

By: Y. Davis of Dallas

H.B. No. 3988

A BILL TO BE ENTITLED

AN ACT

relating to certain deferred retirement option plan benefits under public retirement systems for police and firefighters in certain municipalities.

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

SECTION 1. Sections 6.14(e), (e-2), (e-3), (e-4), and (g), Article 6243a-1, Revised Statutes, are amended to read as follows:

(e) Except as provided by Subsection ~~[Subsections]~~ (e-1), (e-4), or ~~[and]~~ (1) of this section, the balance in the DROP account of a member who terminated from active service on or before September 1, 2017, or who terminates from active service shall be distributed to the member in the form of an annuity, payable either monthly or annually at the election of the member, by annuitizing the amount credited to the DROP account over the life expectancy of the member as of the date of the annuitization using mortality tables recommended by the pension system's qualified actuary. The annuity shall be distributed beginning as promptly as administratively feasible after the later of, as applicable:

(1) the date the member retires and is granted a retirement pension; or

(2) September 1, 2017.

(e-2) The annuitization of a DROP account under Subsection (e) of this section must reflect the accrual of interest on the amount in the DROP account ~~[as of September 1, 2017, over the~~

~~annuitization period applied to the account under this section].~~
 The interest rate applied under this subsection must be a rate as
 reasonably equivalent as practicable to the interest rate on a note
 issued by the United States Department of the Treasury or other
 federal treasury note with a duration that is reasonably comparable
 to the annuitization period applied to the account, as determined
 by the board. ~~[The portion of an annuity attributable to amounts~~
~~credited to a member's DROP account on or after September 1, 2017,~~
~~may not reflect the accrual of this interest on annuitization.]~~

(e-3) The board may by rule allow any person receiving an
 annuity from the annuitization of a DROP account under this section
 to[÷

~~[(1)]~~ assign the distribution from the person's
~~[annuitized]~~ DROP account to a third party provided the pension
 system receives a favorable private letter ruling from the Internal
 Revenue Service ruling that such an assignment will not negatively
 impact the pension system's qualified plan status[÷and

~~[(2) subject to Subsection (e-4) of this section, in~~
~~the event of a financial hardship that was not reasonably~~
~~foreseeable obtain a lump-sum distribution from the person's DROP~~
~~account resulting in a corresponding reduction in the total number~~
~~or in the amount of annuity payments].~~

(e-4) A DROP participant may at any time, including on the
date the participant retires and is granted a retirement pension,
make an election in the form and manner prescribed by the [The]
board to receive the balance of the person's DROP account,
including interest earned on the balance, in a full lump-sum

distribution made at a time selected by the participant. The board
 shall adopt rules necessary to implement this subsection
~~[Subsection (e-3)(2) of this section, including rules regarding~~
~~what constitutes a financial hardship for purposes of that~~
~~subdivision]. In adopting the rules, the board shall provide~~
~~flexibility to persons receiving an annuity from the annuitization~~
~~of a DROP account.~~

(g) The provisions of Sections 6.06, 6.061, 6.062, 6.063,
 6.07, and 6.08 of this article pertaining to death benefits of a
 qualified survivor do not apply to amounts held in a member's or
 pensioner's DROP account. Instead, a member or pensioner who
 participates in DROP may designate a beneficiary to receive the
 annuity payments under this section over the remaining
 annuitization period in the event of the member's or pensioner's
 death, subject to ~~[any rights provided under]~~ Subsection (e-3) or
(e-4) of this section, and in the manner allowed by Section
 401(a)(9) of the code and any policy adopted by the board. A member
 or pensioner who is or becomes married is considered to have
 designated the member's or pensioner's spouse as the member's or
 pensioner's beneficiary, notwithstanding any prior beneficiary
 designation, unless the member or pensioner has made a different
 designation in accordance with a policy adopted by the board. If a
 member or pensioner does not have a spouse or the spouse predeceases
 the member or pensioner, the member's or pensioner's, as
 applicable, DROP account will be distributed to the member's or
 pensioner's, as applicable, designee. Notwithstanding anything in
 this section to the contrary, if a member or pensioner has

1 previously designated the member's or pensioner's spouse as the
2 beneficiary or co-beneficiary of the DROP account and the member or
3 pensioner and spouse are subsequently divorced, the divorce
4 automatically results in the invalidation of the designation of the
5 spouse as a beneficiary and, if there is no additional beneficiary
6 designated, the member's or pensioner's DROP account shall be
7 distributed as provided by Subsection (e) of this section or, if
8 applicable, Subsection (e-3) or (e-4) of this section. If there are
9 beneficiaries who survive the deceased member or pensioner, the
10 surviving beneficiaries share equally in that portion that would
11 have otherwise been payable to the former spouse.

12 SECTION 2. Section 6.141(b), Article 6243a-1, Revised
13 Statutes, is amended to read as follows:

14 (b) Notwithstanding Section 6.14 of this article and solely
15 to avoid the possibility of an early distribution tax penalty under
16 Section 72(t)(4) of the code:

17 (1) a pensioner subject to this section may until the
18 pensioner attains 59-1/2 years of age:

19 (A) [~~subject to Subsection (c) of this section,~~]
20 continue to participate in DROP;

21 (B) have the same amount of the pensioner's
22 service retirement pension credited to the pensioner's DROP account
23 as has been credited since the pensioner's service retirement
24 pension was initially granted; and

25 (C) defer annuitization or other distribution of
26 the pensioner's DROP account under Section 6.14 [~~6.14(e)~~] of this
27 article; and

1 (2) once a pensioner subject to this section attains
2 59-1/2 years of age:

3 (A) the pensioner may not have any portion of the
4 pensioner's service retirement pension credited to the pensioner's
5 DROP account; and

6 (B) as soon as administratively feasible, the
7 balance in the pensioner's DROP account shall be annuitized and
8 distributed to the pensioner in accordance with Section 6.14(e) of
9 this article, subject to Section 6.14(e-4) of this article.

10 SECTION 3. Sections 6.14(f-1) and 6.141(c), Article
11 6243a-1, Revised Statutes, are repealed.

12 SECTION 4. This Act takes effect September 1, 2025.