at which a the  
1-44 member attains 20 years of service; or  
1-45 (B) [~~except as provided by Paragraph (A) of this~~  
1-46 ~~subdivision, for a member hired or rehired on or after the year 2017~~  
1-47 ~~effective date,~~ the age at which a member first attains both the  
1-48 age of at least 50 and at least 10 years of service [~~the sum of the~~  
1-49 ~~member's age, in years, and the member's years of participation in~~  
1-50 ~~the fund equals at least 70~~].  
1-51 SECTION 1.03. Section 1(16-b), Article 6243e.2(1), Revised  
1-52 Statutes, is redesignated as Section 1(10-a-1), Article  
1-53 6243e.2(1), Revised Statutes, and amended to read as follows:  
1-54 (10-a-1) "Entry [~~(16-b) "Ultimate entry~~] age normal  
1-55 actuarial cost method" means an actuarial cost method under which a  
1-56 calculation is made to determine the average uniform and constant  
1-57 percentage rate of contributions that, if applied to the  
1-58 compensation of each member during the entire period of the  
1-59 member's anticipated covered service, would be required to meet the  
1-60 cost of all benefits payable on the member's behalf based on the

benefits provisions for each individual employee ~~[newly hired employees]~~. For purposes of this definition, the actuarial accrued liability for each member is the difference between the member's present value of future benefits based on the tier of benefits that apply to the member and the member's present value of future normal costs determined using the normal cost rate.

SECTION 1.04. 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 1.05. 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 1.06. Sections 5(a), (b), (b-1), (c), and (m), Article 6243e.2(1), Revised Statutes, are amended 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.

(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.

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

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

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

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

(m) A DROP participant with a break in service may receive service credit within DROP for days worked after the regular expiration of the maximum DROP participation period prescribed by this section. The service credit shall be limited to the number of days in which the participant experienced a break in service or the number of days required to constitute 15 ~~[13]~~ years of DROP participation, whichever is smaller. A retired member who previously participated in the DROP and who returns to active service is subject to the terms of this section in effect at the time of the member's return to active service.

SECTION 1.07. 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 1.08. Section 13B(a), Article 6243e.2(1), Revised Statutes, is amended 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) 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, 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 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.

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

SECTION 1.10. Sections 1(13-e) and 4(a), 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 1.11. 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 1.12. Section 8, Article 6243e.2(1), Revised Statutes, as amended by this Act, applies to a member who terminates active service on or after the effective date of this Act.

## ARTICLE 2. POLICE OFFICERS' PENSION SYSTEM

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

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

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

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

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

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

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

(10-a-1) "Entry ~~[(26)]~~ "Ultimate 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 based on the benefits provisions for each individual employee ~~[newly hired employees]~~. For purposes of this definition, the actuarial accrued liability for each member is the difference between the member's present value of future benefits based on the tier of benefits that apply to the member and the member's present value of future normal costs determined using the normal cost rate.

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

(a) The pension system and the city 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 pension system's standard valuation study prepared annually for the pension system;

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

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

(5) estimate the city contribution rate, taking into account any adjustments required under Section 9D or 9E 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 9D(c)(1) or 9E(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 9B 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) 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, 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 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 9D(c)(2) of this article or, if Section 9B(g) of this article applies, adjustment in accordance with a written agreement entered into under Section 27 of this article, 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 city's finance director; and

(K) payroll for purposes of determining the corridor midpoint and city 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 city and the board; or

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

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

(b) An active member who ~~[was hired before October 9, 2004, including a member hired before October 9, 2004, who]~~ has attained normal retirement age ~~[been reinstated under arbitration, civil service, or a court ruling after that date, and has at least 20~~

~~years of service with the police department]~~ may file with the pension system an election to participate in DROP and receive a DROP benefit instead of the standard form of pension provided by this article on or after ~~[as of]~~ the date the ~~[active]~~ member attained normal retirement age ~~[20 years of service]~~. The election may be made, under procedures established by the board~~[, by an eligible active member who has attained the required years of service]~~. A DROP election that is made and accepted by the board may not be revoked.

ARTICLE 3. CONFLICTS AND EFFECTIVE DATE

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

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

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