

By: Bucy

H.B. No. 2802

A BILL TO BE ENTITLED

AN ACT

relating to the public retirement systems for employees of certain municipalities.

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

SECTION 1. SECTION 1. Section 1.02, Chapter 183 (S.B. No. 509), Acts of the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes), is amended to read as follows:

Sec. 1.02. DEFINITIONS. In this Act:

(1) "Accumulated contributions" means all sums of money, including interest, in the individual account of a member or former firefighter, as shown on the books and records of the fund.

(2) "Actuarial accrued liability" means the portion of the actuarial present value of projected benefits of the fund attributed to past periods of member service based on the cost method used in the risk sharing valuation study under Section 10.01B of this Act, as applicable.

~~(2)~~ (3) "Actuarial equivalent" means a benefit that, at the time that it begins being paid, has the same present value as the benefit it replaces, based on the recommendations of the board's actuary.

(4) "Actuarial value of assets" means the value of the fund's assets as calculated using the asset smoothing method used in the risk sharing valuation study under Section 10.01B of this

1 Act, as applicable.

2 (5) "Amortization period" means:

3 (A) the period necessary to fully pay a liability
4 layer; or

5 (B) if referring to the amortization period of
6 the fund as a whole, the number of years incorporated in a weighted
7 average amortization factor for the sum of the legacy liability and
8 all liability layers as determined in each annual actuarial
9 valuation of assets and liabilities of the system.

10 (6) "Amortization rate" means, for a given calendar
11 year, the percentage rate determined by:

12 (A) adding the scheduled amortization payments
13 required to pay off the then-existing liability layers;

14 (B) subtracting the city legacy contribution
15 amount for the same calendar year, as determined in the risk sharing
16 valuation study under Section 10.01A or 10.01B of this Act, as
17 applicable, from the sum under Subsection (A); and

18 (C) dividing the difference under Subsection (B)
19 by the projected pensionable payroll for the same calendar year.

20 (37) "Board of trustees" means the board of
21 firefighters relief and retirement fund trustees of the fund
22 existing pursuant to this Act.

23 (48) "Board's actuary" means the actuary employed
24 under Section 12.03 of this Act.

25 (9) "City" means a municipality to which this Act
26 applies.

27 (10) "City contribution rate" means, for a given

1 calendar year, a percentage rate equal to the sum of the city normal
2 cost rate and the amortization rate, as adjusted under Sections
3 10.01C or 10.01D of this Act, as applicable.

4 (11) "City legacy contribution amount" means, for each
5 calendar year, a predetermined payment amount expressed in dollars
6 in accordance with a payment schedule amortizing the legacy
7 liability for the calendar year ending December 31, 2024, that is
8 included in the initial risk sharing valuation study under Section
9 10.01A of this Act.

10 (12) "City normal cost rate" means, for a given
11 calendar year, the normal cost rate minus the applicable member
12 contribution rate determined under Section 10.02 of this Act.

13 (~~5~~13) "Compensation" means a firefighter's monthly
14 salary, excluding overtime pay, any temporary pay in higher
15 classifications, educational incentive pay, assignment pay,
16 Christmas Day bonus pay, and pay for automobile and clothing
17 allowances.

18 (14) "Corridor" means the range of city contribution
19 rates that are:

20 (A) equal to or greater than the minimum city
21 contribution rate; and

22 (B) equal to or less than the maximum city
23 contribution rate.

24 (15) "Corridor margin" means five percentage points.

25 (16) "Corridor midpoint" means the projected city
26 contribution rate specified for each calendar year for 25 years as
27 provided by the initial risk sharing valuation study under Section

1 10.01A of this Act, rounded to the nearest hundredths decimal
2 place.

3 ~~(617)~~ "Dependent child" or "dependent children" means
4 a deceased member's unmarried children under the age of 22, other
5 than a child who has been determined by the board of trustees not to
6 have been dependent on the deceased member.

7 (18) "Employer" means the municipality described in
8 Section 1.01 of this Act or the board of trustees.

9 (19) "Estimated city contribution rate" means, for a
10 given calendar year, a city contribution rate equal to the sum of
11 the city normal cost rate and the amortization rate of the liability
12 layers, as applicable, excluding the legacy liability layer, and
13 before any adjustments under Sections 10.01C or 10.01D of this Act.

14 ~~(720)~~ "Fire department" means a regularly organized
15 fire department of a city to which this Act applies.

16 ~~(821)~~ "Firefighter" means a commissioned civil
17 service and Texas state-certified member of a fire department.

18 ~~(922)~~ "Fund" means the firefighters relief and
19 retirement fund existing pursuant to this Act.

20 (23) "Funded ratio" means the ratio of the actuarial
21 value of the fund's assets divided by the fund's actuarial accrued
22 liability.

23 (24) "Group A member" means a member who was initially
24 hired by the city as a firefighter prior to January 1, 2026.

25 (25) "Group A retiree" means a retiree who was
26 initially hired by the city as a firefighter prior to January 1,
27 2026.

1 (26) "Group B member" means a member who was initially
2 hired by the city as a firefighter on or after January 1, 2026.

3 (27) "Group B retiree" means a retiree who was
4 initially hired by the city as a firefighter on or after January 1,
5 2026.

6 ~~(1028)~~ (28) "Internal Revenue Code" means the Internal
7 Revenue Code of 1986.

8 (29) "Legacy liability" means the unfunded actuarial
9 accrued liability determined as of December 31, 2024, and for each
10 subsequent calendar year, adjusted as follows:

11 (A) reduced by the city legacy contribution
12 amount for the calendar year allocated to the amortization of the
13 legacy liability; and

14 (B) adjusted by the assumed rate of return
15 adopted by the board of trustees for the calendar year.

16 (30) "Level percent of payroll method" means the
17 amortization method that defines the amount of a liability layer
18 recognized each calendar year as a level percent of pensionable
19 payroll until the amount of the liability layer remaining is
20 reduced to zero.

21 (31) "Liability gain layer" means a liability layer
22 that decreases the unfunded actuarial accrued liability.

23 (32) "Liability layer" means:

24 (A) the legacy liability established in the
25 initial risk sharing valuation study under Section 10.01A of this
26 Act; or

27 (B) for calendar years after December 31, 2024,

1 the amount that the fund's unfunded actuarial accrued liability
2 increases or decreases, as applicable, due to the unanticipated
3 change for the calendar year as determined in each subsequent risk
4 sharing valuation study under Section 10.01B of this Act.

5 (33) "Liability loss layer" means a liability layer
6 that increases the unfunded actuarial accrued liability. For
7 purposes of this Act, the legacy liability is a liability loss
8 layer.

9 (34) "Life annuity" means a series of equal monthly
10 payments, payable after retirement for a member's life, consisting
11 of a combination of prior service pension and current service
12 annuity, or early retirement annuity, to which the member is
13 entitled.

14 (35) "Market value of assets" means the value at which
15 assets could be traded on the market.

16 (36) "Maximum employer contribution rate" means, for a
17 given calendar year, the rate equal to the corridor midpoint plus
18 the corridor margin.

19 ~~(1137)~~ (37) "Member" means any firefighter or retiree
20 included in a fund under this Act.

21 (38) "Minimum employer contribution rate" means, for a
22 given calendar year, the rate equal to the corridor midpoint minus
23 the corridor margin.

24 (39) "Normal cost rate" means, for a given calendar
25 year, the salary weighted average of the individual normal cost
26 rates determined for the current active firefighter population,
27 plus the assumed administrative expenses determined in the most

1 recent actuarial experience study.

2 (40) "Payoff year" means the year a liability layer is
3 fully amortized under the amortization period.

4 (41) "Pensionable payroll" means the aggregate basic
5 hourly earnings of all active-contributory firefighters for a
6 calendar year or pay period, as applicable.

7 (42) "Projected pensionable payroll" means the
8 estimated pensionable payroll for the calendar year beginning 12
9 months after the date of any risk sharing valuation study under
10 Section 10.01A or 10.01B of this Act, as applicable, at the time of
11 calculation by:

12 (A) projecting the prior calendar year's
13 pensionable payroll forward two years using the current payroll
14 growth rate assumption adopted by the board of trustees; and

15 (B) adjusting, if necessary, for changes in
16 population or other known factors, provided those factors would
17 have a material impact on the calculation, as determined by the
18 board of trustees.

19 (43) "Qualified domestic relations order" has the
20 meaning assigned by Section [804.001](#), Government Code, and its
21 subsequent amendments.

22 (~~1244~~) "Retiree" means a person who has retired under
23 Article 5 or 6 of this Act and is receiving or is entitled to receive
24 an annuity from the fund.

25 (~~1345~~) "Spouse" means an individual to whom a member
26 is legally married under Subtitle A, Title 1, Family Code, or a
27 comparable law of another jurisdiction, provided that, in the case

of an informal marriage in this state, the marriage must be evidenced by a declaration of informal marriage recorded in accordance with Subchapter E, Chapter 2, Family Code.

(46) "Unanticipated change" means, with respect to the unfunded actuarial accrued liability in each risk sharing valuation study under Section 10.01A or 10.01B of this Act, as applicable, the difference between:

(A) the remaining balance of all then-existing liability layers as of the date of the risk sharing valuation study that were created before the date of the study; and

(B) the actual unfunded actuarial accrued liability as of the date of the study.

(47) "Unfunded actuarial accrued liability" means the difference between the actuarial accrued liability and the actuarial value of assets.

SECTION 2. Section 2.02, Chapter 183 (S.B. No. 509), Acts of the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes), is amended to read as follows:

Sec. 2.02. COMPOSITION OF BOARD. (a) The board of trustees is composed of:

(1) ~~the mayor~~ a member of the city council of the ~~municipality~~ city, designated by the mayor;

(2) the chief financial officer of the city or a person designated by the chief financial officer; ~~the city treasurer or, if there is no treasurer, the person who by law, charter provision, or ordinance performs the duty of city treasurer, and~~

(3) three members of the fund to be selected by vote of

the firefighters and retirees in the manner provided by this Act;

(4) one qualified voter of the city appointed by the city council who:

(A) has been a city resident for the preceding five years;

(B) has experience in the field of securities investment, pension administration, pension law, or finance; and

(C) is not a current or former employee of the city, a current or former employee of the fund, a current or former officer of the city, a current or former officer of the fund, a current or former member of the fund, or a current beneficiary of the fund.

(5) one qualified voter of the city appointed by the board of trustees who:

(A) has been a city resident for the preceding five years;

(B) has experience in the field of securities investment, pension administration, pension law, or governmental finance; and

(C) is not a current or former employee of the city, a current or former employee of the fund, a current or former officer of the city, a current or former officer of the fund, a current or former member of the fund, or a current beneficiary of the fund.

(b) A person appointed under subsections (4) or (5) of this section shall serve for a term of three years and until appointment of the person's successor.

SECTION 3. Section 2.05, Chapter 183 (S.B. No. 509), Acts of the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes), is amended to read as follows:

Sec. 2.05. OFFICERS. The ~~mayor~~ city council member designated in Section 2.02(1) of this Act is the presiding officer. Alternatively, the city council member designated in Section 2.02(1) of this Act may designate another member of the board to be the presiding officer. ~~and the city treasurer~~ person designated in Section 2.02(2) of this Act is the secretary-treasurer of the board of trustees. Alternatively, the person designated in Section 2.02(2) of this Act may designate another member of the board to be the secretary-treasurer. The board shall elect annually from its membership an alternate presiding officer who shall preside in the absence or disability of the ~~mayor~~ person designated in Section 2.02(1) of this Act. Any designations of officer positions made under this section shall remain in effect for one year or until the designated member leaves the board, whichever occurs sooner.

SECTION 4. Section 2.07, Article 2, Chapter 183 (S.B. No. 509), Acts of the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes), is amended to read as follows:

Sec. 2.07. MEETINGS; MINUTES. The board of trustees shall hold regular ~~monthly~~ meetings, no less frequently than quarterly, at a time and place that it designates and may hold special meetings on the call of the presiding officer or alternate presiding officer. The board of trustees shall keep accurate minutes of its meetings and records of its proceedings.

SECTION 5. Article 2, Chapter 183 (S.B. No. 509), Acts of the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes), is amended by adding a new Section 2.08A to read as follows:

Sec. 2.08A EXPERIENCE STUDY; SETTING ACTUARIAL ASSUMPTIONS.

(a) At least once every five years, the board of trustees shall cause the board's actuary to conduct an experience study to review the actuarial assumptions and methods adopted by the board of trustees for purposes of determining the actuarial liabilities and actuarially determined contribution rates of the fund. The fund shall notify the city at the beginning of an upcoming experience study by the board's actuary.

(b) In connection with the fund's experience study, the city may:

(1) conduct a separate experience study using an actuary chosen by the city;

(2) have the city's actuary review the experience study prepared by the board's actuary; or

(3) accept the experience study prepared by the board's actuary.

(c) If the city conducts a separate experience study using the city's actuary, the city shall complete the study not later than the 91st day after the date the fund notified the city of its intent to conduct an experience study.

(d) If the city elects to have the city's actuary review the experience study prepared by the board's actuary, the city shall

1 complete the review not later than the 31st day after the date the
2 preliminary results of the experience study prepared by the board's
3 actuary are presented to the board of trustees.

4 (e) If the city chooses to have the city's own experience
5 study performed or to have the city's actuary review the fund's
6 experience study, the board's actuary and the city's actuary shall
7 determine what the hypothetical employer contribution rate would be
8 using the proposed actuarial assumptions from the experience
9 studies and data from the most recent actuarial valuation.

10 (f) If the difference between the hypothetical employer
11 contribution rates determined by the board's actuary and the city's
12 actuary:

13 (1) is less than or equal to two percent of pensionable
14 payroll, no further action is needed and the board of trustees shall
15 use the experience study performed by the board's actuary in
16 determining assumptions; or

17 (2) is greater than two percent of pensionable
18 payroll, the board's actuary and the city's actuary shall have 20
19 days to reconcile the difference in actuarial assumptions or
20 methods causing the different hypothetical employer contribution
21 rates, and if:

22 (A) as a result of the reconciliation efforts
23 under this subsection, the difference between the employer
24 contribution rates determined by the board's actuary and the city's
25 actuary is reduced to less than or equal to two percentage points,
26 no further action is needed and the board of trustees shall use the
27 experience study performed by the board's actuary in determining

1 actuarial assumptions; or

2 (B) after the 20th business day, the board's
3 actuary and the city's actuary do not reach a reconciliation that
4 reduces the difference in the hypothetical employer contribution
5 rates to an amount less than or equal to two percentage points, an
6 independent third-party actuary shall be retained to opine on the
7 differences in the assumptions made and actuarial methods used by
8 the system's actuary and the city's actuary.

9 (g) The independent third-party actuary retained under this
10 section must be chosen by the city from a list of three actuarial
11 firms provided by the fund.

12 (h) If a third-party actuary is retained under this section,
13 the third-party actuary's findings must be presented to the board
14 of trustees with the experience study conducted by the board's
15 actuary and, if applicable, the city's actuary. If the board of
16 trustees adopts actuarial assumptions or methods contrary to the
17 independent third-party actuary's findings:

18 (1) the fund shall provide a formal letter to the city
19 council for the city and to the Texas Pension Review Board
20 describing the rationale for the retirement board's action; and

21 (2) the board's actuary and executive director shall
22 be made available at the request of the city council or the Texas
23 Pension Review Board to present in person the rationale for the
24 board of trustees' action.

25 (i) If the board of trustees proposes a change to actuarial
26 assumptions or methods that is not in connection with an experience
27 study described by this section, the fund and the city shall follow

1 the same process set out in this section with respect to an
2 experience study in connection with the proposed change.

3 SECTION 6. Section 5.04, Chapter 183 (S.B. No. 509), Acts
4 of the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
5 Vernon's Texas Civil Statutes), is amended to read as follows:

6 Sec. 5.04. NORMAL SERVICE RETIREMENT BENEFIT. (a) The
7 service retirement annuity of a Group A member person who retires
8 under Section 5.01 of this Act on or after January 1, 1995, is a
9 monthly payment that is equal to three and three-tenths percent of
10 the Group A member's average monthly compensation multiplied by the
11 Group A member's number of years of service credit and any fraction
12 of a year of service credit.

13 ~~(b) The three percent factor used in this section may be~~
14 ~~changed to some other percent if the change:~~

15 ~~(1) is first approved by the board's actuary,~~

16 ~~(2) is approved by the board of trustees,~~

17 ~~(3) applies to one or any combination of the following~~
18 ~~groups:~~

19 ~~(A) firefighters who are employed on an active,~~
20 ~~full-time basis in the fire department at the time of the change,~~

21 ~~(B) firefighters who begin service with the fire~~
22 ~~department after the change becomes effective, and~~

23 ~~(C) members who retire under Section 5.06 of this~~
24 ~~Act after the change becomes effective, and~~

25 ~~(4) does not reduce a member's benefit for service~~
26 ~~credit accumulated before the date of the change.~~

27 ~~(b-1) In determining whether to approve an increase in the~~

~~factor under Subsection (b) of this section, the board's actuary shall take into consideration whether the fund has reserves sufficient to enable the payment of a cost-of-living adjustment under Section 9.04(a) of this Act to all current members and survivors at a level that is equal to the average percentage increase in the Consumer Price Index for All Urban Consumers as determined by the United States Department of Labor for the 10 annual periods preceding the proposed effective date of the change.~~

(b) The service retirement annuity of a Group B member is a monthly payment that is equal to three percent of the Group B member's average monthly compensation multiplied by the Group B member's number of years of service credit and any fraction of a year of service credit.

(c) The service retirement annuity of a person who retired before January 1, 1995, is a monthly payment based on the benefit formula in effect at the time of the person's retirement, together with any increases for retirees approved by the board of trustees after the person's retirement.

SECTION 7. Section 5.05, Chapter 183 (S.B. No. 509), Acts of the 64th Legislature, Regular Session, 1975 (Article [6243e.1](#), Vernon's Texas Civil Statutes), is amended to read as follows:

Sec. 5.05. EARLY RETIREMENT. (a) A Group A member is eligible to retire and receive a normal service retirement annuity if the member, while serving as a firefighter in the fire department:

(1) has attained the age of 45 years and has at least 10 years of service credit in the fund; or

1 (2) has at least 20 years of service credit,
2 regardless of age.

3 (b) The retirement annuity of a Group A member ~~person~~ who
4 retires under this section after September 1, 1997, is the same as
5 for normal service retirement, but may not be increased under
6 Section 9.04 of this Act until the Group A member ~~person~~ would have
7 met the requirements of Section 5.01 of this Act if the Group A
8 member ~~person~~ had remained in active service as a firefighter.

9 (c) This section does not apply to a Group B member.

10 Section 8. Section 5.06, Chapter 183 (S.B. No. 509), Acts
11 of the 64th Legislature, Regular Session, 1975 (Article [6243e.1](#),
12 Vernon's Texas Civil Statutes), is amended to read as follows:

13 Sec. 5.06. ELIGIBILITY AFTER 10 YEARS OF SERVICE. (a) A
14 member may terminate employment with the fire department and later
15 retire and receive a service retirement benefit if, at the time of
16 the member's retirement:

17 (1) the member has accumulated at least 10 years of
18 service credit in the fund and made required contributions to the
19 fund for at least 10 years;

20 (2) the member does not withdraw the member's
21 contributions from the fund at the time of or after the termination
22 of employment; and

23 (3) the member has either attained 50 years of age or,
24 if the member is a Group A member, the Group A member would have
25 accumulated at least 25 years of service credit if the Group A
26 member had not terminated employment with the fire department.

27 (b) The retirement benefit payable to a member on retirement

1 under this section is the service retirement benefit described by
2 Section 5.04 of this Act, computed on the basis of the formula in
3 effect at the time of the member's retirement under this Act.

4 SECTION 9. Section 5.07, Chapter 183 (S.B. No. 509), Acts
5 of the 64th Legislature, Regular Session, 1975 (Article [6243e.1](#),
6 Vernon's Texas Civil Statutes), is amended to read as follows:

7 Sec. 5.07. WITHDRAWAL OF CONTRIBUTIONS. A ~~person~~ member
8 who has terminated employment with the fire department and left the
9 ~~person's-member's~~ contributions with the fund under Section 5.06 of
10 this Act may at any time apply for and receive the ~~person's~~ member's
11 accumulated contributions under Section 9.06 of this Act, with the
12 effect provided by that section. If a ~~person-member~~ eligible for a
13 refund of contributions elects to have all or a portion of the
14 accumulated contributions paid directly to an eligible retirement
15 plan and specifies the eligible retirement plan to which the
16 contributions are to be paid on a form approved for that purpose by
17 the fund, the fund shall make the payment in the form of a direct
18 trustee-to-trustee transfer but is under no obligation to determine
19 whether the other plan in fact is an eligible retirement plan for
20 that purpose.

21 Section 10. Article 2, Chapter 183 (S.B. No. 509), Acts of
22 the 64th Legislature, Regular Session, 1975 (Article [6243e.1](#),
23 Vernon's Texas Civil Statutes), is amended by adding a new Section
24 7.015 to read as follows:

25 Sec. 7.015. AUTHORITY TO ELECT CERTAIN ACTUARIALLY REDUCED
26 BENEFITS. (a) The Board of trustees shall adopt policies under
27 which a Group B firefighter who is leaving active service may elect

1 to accept an actuarially reduced life annuity benefit upon
2 retirement to provide a joint survivor benefit for the Group B
3 member's surviving spouse.

4 (b) The joint survivor benefit shall be an optional
5 retirement annuity that is certified by the Board of trustees'
6 actuary to be the actuarial equivalent of the annuity provided
7 under Section 5.04 of this Act and the survivor's benefits provided
8 under Section 7.02(b) of this Act. An optional retirement annuity
9 is payable throughout the life of the retiree.

10 SECTION 11. Section 7.02, Chapter 183 (S.B. No. 509), Acts
11 of the 64th Legislature, Regular Session, 1975 (Article [6243e.1](#),
12 Vernon's Texas Civil Statutes), is amended to read as follows:

13 Sec. 7.02. SURVIVING SPOUSE OF RETIREE. (a) On the death
14 of a Group A retiree who did not select a Life Annuity option, the
15 Group A retiree's surviving spouse is entitled to receive an
16 immediate monthly benefit from the fund of 75 percent of the
17 retirement benefit that was being paid to the Group A retiree if the
18 spouse:

19 (1) was married to the Group A retiree at the time of
20 the Group A retiree's retirement; or

21 (2) married the Group A retiree after the Group A
22 retiree's retirement and was married to the Group A retiree for at
23 least 24 consecutive months.

24 (b) On the death of a Group B retiree who did not select a
25 Life Annuity option, the Group B retiree's surviving spouse is
26 entitled to receive an immediate monthly benefit from the fund of 75
27 percent of the retirement benefit that was being paid to the Group B

1 retiree if the spouse was married to the Group B retiree at the time
2 of the Group B retiree's retirement.

3 (~~b~~c) For purposes of Subsection (a)(1) of this section, with
4 respect to an informal marriage established in this state, a
5 surviving spouse is considered married to a Group A retiree as of
6 the date a declaration of informal marriage was recorded in
7 accordance with Subchapter E, Chapter 2, Family Code.

8 SECTION 12. Section 7.07, Chapter 183 (S.B. No. 509), Acts
9 of the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
10 Vernon's Texas Civil Statutes), is repealed.

11 SECTION 13. Section 7.09, Chapter 183 (S.B. No. 509), Acts
12 of the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
13 Vernon's Texas Civil Statutes), is amended to read as follows:

14 Sec. 7.09. SURVIVING BENEFICIARY OF CERTAIN UNMARRIED
15 MEMBERS. (a) On the death of a Group A retiree or of a Group A
16 member who is eligible for retirement but has not retired, a benefit
17 is payable under this section if:

18 (1) the Group A retiree or Group A member designated a
19 beneficiary to receive the benefit payable under this section on a
20 form filed with the fund; and

21 (2) this Act does not otherwise provide a benefit
22 payable to a surviving spouse or child of the Group A member or
23 Group A retiree.

24 (b) The benefit payable under this section is an immediate
25 monthly benefit from the fund of 75 percent of the amount of the:

26 (1) retirement benefit that was being paid to the
27 Group A retiree; or

(2) normal service retirement benefit that the member would have received if the member had retired on the date of death.

(c) If the designated beneficiary of a Group A retiree or Group A member is 10 or more years younger than the Group A retiree or Group A member at the time of the Group A retiree's or Group A member's death, the amount of the benefit payable under Subsection (b) of this section shall be reduced to the actuarial equivalent of the benefit that would have been payable if the beneficiary and the Group A retiree or Group A member were the same age.

(d) The board of trustees may adopt rules to establish procedures for and requirements governing a member's designation of a beneficiary under this section.

(e) This section does not apply to Group B retirees or Group B members.

SECTION 14. Section 8.01, Chapter 183 (S.B. No. 509), Acts of the 64th Legislature, Regular Session, 1975 (Article [6243e.1](#), Vernon's Texas Civil Statutes), is amended to read as follows:

Sec. 8.01. MEMBER REMAINING IN ACTIVE SERVICE. In lieu of either leaving active service and beginning to receive a service retirement annuity under Section 5.01 of this Act or remaining in active service and continuing to accrue additional service credit under Section 5.02 of this Act, a member who is eligible to receive a normal service retirement benefit under Section 5.01 of this Act may remain in active service, become a participant in the deferred retirement option plan ("DROP") in accordance with ~~Sections 8.02 and 8.03 of this Act~~ this Article, and defer the beginning of the person's retirement annuity. Once an election to participate in

1 the DROP has been made, the election continues in effect as long as
2 the member remains in active service as a firefighter. When the
3 member leaves active service, the member may apply for a service
4 retirement annuity under Section 5.01 of this Act.

5 SECTION 15. Section 8.02, Chapter 183 (S.B. No. 509), Acts
6 of the 64th Legislature, Regular Session, 1975 (Article [6243e.1](#),
7 Vernon's Texas Civil Statutes), is amended to read as follows:

8 Sec. 8.02. ELECTION TO PARTICIPATE IN DROP. (a) The
9 election to participate in the DROP shall be made in accordance with
10 procedures adopted by the board of trustees. The election may be
11 made at any time on or after the date the member becomes eligible
12 for normal service retirement under Section 5.01 of this Act or
13 early retirement under Section 5.05 of this Act and becomes
14 effective on the first day of the first month after the date of the
15 election.

16 (b) At the same time that a Group A member makes an election
17 to participate in the DROP, the Group A member must agree in writing
18 to terminate service with the fire department on a date not later
19 than the seventh anniversary of the effective date of the election
20 under this section.

21 (c) At the same time that a Group B member makes an election
22 to participate in the DROP, the Group B member must agree in writing
23 to terminate service with the fire department on a date not later
24 than the fifth anniversary of the effective date of the election
25 under this section.

26 (d) An agreement to terminate service is binding on the
27 member and the fire department, except that the member may

1 terminate active service at any time before the date selected. An
2 election to participate in the DROP has no effect on either the
3 ~~municipality's~~ city's or the member's contributions under Section
4 10.01 of this Act.

5 SECTION 16. Section 8.03, Chapter 183 (S.B. No. 509), Acts
6 of the 64th Legislature, Regular Session, 1975 (Article [6243e.1](#),
7 Vernon's Texas Civil Statutes), is amended to read as follows:

8 Sec. 8.03. CREDITS TO MEMBER'S DROP ACCOUNT. (a) Each
9 month after a member makes an election to participate in the DROP
10 and until the member's retirement, the board of trustees shall
11 cause an amount equal to the retirement annuity that the member
12 would have received under Section 5.04 of this Act for that month if
13 the member had left active service and been granted a retirement
14 annuity on the effective date of the election under Section 8.02 of
15 this Act to be credited to a separate DROP account maintained within
16 the fund for the benefit of the member.

17 (b) ~~The A Group A~~ member's contributions under Section
18 10.01(d) of this Act made after the effective date of the election
19 to participate in the DROP shall also be credited to the Group A
20 member's DROP account. This subsection does not apply to a Group B
21 member.

22 (c) Amounts held in a Group A member's DROP account shall be
23 credited at the end of each calendar month with interest at a rate
24 equal to one-twelfth of five percent until the Group A member's
25 retirement.

26 (d) Amounts held in a Group B member's DROP account shall be
27 credited at the end of each calendar month with interest at a rate

1 equal to one-twelfth of three percent until the Group B member's
2 retirement, but only if the return on investment of all assets held
3 by the fund was greater than zero for the preceding calendar year.

4 SECTION 17. Section 8.04, Chapter 183 (S.B. No. 509), Acts
5 of the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
6 Vernon's Texas Civil Statutes), is amended to read as follows:

7 Sec. 8.04. AMOUNT OF CREDITS TO GROUP A MEMBER'S DROP
8 ACCOUNT. The amount credited monthly to the Group A member's DROP
9 account:

10 (1) ~~shall be increased as a result of any increase in~~
11 ~~the formula used in computing service retirement benefits under~~
12 ~~Section 5.04 of this Act that occurs after the effective date of the~~
13 ~~member's election to participate in the DROP but before the~~
14 ~~effective date of the member's retirement;~~

15 (2) shall be increased by any annual cost-of-living
16 adjustments under Section 9.04 of this Act that occur between the
17 effective date of the Group A member's election to participate in
18 the DROP and the effective date of the Group A member's retirement
19 but only as to amounts credited to the Group A member's DROP account
20 after a cost-of-living adjustment; and

21 (3) is subject to the limitations prescribed by
22 Section 9.03 of this Act.

23 SECTION 18. Section 8.05, Chapter 183 (S.B. No. 509), Acts
24 of the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
25 Vernon's Texas Civil Statutes), is amended to read as follows:

26 Sec. 8.05. DISTRIBUTIONS FROM MEMBER'S DROP ACCOUNT. (a)
27 On leaving active service as a firefighter and beginning to receive

1 a retirement annuity, a member who participates in the DROP shall
2 begin to receive the amount credited to the person's DROP account
3 under either of the following methods of distribution selected by
4 the member:

5 (1) a single-payment distribution made at a time
6 selected by the member but not later than April 1 of the year after
7 the member attains 70-1/2 years of age; or

8 (2) in not more than four payments, which may be equal
9 or unequal as the member may determine, all of which must occur not
10 later than April 1 of the year after the member attains 70-1/2 years
11 of age.

12 (b) The DROP account balance of a Group A member shall be
13 credited at the end of each calendar month with interest at a rate
14 equal to one-twelfth of five percent. The DROP account balance of a
15 Group B member shall be credited at the end of each calendar month
16 with interest at a rate equal to one-twelfth of three percent, but
17 only if the return on investment of all assets held by the fund was
18 greater than zero for the preceding calendar year.

19 (c) A member may not receive a distribution from the
20 member's DROP account before termination of active service as a
21 firefighter. A member shall notify the fund in writing, on a form
22 that the board of trustees may prescribe, at least 30 days before
23 each distribution made under this section.

24 (d) The board of trustees may adopt rules that modify the
25 availability of distributions under Subsection (a) of this section,
26 provided that the modifications do not:

27 (1) impair the distribution rights under that

subsection; or

(2) cause distributions to occur later than required under Section 401(a)(9), Internal Revenue Code of 1986.

SECTION 19. Section 8.06, Chapter 183 (S.B. No. 509), Acts of the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes), is amended to read as follows:

Sec. 8.06. ESTABLISHMENT OF DROP ACCOUNT AT RETIREMENT.

(a) In lieu of electing to participate in the DROP before actual retirement, a Group A member who is eligible for normal service retirement or early retirement and who terminates or has terminated active service as a firefighter may establish a DROP account under this section.

(b) A Group A member who is eligible to receive a service retirement benefit under Section 5.06 of this Act may establish a DROP account under this section on retiring under Section 5.06 of this Act.

(c) If a Group A member elects to participate in the DROP under this section:

(1) the board of trustees shall cause to be credited to a DROP account maintained within the fund for the benefit of that person an amount equal to the credits that the Group A member's DROP account would have received, including interest, if the Group A member had established the DROP account after becoming eligible for service retirement, but not more than seven years before the effective date of the person's retirement;

(2) the date used in computations under Subdivision (1) of this section as if the Group A member had established the

DROP account on that date is the effective date of the Group A member's election to participate in the DROP;

(3) the Group A member will receive payments from the Group A member's DROP account as the Group A member may select under Section 8.05 of this Act; and

(4) the Group A member's DROP account shall be credited with interest as provided by Section 8.05 of this Act.

(d) If a Group A member who did not establish a DROP account under this section but was eligible to do so dies before retirement, the surviving spouse, if any, of that Group A member may elect to participate in the DROP if the surviving spouse has not received any benefit payments under Section 7.01 of this Act. If a surviving spouse makes an election under this subsection:

(1) the board of trustees shall cause to be paid to the surviving spouse in a lump sum, as soon as administratively possible after the fund receives notice of the election, an amount equal to the credits that the Group A member's DROP account would have received, including interest, if the Group A member had established the DROP account after becoming eligible for service retirement, but not more than seven years before the date of the Group A member's death; and

(2) the amount of the benefit payable to the surviving spouse under Section 7.03 of this Act is 75 percent of the benefit the Group A member would have been eligible to receive if the Group A member had established the DROP account on becoming eligible for service retirement, but not more than seven years before the date of the Group A member's death.

1 (e) If a Group A member who did not establish a DROP account
2 under this section but was eligible to do so dies before retirement
3 without leaving a surviving spouse, the surviving dependent
4 children, if any, may elect to participate in the DROP if the
5 dependent children have not received any benefit payments under
6 Section 7.05 of this Act. An election under this subsection must be
7 made by all of the surviving dependent children of the member,
8 except that the guardian of any child who is younger than 18 years
9 of age at the time of the election makes a binding election for the
10 child. If the surviving dependent children make an election under
11 this subsection:

12 (1) the board of trustees shall cause to be paid
13 jointly to the dependent children in a lump sum, as soon as
14 administratively possible after the fund receives notice of the
15 election, an amount equal to the credits the Group A member's DROP
16 account would have received, including interest, if the Group A
17 member had established the DROP account after becoming eligible for
18 service retirement, but not less than the credits the DROP account
19 would have received, including interest, based on 20 years of
20 service credit; and

21 (2) the amount of the benefit payable to the dependent
22 children under Section 7.05(a) is 75 percent of the benefit the
23 Group A member would have been entitled to receive if the Group A
24 member had established the DROP account on becoming eligible for
25 service retirement, but based on not less than 20 years of service
26 credit.

27 (f) This section does not apply to a Group B member.

SECTION 20. Section 8.09, Chapter 183 (S.B. No. 509), Acts of the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes), is amended to read as follows:

Sec. 8.09. RETIREMENT BENEFIT PAYABLE TO DROP PARTICIPANT. The retirement benefit payable under Article 5 or 6 of this Act to a person who participates in the DROP:

~~(1) may not be increased as a result of any increase in the formula used in computing service retirement benefits under Section 5.04 of this Act that occurs after the effective date of the member's election to participate in the DROP;~~

~~(2)~~ may not be increased as a result of any increase in the member's compensation that occurs after the effective date of the member's election to participate in the DROP;

~~(3)~~ shall be increased by any annual cost-of-living adjustments under Section 9.04 of this Act that occur between the effective date of the member's election to participate in the DROP and the effective date of the member's retirement;

~~(4)~~ may not be increased for additional service credit after the effective date of the member's election to participate in the DROP; and

~~(5)~~ is subject to the limitations prescribed by Section 9.03 of this Act.

SECTION 21. Section 9.04, Chapter 183 (S.B. No. 509), Acts of the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes), is amended to read as follows:

Sec. 9.04. COST-OF-LIVING ADJUSTMENTS; ~~OTHER ADJUSTMENTS.~~

(a) Subject to this section and except as provided by Section 5.05

1 of this Act, ~~a person receiving a retirement or survivor's benefit~~
2 ~~under this Act is entitled each calendar year to a cost-of-living~~
3 ~~adjustment of that person's benefit~~ the board of trustees may
4 approve a cost of living adjustment for retirees and persons
5 receiving survivor benefits under Article 7 of this Act in an amount
6 not to exceed the amount that is determined and calculated in
7 accordance with this section.

8 (a-1) ~~The~~Any ~~annual~~ cost-of-living adjustment under this
9 section:

10 (1) is based on the collective adjustment amount
11 calculated in accordance with Subsection (a-2) of this section and
12 allocated among persons eligible for an adjustment under this
13 section in a manner and in an amount determined by the board of
14 trustees;

15 (2) may take effect at any time during a given calendar
16 year, as determined by the board of trustees; and

17 (3) may not reduce a person's benefit to an amount less
18 than the person received when the benefit first was paid to that
19 person.

20 (a-2) The collective adjustment amount described by
21 Subsection (a-1) of this section:

22 (1) is an amount equal to the actuarial value, as
23 determined by the board's actuary based on the interest and
24 mortality assumptions adopted by the board of trustees for the most
25 recent actuarial valuation of the fund, of the percentage increase
26 in the Consumer Price Index for All Urban Consumers as determined by
27 the United States Department of Labor for the applicable

determination period ending in a calendar month that precedes by not more than four months the month in which the cost-of-living adjustment is to take effect, multiplied by the total amount of benefits payable in the month immediately preceding the date an adjustment is to take effect to persons who are eligible to receive an adjustment under this section; and

(2) if applicable+,

~~(A)~~ is reduced by an amount that the board's actuary determines is necessary to maintain the financial stability of the fund and comply with Subsections (b) and (c) of this section+

~~or~~

~~(B) is increased in accordance with Subsection (b) of this section.~~

(a-3) For purposes of Subsection (a-2) of this section, the applicable determination period is the shorter of:

(1) 12 months; or

(2) the period since the last adjustment under this section.

~~(a-4) In determining whether to reduce the collective adjustment amount under Subsection (a-2) of this section, the board's actuary may not take into consideration the cost of future adjustments under this section.~~

~~(b) The board of trustees may increase the collective adjustment amount under Subsection (a-2) of this section if:~~

~~(1) the board's actuary has advised the board of trustees that the increase would not impair the financial stability of the fund; and~~

1 ~~(2) the increase has been approved by the affirmative~~
2 ~~vote of a majority of the board of trustees.~~

3 (b) The board of trustees may not approve a cost-of-living
4 adjustment unless the board's actuary certifies that the funding
5 period required to amortize the total unfunded accrued actuarial
6 liability after the cost-of-living adjustment does not exceed:

7 (1) 25 years for cost-of-living adjustments beginning
8 in years 2026 through 2030;

9 (2) 20 years for cost-of-living adjustments beginning
10 in years 2031 through 2035;

11 (3) 15 years for cost-of-living adjustments beginning
12 in years 2036 through 2040;

13 (4) 10 years for cost-of-living adjustments beginning
14 in years 2041 through 2045; and

15 (5) five years for cost-of-living adjustments
16 beginning in years after 2046-2050.

17 ~~(b-1) In determining whether an adjustment would impair the~~
18 ~~financial stability of the fund under Subsection (b) of this~~
19 ~~section, the board's actuary shall take into consideration the cost~~
20 ~~of future adjustments under this section.~~

21 ~~(c) Repealed by Acts 2009, 81st Leg., R.S., Ch. 707, Sec.~~
22 ~~10, eff. September 1, 2009.~~

23 (c) The board of trustees may not approve a cost-of-living
24 adjustment unless the board's actuary certifies that the funded
25 ratio after the cost-of-living adjustment is not:

26 (1) less than 80 percent for any year during the
27 remainder of the amortization period for cost-of-living

1 adjustments beginning in years 2026 through 2035;

2 (2) less than 85 percent for any year during the
3 remainder of the amortization period for cost-of-living
4 adjustments beginning in years 2036 through 2040;

5 (3) less than 90 percent for any year during the
6 remainder of the amortization period or for a period of ten years,
7 whichever is greater, for cost-of-living adjustments beginning in
8 years 2041 through 2045;

9 (4) less than 95 percent for any year during the
10 remainder of the amortization period or for a period of ten years,
11 whichever is greater, for cost-of-living adjustments beginning in
12 years 2046 through 2050;

13 (5) less than 100 percent for any year for a period of
14 ten years for cost-of-living adjustments beginning after 2050.

15 ~~(d) Repealed by Acts 2009, 81st Leg., R.S., Ch. 707, Sec.~~
16 ~~10, eff. September 1, 2009.~~

17 (d) No cost-of-living adjustment that would result in an
18 increase in employer contributions in any year during the remainder
19 of the amortization period, or in any year during the ten years
20 immediately following the cost-of-living adjustment, whichever is
21 longer, shall be effective unless and until approved by the city
22 council of the city.

23 SECTION 22. Section 9.10, Chapter 183 (S.B. No. 509), Acts
24 of the 64th Legislature, Regular Session, 1975 (Article [6243e.1](#),
25 Vernon's Texas Civil Statutes), is amended to read as follows:

26 Sec. 9.10. OPTIONAL RETIREMENT ANNUITY. (a) An optional
27 retirement annuity is an annuity that is certified by the board's

1 actuary to be the actuarial equivalent of the annuity provided
2 under Section 5.04 of this Act and ~~the~~ any applicable survivor's
3 benefits provided under Article 7 of this Act. An optional
4 retirement annuity is payable throughout the life of the retiree.

5 (b) Instead of the annuity payable under Section 5.04 of
6 this Act, a member who retires may elect to receive an optional
7 retirement annuity approved by the board of trustees under this
8 section.

9 (c) The survivor's benefits provided under Article 7 of this
10 Act are not payable on the death of a retiree who elects an optional
11 retirement annuity under this section.

12 (d) The board of trustees by rule may provide that:

13 (1) an optional retirement annuity is payable after a
14 member's death throughout the life of a person designated by the
15 member; or

16 (2) if a retiree dies before a fixed number of monthly
17 annuity payments are made, the remaining number of payments are
18 payable to the retiree's designated beneficiary or, if a designated
19 beneficiary does not exist, to the retiree's estate.

20 (e) To elect an optional retirement annuity, a member must
21 make the election and designate a beneficiary on a form prescribed
22 by the board of trustees. The member must file the form with the
23 board on or before the effective date of the member's retirement.

24 (f) Except as provided by Subsections (g), (h), and (i) of
25 this section, if a Group A member elects an optional retirement
26 annuity that, on the Group A member's death, pays to the Group A
27 member's spouse an amount that is less than 75 percent of the

1 annuity that is payable during the joint lives of the Group A member
2 and the Group A member's spouse, the spouse must consent to the
3 election. The spouse's consent must be in writing and witnessed by
4 an officer or employee of the fund or acknowledged by a notary
5 public.

6 (g) If a Group A member's spouse has been adjudicated
7 incompetent, the consent required under Subsection (f) of this
8 section may be given by the spouse's guardian.

9 (h) If a physician determines that a Group A member's spouse
10 is not mentally capable of managing the spouse's affairs, the
11 consent required under Subsection (f) of this section may be given
12 by the Group A member if the Group A member would be qualified to
13 serve as a guardian of the spouse and the board of trustees
14 determines that a guardianship of the estate is not necessary.

15 (i) Spousal consent under Subsection (f) of this section is
16 not required if the board of trustees determines that:

- 17 (1) a spouse does not exist;
18 (2) the spouse cannot be located;
19 (3) the first anniversary of the marriage will not
20 occur before the date the annuity first becomes payable; or
21 (4) a former spouse is entitled to receive a portion of
22 the member's optional retirement benefit under a qualified domestic
23 relations order.

24 (j) If a Group B member is married, spousal consent is
25 required for the Group B member to select a retirement annuity that
26 provides the Group B member's spouse with any benefit less than the
27 joint survivor benefit provided in Section 7.02(b) of this Act upon

1 the Group B member's death. Spousal consent is not required if it
 2 is established to the satisfaction of the retirement board that the
 3 required consent cannot be obtained because there is no spouse, the
 4 spouse cannot be located, or other circumstances exist as
 5 prescribed by United States Treasury regulations. Notwithstanding
 6 other provisions of this section, the option election or
 7 beneficiary designation made by a member and consented to by the
 8 member's spouse may be revoked by the member in writing without
 9 consent of the spouse at any time before retirement. The number of
 10 revocations is not limited. A former spouse's waiver or consent is
 11 not binding on a new spouse. An option selection becomes effective
 12 on the member's actual retirement date. The member retains the
 13 right to change the option selected or the beneficiary designated
 14 until the member's actual retirement date, subject to this
 15 subsection.

16 SECTION 23. Section 10.01, Chapter 183 (S.B. No. 509), Acts
 17 of the 64th Legislature, Regular Session, 1975 (Article [6243e.1](#),
 18 Vernon's Texas Civil Statutes), is amended to read as follows:

19 Sec. 10.01. MUNICIPAL ~~AND MEMBER~~ CONTRIBUTIONS. (a) Each
 20 ~~municipality~~ city in which a fire department to which this Act
 21 applies is located shall appropriate and contribute to the fund ~~an~~
 22 amounts as determined under this section. ~~equal to a percentage of~~
 23 ~~the compensation of all members during that month as follows:~~

24 ~~(1) 19.05 percent, beginning on the first pay date~~
 25 ~~following September 30, 2010, through the pay date immediately~~
 26 ~~preceding September 30, 2011,~~

27 ~~(2) 20.05 percent, beginning on the first pay date~~

~~following September 30, 2011, through the pay date immediately preceding September 30, 2012,~~

~~(3) 21.05 percent, for 24 pay dates of the municipality beginning on the first pay date following September 30, 2012, and~~

~~(4) 22.05 percent, for all pay dates of the municipality that follow the 24 pay dates referenced in Subdivision (3) of this subsection.~~

~~(b) Each firefighter shall pay into the fund each month a percentage of the firefighter's compensation for that month as follows:~~

~~(1) 15.70 percent, for the pay dates of the municipality following September 30, 2010, through the pay date immediately preceding September 30, 2011,~~

~~(2) 16.20 percent, beginning on the first pay date of the municipality following September 30, 2011, through the pay date immediately preceding September 30, 2012,~~

~~(3) 16.70 percent, beginning on the first pay date of the municipality following September 30, 2012, through the pay date immediately preceding September 30, 2013,~~

~~(4) 17.20 percent, beginning on the first pay date of the municipality following September 30, 2013, through the pay date immediately preceding September 30, 2014,~~

~~(5) 17.70 percent, beginning on the first pay date of the municipality following September 30, 2014, through the pay date immediately preceding September 30, 2015,~~

~~(6) 18.20 percent, beginning on the first pay date of~~

~~the municipality following September 30, 2015, through the pay date immediately preceding September 30, 2016; and~~

~~(7) 18.70 percent, for the first pay date of the municipality following September 30, 2016, and all subsequent pay dates of the municipality.~~

(b) Beginning with the first pay period of:

(1) calendar year 2026, and before the first pay period of calendar year 2027, the city shall contribute an amount equal to the sum of:

(A) the city contribution rate, as determined in the initial risk sharing valuation study as of December 31, 2024, multiplied by the pensionable payroll for the applicable pay period; and

(B) 1/26 of the city's legacy contribution amount for the 2026 calendar year, as determined and adjusted in the initial risk sharing valuation study conducted under Section 10.01A of this Act; and

(2) calendar year 2027, and for each subsequent calendar year, the city shall contribute an amount equal to the sum of:

(A) the city contribution rate for the applicable calendar year, as determined in a subsequent risk sharing valuation study conducted and adjusted under Section 10.01B of this Act multiplied by the pensionable payroll for the applicable pay period; and

(B) 1/26 of the city's legacy contribution amount for the applicable calendar year, as determined and adjusted in the

initial risk sharing valuation study conducted under Section 10.01A of this Act.

(c) If the employer elects to change the employer's payroll period to a period other than a biweekly payroll period, the fractional amounts of the employer's legacy contribution stated in subsections (b)(1)(B) and (b)(2)(B) of this section must be adjusted such that the employer's calendar year contribution equals the contribution required under subsection (b)(1) or (b)(2), as applicable.

~~(c) The governing body of each municipality may authorize the municipality to contribute a portion of the contribution required of each firefighter under this section. In that event:~~

~~(1) the municipality shall appropriate and contribute to the fund each month at the higher percentage of compensation necessary to make all contributions required and authorized to be made by the municipality under this section; and~~

~~(2) each firefighter's individual account with the fund shall be credited each month as if the firefighter had made the entire contribution required of that firefighter under Section 10.01(b).~~

(d) The governing body of each ~~municipality~~ city may authorize the ~~municipality~~ city to make an additional contribution to the fund in whatever amount the governing body may determine. ~~The members of the fund, by a majority vote in favor of an increase in contributions above 13.70 percent, may increase each firefighter's contribution above 13.70 percent to any percentage recommended by a majority vote of the board of trustees.~~

SECTION 24. Article 10, Chapter 183 (S.B. No. 509), Acts of the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes), is amended by adding a new Section 10.01A to read as follows:

Sec. 10.01A. INITIAL RISK SHARING VALUATION STUDY. (a) The board's actuary shall prepare an initial risk sharing valuation study as of December 31, 2024. The initial risk sharing valuation study must:

(1) except as otherwise provided by this section, be prepared in accordance with the requirements of Section 10.01B of this Act;

(2) be based on the actuarial assumptions that were used by the board's actuary in the valuation completed for the year ended December 31, 2023 using the market value of assets;

(3) project the corridor midpoint for the next 25 calendar years beginning with the calendar year that begins on January 1, 2026;

(4) include a schedule of city legacy contribution amounts for 25 calendar years beginning with the calendar year that begins on January 1, 2026; and

(5) include a city contribution for the calendar years under Sections 10.01(b)(1) and (2) of this Act that begin on January 1, 2026, January 1, 2027, and January 1, 2028 that must be adjusted to reflect the impact of the phase-in prescribed by subsection (b) of this section.

(b) The schedule of city legacy contribution amounts under subsection (a)(4) of this section must be determined such that the

total annual city legacy contribution amount for the first three calendar years results in a phase-in of the anticipated increase in the employer's contribution rate from the calendar year that begins on January 1, 2026, to the rate equal to the sum of the estimated contribution rate for the calendar year that begins on January 1, 2028, and the rate of pensionable payroll equal to the city legacy contribution amount for January 1, 2026, determined as if there was no phase-in of the increase to the city legacy contribution amount. The phase-in must reflect approximately one-third of the increase each year over the three-year phase-in period.

(c) The estimated employer contribution rate for the calendar year that begins on January 1, 2026, must be based on the projected pensionable payroll as determined under the initial risk sharing valuation study required by this section, assuming a payroll growth rate adopted by the board of trustees.

SECTION 25. Article 10, Chapter 183 (S.B. No. 509), Acts of the 64th Legislature, Regular Session, 1975 (Article [6243e.1](#), Vernon's Texas Civil Statutes), is amended by adding a new Section 10.01B to read as follows:

Sec. 10.01B. SUBSEQUENT RISK SHARING VALUATION STUDIES.

(a) For each calendar year beginning with January 1, 2027, the fund shall cause the board's actuary to prepare a risk sharing valuation study in accordance with this section and actuarial standards of practice. Each risk sharing valuation study must:

(1) be dated as of the last day of the calendar year for which the study is required to be prepared;

(2) calculate the unfunded actuarial accrued

1 liability of the fund as of the last day of the applicable calendar
2 year, including the liability layer, if any, associated with the
3 most recently completed calendar year;

4 (3) calculate the estimated city contribution rate for
5 the following calendar year;

6 (4) determine the city contribution rate and the
7 member contribution rate for the following calendar year, taking
8 into account any adjustments required under this Article, as
9 applicable; and

10 (5) except as provided by subsection (d) of this
11 section, be based on the assumptions and methods adopted by the
12 board of trustees, if applicable, and be consistent with actuarial
13 standards of practice and the following principles:

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

18 (B) an amortization period assigned to each
19 liability layer;

20 (C) amortization of each liability loss layer
21 over a period of 20 years from the first day of the calendar year
22 beginning 12 months after the date of the risk sharing valuation
23 study in which the liability loss layer is first recognized, except
24 that the legacy liability must be amortized over a 25-year period
25 beginning January 1, 2026;

26 (D) amortization of each liability gain layer
27 over:

1 (i) a period equal to the remaining
2 amortization period on the largest remaining liability loss layer;
3 or

4 (ii) if there is no liability loss layer, a
5 period of 20 years from the first day of the calendar year beginning
6 12 months after the date of the risk sharing valuation study in
7 which the liability gain layer is first recognized;

8 (E) funding of liability layers according to the
9 level percent of payroll method;

10 (F) projection of payroll for purposes of
11 determining the corridor midpoint, employer contribution rate, and
12 city legacy contribution amount using the annual payroll growth
13 rate assumption adopted by the board of trustees; and

14 (G) calculation of the city contribution rate
15 each calendar year without inclusion of the legacy liability.

16 (b) The city may contribute an amount in addition to the
17 scheduled city legacy contribution amounts to reduce the number or
18 amount of scheduled future city legacy contribution payments. If
19 the city contributes an additional amount under this subsection,
20 the board's actuary shall create a new schedule of city legacy
21 contribution amounts that reflects payment of the additional
22 contribution.

23 (c) The city and the board of trustees may agree on a written
24 transition plan for resetting the corridor midpoint, member
25 contribution rates, or employer contribution rates:

26 (1) if at any time the funded ratio of the fund is
27 equal to or greater than 100 percent; or

1 (2) for any calendar year after the payoff year of the
2 legacy liability.

3 (d) The board of trustees may, by rule, adopt actuarial
4 principles other than those required under this section, provided
5 the actuarial principles:

6 (1) are consistent with actuarial standards of
7 practice;

8 (2) are approved by the retirement board's actuary;
9 and

10 (3) do not operate to change the city legacy
11 contribution amount.

12 SECTION 26. Article 10, Chapter 183 (S.B. No. 509), Acts of
13 the 64th Legislature, Regular Session, 1975 (Article [6243e.1](#),
14 Vernon's Texas Civil Statutes), is amended by adding a new Section
15 10.01C to read as follows:

16 Sec. 10.01C. ADJUSTMENT TO EMPLOYER CONTRIBUTION RATE IF
17 ESTIMATED EMPLOYER CONTRIBUTION RATE LOWER THAN CORRIDOR MIDPOINT.

18 (a) Subject to subsection (b) of this section, for the calendar
19 year beginning January 1, 2026, and for each subsequent calendar
20 year, if the estimated employer contribution rate is lower than the
21 corridor midpoint, the employer contribution rate for the
22 applicable year is:

23 (1) the corridor midpoint if the funded ratio is less
24 than 90 percent; or

25 (2) the estimated employer contribution rate if the
26 funded ratio is 90 percent or greater.

27 (b) The employer contribution rate may not be lower than the

minimum employer contribution rate.

(c) If the funded ratio is equal to or greater than 100 percent:

(1) all existing liability layers, including the legacy liability, are considered fully amortized and paid; and

(2) the city legacy contribution amount may no longer be included in the employer contribution.

SECTION 27. Article 10, Chapter 183 (S.B. No. 509), Acts of the 64th Legislature, Regular Session, 1975 (Article [6243e.1](#), Vernon's Texas Civil Statutes), is amended by adding a new Section 10.01D to read as follows:

Sec. 10.01D. ADJUSTMENT TO CITY CONTRIBUTION RATE IF ESTIMATED CITY CONTRIBUTION RATE IS EQUAL TO OR GREATER THAN CORRIDOR MIDPOINT. For the calendar year beginning January 1, 2026, and for each subsequent calendar year, if the estimated employer contribution rate is equal to or greater than the corridor midpoint and:

(1) less than or equal to the maximum employer contribution rate for the corresponding calendar year, the employer contribution rate is the estimated employer contribution rate; or

(2) greater than the maximum employer contribution rate for the corresponding calendar year, the employer contribution rate is the maximum employer contribution rate.

SECTION 28. Article 10, Chapter 183 (S.B. No. 509), Acts of the 64th Legislature, Regular Session, 1975 (Article [6243e.1](#), Vernon's Texas Civil Statutes), is amended by adding a new Section 10.01E to read as follows:

1 Sec. 10.01E. ADJUSTMENT TO CONTRIBUTION RATES IF ESTIMATED
2 CITY CONTRIBUTION RATE IS GREATER THAN CORRIDOR MAXIMUM. (a)
3 Except as provided by Subsection (b) of this section, if the
4 estimated employer contribution rate is greater than the corridor
5 maximum, the member contribution rate will increase by an amount
6 equal to the difference between the estimated city contribution
7 rate and the maximum city contribution rate.

8 (b) The member contribution rate may not be increased by
9 more than two percent under Subsection (a) of this section.

10 (c) If the estimated employer contribution rate is more than
11 two percentage points above the maximum employer contribution rate,
12 the city and the board of trustees shall enter into discussions to
13 determine additional options for achieving funding soundness.

14 SECTION 29. Sec. 10.02, Chapter 183 (S.B. No. 509), Acts of
15 the 64th Legislature, Regular Session, 1975 (Article [6243e.1](#),
16 Vernon's Texas Civil Statutes), is amended to read as follows:

17 Sec. 10.02. ~~PICKUP OF~~ FIREFIGHTER CONTRIBUTIONS. (a)
18 Beginning on the first pay date of the city following January 1,
19 2026, each firefighter shall pay into the fund each month 18.70
20 percent of the firefighter's compensation for that month. The
21 firefighter contribution rate established by this section is
22 subject to adjustment as determined by Section 10.01E of this Act
23 and 10.02(d) of this Section.

24 (b) A ~~municipality~~ city to which this Act applies shall pick
25 up the firefighter contributions to the fund that are required or
26 authorized ~~pursuant to Section 10.01 of this Act~~ under this
27 section, whichever is higher. Firefighter contributions will be

1 picked up by a reduction in the monetary compensation of the
2 firefighters. Contributions picked up shall be treated as employer
3 contributions in accordance with Section 414(h)(2) of the Internal
4 Revenue Code for the purpose of determining tax treatment of the
5 amounts under that code. These contributions will be deposited to
6 the credit of the individual accounts of the firefighters in the
7 fund and shall be treated as the monthly contributions of the
8 firefighters for all purposes of this Act. These contributions are
9 not includable in the gross income of a firefighter until the time
10 that they are distributed or made available to the firefighter or
11 survivors of the firefighter. ~~The board of trustees may at any~~
12 ~~time, by majority vote, discontinue the pickup of firefighter~~
13 ~~contributions by the municipality city.~~

14 (c) The governing body of each city may authorize the city
15 to contribute a portion of the contribution required of each
16 firefighter under this section. In that event:

17 (1) the city shall appropriate and contribute to the
18 fund each month at the higher percentage of compensation necessary
19 to make all contributions required and authorized to be made by the
20 city under this section; and

21 (2) each firefighter's individual account with the
22 fund shall be credited each month as if the firefighter had made the
23 entire contribution required of that firefighter under Section
24 10.01(b).

25 (d) The members of the fund, by a majority vote in favor of
26 an increase in contributions above 18.70 percent, may increase each
27 firefighter's contribution above 18.70 percent to any percentage

1 and for any period of time recommended by a majority vote of the
2 board of trustees.

3 SECTION 30. Sec. 10.04, Chapter 183 (S.B. No. 509), Acts of
4 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
5 Vernon's Texas Civil Statutes), is amended to read as follows:

6 Sec. 10.04. INTEREST ON INDIVIDUAL ACCOUNTS. (a) For Group
7 A members, the fund shall credit interest on December 31 of each
8 year to the account of each firefighter, and of each former
9 firefighter, who has not retired in an amount equal to five percent
10 of the accumulated contributions, including previously credited
11 interest, on deposit on January 1 of that year. The fund may not pay
12 interest on a firefighter's or former firefighter's contributions
13 for part of a year or for any period that is more than five calendar
14 years after the date of termination of employment.

15 (b) For Group B members, the fund shall credit interest on
16 December 31 of each year to the account of each firefighter, and of
17 each former firefighter, who has not retired in an amount equal to
18 three percent of the accumulated contributions for Group B members,
19 including previously credited interest, on deposit on January 1 of
20 that year. The fund may not pay interest on a firefighter's or
21 former firefighter's contributions for part of a year or for any
22 period that is more than five calendar years after the date of
23 termination of employment.

24 SECTION 31. This Act shall become effective January 1,
25 2026.