

SENATE AMENDMENTS
2nd Printing

By: Bucy, Howard, Capriglione

H.B. No. 2802

A BILL TO BE ENTITLED

AN ACT

relating to the administration of, contributions to, and benefits under retirement systems for firefighters in certain municipalities.

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

SECTION 1. The heading to Chapter 183 (S.B. 598), Acts of the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes), is amended to read as follows:

Art. 6243e.1. FIREFIGHTERS RELIEF AND RETIREMENT FUND IN CITIES OF 950,000 ~~[450,000]~~ TO 1,050,000 ~~[500,000]~~.

SECTION 2. Section 1.02, Chapter 183 (S.B. 598), Acts of the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes), is amended by amending Subdivisions (1), (2), (3), and (4) and adding Subdivisions (1-a), (2-a), (2-b), (2-c), (2-d), (2-e), (5-a), (5-b), (5-c), (6-a), (6-b), (6-c), (6-d), (6-e), (8-a), (9-a), (9-b), (9-c), (9-d), (10-a), (10-b), (10-c), (10-d), (10-e), (10-f), (11-a), (11-b), (11-c), (11-d), (11-e), (11-f), (11-g), (13-a), and (13-b) to read as follows:

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

(1-a) "Actuarial accrued liability" means the portion of the actuarial present value of projected benefits of the fund

1 attributed to past periods of member service based on the cost
2 method used in the risk sharing valuation study prepared under
3 Section 10.05 or 10.06 of this Act, as applicable.

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

8 (2-a) "Actuarial value of assets" means the value of
9 the fund's assets as calculated using the asset smoothing method
10 used in the risk sharing valuation study prepared under Section
11 10.05 or 10.06 of this Act, as applicable.

12 (2-b) "Adjustment factor" means the assumed rate of
13 return for the fund adopted by the board less two percentage points.

14 (2-c) "Amortization period" means:

15 (A) the period necessary to fully pay a liability
16 layer; or

17 (B) if referring to the amortization period of
18 the fund as a whole, the number of years incorporated in a weighted
19 average amortization factor for the sum of the legacy liability and
20 all liability layers as determined in each annual actuarial
21 valuation of assets and liabilities of the fund.

22 (2-d) "Amortization rate" means, for a given calendar
23 year, the percentage rate determined by:

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

26 (B) subtracting the municipal legacy
27 contribution amount for the same calendar year, as determined in

1 the risk sharing valuation study prepared under Section 10.05 or
2 10.06 of this Act, as applicable, from the sum under Paragraph (A)
3 of this subdivision; and

4 (C) dividing the amount determined under
5 Paragraph (B) of this subdivision by the projected pensionable
6 payroll for the same calendar year.

7 (2-e) "Annual investment return" means the annual
8 money-weighted rate of return, net of investment expenses, reported
9 by the fund in the annual report for a given calendar year.

10 (3) "Board of trustees" or "board" means the board of
11 ~~[firefighters relief and retirement fund]~~ trustees of the fund
12 under ~~[existing pursuant to]~~ this Act, unless the context requires
13 otherwise.

14 (4) "Board's actuary" means the actuary engaged by the
15 fund ~~[employed]~~ under Section 12.03 of this Act.

16 (5-a) "Corridor" means the range of municipal
17 contribution rates that are:

18 (A) equal to or greater than the minimum
19 municipal contribution rate; and

20 (B) equal to or less than the maximum municipal
21 contribution rate.

22 (5-b) "Corridor margin" means five percentage points.

23 (5-c) "Corridor midpoint" means the projected
24 municipal contribution rate specified for each calendar year for 30
25 years as provided by the initial risk sharing valuation study under
26 Section 10.05 of this Act, rounded to the nearest hundredths
27 decimal place.

1 (6-a) "DROP" means the deferred retirement option plan
2 under Article 8 of this Act.

3 (6-b) "DROP participant" means a member who is
4 participating in the DROP.

5 (6-c) "DROP period" means the period between the
6 effective date of a member's election to participate in DROP and the
7 actual date of the member's retirement from the fire department,
8 subject to the seven-year limitation prescribed by Section 8.02 of
9 this Act.

10 (6-d) "Employer normal cost rate" means, for a given
11 calendar year, the normal cost rate minus the applicable
12 firefighter contribution rate determined under Section 10.011 of
13 this Act.

14 (6-e) "Estimated municipal contribution rate" means,
15 for a given calendar year, a municipal contribution rate equal to
16 the sum of the municipal normal cost rate and the amortization rate
17 of the liability layers, as applicable, excluding the legacy
18 liability layer, and before adjustments to the rate under Section
19 10.07 or 10.08 of this Act, as applicable.

20 (8-a) "Five-year investment return" means the average
21 money-weighted rate of return of the fund, based on a rolling
22 five-year basis and net of investment expenses, for the applicable
23 five-year period.

24 (9-a) "Funded ratio" means the ratio of the actuarial
25 value of assets divided by the actuarial accrued liability.

26 (9-b) "Group A member" means a member included in
27 group A membership under Section 3.011 of this Act.

1 (9-c) "Group B cost-of-living adjustment percentage"
2 means a percentage that:

3 (A) except as provided by Paragraph (B) of this
4 subdivision, is equal to the fund's five-year investment return
5 minus the adjustment factor, and multiplied by 50 percent; and

6 (B) may not be less than zero or more than two
7 percent.

8 (9-d) "Group B member" means a member included in
9 group B membership under Section 3.011 of this Act.

10 (10-a) "Legacy liability" means the unfunded
11 actuarial accrued liability determined as of December 31, 2024, and
12 for each subsequent calendar year, adjusted as follows:

13 (A) reduced by the municipal legacy contribution
14 amount for the calendar year allocated to the amortization of the
15 legacy liability; and

16 (B) adjusted by the assumed rate of return
17 adopted by the board of trustees for the calendar year ending
18 December 31, 2024.

19 (10-b) "Level percent of payroll method" means the
20 amortization method that defines the amount of the liability layer
21 recognized each calendar year as a level percent of pensionable
22 payroll until the amount of the liability layer remaining is
23 reduced to zero.

24 (10-c) "Liability gain layer" means a liability layer
25 that decreases the unfunded actuarial accrued liability.

26 (10-d) "Liability layer" means:

27 (A) the legacy liability established in the

initial risk sharing valuation study under Section 10.05 of this Act; or

(B) for calendar years after December 31, 2024, the amount that the fund's unfunded actuarial accrued liability increases or decreases, as applicable, due to the unanticipated change for the calendar year as determined in each subsequent risk sharing valuation study prepared under Section 10.06 of this Act.

(10-e) "Liability loss layer" means a liability layer that increases the unfunded actuarial accrued liability. For purposes of this Act, the legacy liability is a liability loss layer.

(10-f) "Maximum municipal contribution rate" means, for a given calendar year, the rate equal to the corridor midpoint plus the corridor margin.

(11-a) "Minimum municipal contribution rate" means, for a given calendar year, the rate equal to the corridor midpoint minus the corridor margin.

(11-b) "Municipal contribution rate" means, for a given calendar year, a percentage rate equal to the sum of the employer normal cost rate and the amortization rate, as adjusted under Section 10.07 or 10.08 of this Act, if applicable.

(11-c) "Municipal legacy contribution amount" means, for each calendar year, a predetermined payment amount expressed in dollars in accordance with a payment schedule amortizing the legacy liability for the calendar year ending December 31, 2024, that is included in the initial risk sharing valuation study under Section 10.05 of this Act.

1 (11-d) "Normal cost rate" means, for a given calendar
2 year, the salary weighted average of the individual normal cost
3 rates determined for the current active member population, plus the
4 assumed administrative expenses determined in the most recent
5 actuarial experience study.

6 (11-e) "Payoff year" means the year a liability layer
7 is fully amortized under the amortization period.

8 (11-f) "Pensionable payroll" means the compensation
9 of all members in active service for a calendar year or pay period,
10 as applicable.

11 (11-g) "Projected pensionable payroll" means the
12 estimated pensionable payroll for the calendar year beginning 12
13 months after the date of the risk sharing valuation study prepared
14 under Section 10.05 or 10.06 of this Act, as applicable, at the time
15 of calculation by:

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

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

23 (13-a) "Unanticipated change" means, with respect to
24 the unfunded actuarial accrued liability in each subsequent risk
25 sharing valuation study prepared under Section 10.06 of this Act,
26 the difference between:

27 (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 risk sharing valuation study.

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

SECTION 3. Article 1, Chapter 183 (S.B. 598), Acts of the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes), is amended by adding Section 1.031 to read as follows:

Sec. 1.031. OPERATING NAME. The board of trustees may by rule adopt a name under which the fund may operate other than the name prescribed by Section 1.03 of this Act.

SECTION 4. Article 2, Chapter 183 (S.B. 598), Acts of the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes), is amended by adding Section 2.015 to read as follows:

Sec. 2.015. FUND QUALIFICATION. This Act shall be construed, and the fund shall be administered, in a manner that maintains the qualified status of the fund under Section 401(a) of the Internal Revenue Code.

SECTION 5. Section 2.02, Chapter 183 (S.B. 598), 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 (1) the mayor of the municipality or a member of the
2 governing body of the municipality designated by the mayor;

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

7 (3) four [~~three~~] members of the fund to be selected by
8 vote of the firefighters and retirees in the manner provided by this
9 Act; and

10 (4) one member of the public selected and appointed by
11 the governing body of the municipality in accordance with Section
12 2.025 of this Act.

13 (b) The board of trustees may by rule specify the number of
14 elected members of the board of trustees under Subsection (a) of
15 this section who must be firefighters or retirees.

16 SECTION 6. Article 2, Chapter 183 (S.B. 598), Acts of the
17 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's
18 Texas Civil Statutes), is amended by adding Section 2.025 to read as
19 follows:

20 Sec. 2.025. APPOINTED PUBLIC MEMBER OF BOARD. (a) To serve
21 on the board under Section 2.02(a)(4) of this Act, a person:

22 (1) must:

23 (A) be a qualified voter;

24 (B) be a resident and have been a resident of the
25 municipality for the five-year period preceding the date of the
26 appointment; and

27 (C) have demonstrated experience in the field of

finance or investments; and

(2) may not be:

(A) a current or former employee or officer of
the municipality;

(B) a current or former employee of the fund or a
current or former member of the board of trustees; or

(C) a current or former member or beneficiary of
the fund.

(b) A member of the board of trustees under Section
2.02(a)(4) of this Act:

(1) holds office for a term of four years; and

(2) serves during the term for which the member was
appointed and until the member's successor is selected and has
qualified, unless a vacancy results because of death, resignation,
or removal.

(c) A vacancy on the board of trustees in the position under
Section 2.02(a)(4) of this Act shall be filled in the same manner as
the original appointment.

SECTION 7. Section 2.03, Chapter 183 (S.B. 598), Acts of the
64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's
Texas Civil Statutes), is amended by amending Subsections (c), (e),
and (h) and adding Subsection (c-1) to read as follows:

(c) Each election is by secret ~~[written]~~ ballot on a date
and using a method the board of trustees determines. Only persons
who have been nominated may be listed on the ~~[written]~~
ballot. Nominations:

(1) may be made in person, by mail, ~~[or]~~ by telephone,

1 or by any other method approved by the board of trustees; [to the
2 office of the fund] and

3 (2) must be received between September 1 and September
4 15.

5 (c-1) Nominations or elections may be conducted by
6 electronic means.

7 (e) The elected members of the board of trustees hold office
8 for staggered terms of four [~~three~~] years, with the term of one
9 trustee expiring each year. Elected members of the board of
10 trustees shall serve during the term for which they are elected and
11 until their successors are elected and have qualified, unless a
12 vacancy results because of death, resignation, or removal.

13 (h) The administrative expenses of an election under this
14 section may be paid from the assets of the fund. Assets of the fund
15 may not be used to pay campaign expenses incurred by or for a
16 candidate [~~member~~]. Administrative office supplies and equipment
17 belonging to the fund may not be used to assist any candidate or
18 person seeking to assist a candidate for a position on the board of
19 trustees.

20 SECTION 8. Section 2.05, Chapter 183 (S.B. 598), Acts of the
21 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's
22 Texas Civil Statutes), is amended to read as follows:

23 Sec. 2.05. OFFICERS. [~~The mayor is the presiding officer~~
24 ~~and the city treasurer is the secretary-treasurer of the board of~~
25 ~~trustees.~~] The board shall elect annually from its membership a
26 chair to serve as the presiding officer and a vice-chair to serve as
27 the [~~an~~] alternate presiding officer who shall preside in the

1 absence or disability of the chair ~~[mayor]~~.

2 SECTION 9. Section 2.07, Chapter 183 (S.B. 598), Acts of the
3 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's
4 Texas Civil Statutes), is amended to read as follows:

5 Sec. 2.07. MEETINGS; MINUTES. The board of trustees shall
6 hold regular ~~[monthly]~~ meetings not fewer than four times each
7 calendar year at a time and place that it designates and may hold
8 special meetings on the call of the presiding officer or alternate
9 presiding officer. The board of trustees shall keep accurate
10 minutes of its meetings and records of its proceedings.

11 SECTION 10. Section 2.08, Chapter 183 (S.B. 598), Acts of
12 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
13 Vernon's Texas Civil Statutes), is amended to read as follows:

14 Sec. 2.08. ADMINISTRATION OF FUNDS. The board of trustees
15 shall:

16 (1) keep separate from all other municipal funds all
17 money and other assets it receives for the benefit of the fund;

18 (2) keep a record of all claims, receipts, and
19 disbursements and make disbursements only ~~[on vouchers signed]~~ by
20 such persons as the board of trustees designates ~~[by resolution]~~;
21 and

22 (3) publish annually a report containing a balance
23 sheet showing the financial and actuarial condition of the fund, a
24 statement showing receipts and disbursements during the year
25 covered by the report, and such additional matters as may be
26 determined appropriate by the board of trustees.

27 SECTION 11. Section 2.09, Chapter 183 (S.B. 598), Acts of

1 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
2 Vernon's Texas Civil Statutes), is amended to read as follows:

3 Sec. 2.09. DETERMINATION BY BOARD. (a) The board of
4 trustees is authorized to hear and determine all matters regarding:

5 (1) eligibility of any person to participate in a fund
6 under this Act;

7 (2) eligibility of any person to receive a service,
8 disability, or survivor's benefit and the amount of that benefit;
9 ~~[and]~~

10 (3) whether a child or a parent of a deceased member
11 was dependent on the member for financial support; and

12 (4) any other determinations related to the
13 administration of the fund.

14 (b) All determinations made by the board of trustees shall
15 be final and binding.

16 SECTION 12. Section 2.13(a), Chapter 183 (S.B. 598), 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 (a) Information contained in records in the custody of the
20 fund concerning an individual member, retiree, annuitant, or
21 beneficiary is confidential and not subject to public disclosure
22 under Chapter 552 [Section 552.101], Government Code, and may not
23 be disclosed in a form identifiable with a specific individual
24 unless:

25 (1) the information is disclosed to:

26 (A) the individual or the individual's attorney,
27 guardian, executor, administrator, conservator, or other person

1 who the executive director [~~administrator~~] of the fund determines
2 is acting in the interest of the individual or the individual's
3 estate;

4 (B) a spouse or former spouse of the individual
5 after the executive director [~~administrator~~] of the fund determines
6 that the information is relevant to the spouse's or former spouse's
7 interest in member accounts, benefits, or other amounts payable by
8 the fund;

9 (C) a governmental official or employee after the
10 executive director [~~administrator~~] of the fund determines that
11 disclosure of the information requested is reasonably necessary to
12 the performance of the duties of the official or employee; or

13 (D) a person authorized by the individual in
14 writing to receive the information; or

15 (2) the information is disclosed pursuant to a
16 subpoena and the executive director [~~administrator~~] of the fund
17 determines that the individual will have a reasonable opportunity
18 to contest the subpoena.

19 SECTION 13. Article 2, Chapter 183 (S.B. 598), Acts of the
20 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's
21 Texas Civil Statutes), is amended by adding Section 2.14 to read as
22 follows:

23 Sec. 2.14. PROCESS FOR EXPERIENCE STUDIES AND CHANGES TO
24 ACTUARIAL ASSUMPTIONS. (a) At least once every five years, the
25 board of trustees shall have the board's actuary conduct an
26 experience study to review the actuarial assumptions and methods
27 adopted by the board for the purposes of determining the actuarial

1 liabilities and actuarially determined contribution rates of the
2 fund. The fund shall notify the municipality at the beginning of an
3 upcoming experience study by the board's actuary.

4 (b) In connection with the fund's experience study, the
5 municipality may:

6 (1) conduct a separate experience study using an
7 actuary chosen by the municipality;

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

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

12 (c) If the municipality chooses to:

13 (1) have a separate experience study performed under
14 Subsection (b)(1) of this section, the municipality shall complete
15 the study not later than three months after the date the fund
16 notified the municipality of the fund's intent to conduct an
17 experience study; or

18 (2) have the municipality's actuary review the fund's
19 experience study under Subsection (b)(2) of this section, the
20 municipality shall complete the review not later than one month
21 after the date the preliminary results of the experience study are
22 presented to the board of trustees.

23 (d) If the municipality chooses to have a separate
24 experience study performed under Subsection (b)(1) of this section,
25 or to have the municipality's actuary review the fund's experience
26 study under Subsection (b)(2) of this section, the board's actuary
27 and the municipality's actuary shall determine what the

1 hypothetical municipal contribution rate would be using the
2 proposed actuarial assumptions from the experience studies and data
3 from the most recent actuarial valuation.

4 (e) If the difference between the hypothetical municipal
5 contribution rates determined by the board's actuary and the
6 municipality's actuary under Subsection (d) of this section:

7 (1) is less than or equal to two percent of pensionable
8 payroll, then no further action is needed and the board shall use
9 the experience study performed by the board's actuary in
10 determining assumptions; or

11 (2) is greater than two percent of pensionable
12 payroll, then the board's actuary and the municipality's actuary
13 shall have not more than 20 business days after the date of
14 determination to reconcile the difference in actuarial assumptions
15 or methods causing the different hypothetical municipal
16 contribution rates, and:

17 (A) if, as a result of the reconciliation efforts
18 under this subdivision, the difference between the municipal
19 contribution rates determined by the board's actuary and the
20 municipality's actuary is reduced to less than or equal to two
21 percentage points, then no further action is needed and the board
22 shall use the experience study performed by the board's actuary in
23 determining actuarial assumptions; or

24 (B) if, after 20 business days, the board's
25 actuary and the municipality's actuary are not able to reach a
26 reconciliation that reduces the difference in the hypothetical
27 municipal contribution rates to an amount less than or equal to two

1 percentage points, an independent third-party actuary shall be
2 retained to opine on the differences in the assumptions made and
3 actuarial methods used by the board's actuary and the
4 municipality's actuary.

5 (f) The independent third-party actuary retained in
6 accordance with Subsection (e)(2)(B) of this section shall be
7 chosen by the municipality from a list of three actuarial firms
8 provided by the fund.

9 (g) If an independent third-party actuary is retained under
10 Subsection (e)(2)(B) of this section, the third-party actuary's
11 findings will be presented to the board along with the experience
12 study conducted by the board's actuary and, if applicable, the
13 municipality's actuary. If the board adopts actuarial assumptions
14 or methods contrary to the third-party actuary's findings:

15 (1) the fund shall provide a formal letter describing
16 the rationale for the board's action to the governing body of the
17 municipality and State Pension Review Board; and

18 (2) the board's actuary and executive director shall
19 be made available at the request of the governing body of the
20 municipality or the State Pension Review Board to present in person
21 the rationale for the board's action.

22 (h) If the board proposes a change to actuarial assumptions
23 or methods that is not in connection with an experience study
24 described by this section, the fund and the municipality shall
25 follow the same process prescribed by this section with respect to
26 an experience study in connection with the proposed change.

27 SECTION 14. Section 3.01, Chapter 183 (S.B. 598), Acts of

the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes), is amended to read as follows:

Sec. 3.01. GENERAL REQUIREMENT. A person who begins service as a firefighter in a municipality to which this Act applies and who is not ineligible for membership in the fund becomes a member of the fund as a condition of that person's employment ~~[appointment]~~. Each member shall be a group A member or group B member in accordance with Section 3.011.

SECTION 15. Article 3, Chapter 183 (S.B. 598), Acts of the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes), is amended by adding Section 3.011 to read as follows:

Sec. 3.011. GROUP A AND GROUP B MEMBERSHIP. Each member of the fund is either a group A member or a group B member as follows:

(1) a member of the fund is a group A member if the member was:

(A) a retiree on December 31, 2025;

(B) employed by the municipality as a firefighter on December 31, 2025; or

(C) terminated from employment with the municipality as a firefighter on or before December 31, 2025, if the member:

(i) has at least 10 years of accumulated service credit; and

(ii) has not:

(a) withdrawn the member's accumulated contributions under Section 9.06 of this Act; or

1 (b) refunded the member's accumulated
2 contributions under Section 4.04 of this Act; and

3 (2) a member of the fund is a group B member if the
4 member:

5 (A) except as provided by Subdivision (1)(C) of
6 this section, became employed by the municipality as a firefighter
7 on or after January 1, 2026; or

8 (B) otherwise does not satisfy the requirements
9 of a group A member.

10 SECTION 16. Section 4.02, Chapter 183 (S.B. 598), Acts of
11 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
12 Vernon's Texas Civil Statutes), is amended to read as follows:

13 Sec. 4.02. MILITARY SERVICE. (a) A member of the fund
14 retains all accumulated service credit and is allowed service
15 credit for each month during which the member leaves employment
16 with the fire department and performs active duty service in the
17 armed forces or the armed forces reserves of the United States or
18 their auxiliaries, except that:

19 (1) the military service credit may not be for more
20 than five years and the person must return to service with the fire
21 department not later than the 180th day after the date of discharge
22 or release from military service or from hospitalization continuing
23 after discharge for a period of not more than one year;

24 (2) the member must leave the member's contributions
25 in the fund during the period of absence; ~~and~~

26 (3) the member must file a written application with
27 the fund for the military service credit, accompanied by

1 satisfactory proof of the member's military service; and

2 (4) for military service credit related to military
3 service performed on or after January 1, 2026, the member and the
4 municipality must each deposit to the fund an amount equal to the
5 sum of contributions that would have been contributed to the fund by
6 the member and the municipality, respectively, if the member had
7 remained in active employment with the fire department during the
8 period the claimed military service was performed.

9 (b) The payments required under this section must be made in
10 accordance with the applicable requirements of Section 414(u) of
11 the Internal Revenue Code and the Uniformed Services Employment and
12 Reemployment Rights Act of 1994 (38 U.S.C. Section 4301 et seq.).
13 The board of trustees may adopt rules relating to the payment of
14 contributions under this section as the board of trustees considers
15 necessary for the administration of this section.

16 SECTION 17. Section 5.03, Chapter 183 (S.B. 598), Acts of
17 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
18 Vernon's Texas Civil Statutes), is amended to read as follows:

19 Sec. 5.03. DETERMINATION OF AVERAGE MONTHLY SALARY. (a) A
20 member's average monthly salary is computed as:

21 (1) for a group A member, the average of the member's
22 compensation for the 36 months of highest compensation during the
23 group A member's credited service; or

24 (2) for a group B member, the average of the member's
25 compensation for the 60 months of highest compensation during the
26 group B member's credited service.

27 (b) If a member [~~person~~] has less than 36 or 60 months of

credited service, as applicable, the average monthly salary is computed, as if the member had been employed by the fire department for 36 or 60 months, as applicable, by attributing to a period that is immediately before the member's employment and that is equal to the difference between the number of months the member has been employed by the fire department and 36 or 60 months, as applicable, of compensation the member would have received at the rank the member held when the person became a member.

SECTION 18. Section 5.04(a), Chapter 183 (S.B. 598), Acts of the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes), is amended to read as follows:

(a) The service retirement annuity of:

(1) a group A member ~~[person]~~ who retires under Section 5.01 of this Act ~~[on or after January 1, 1995,]~~ is a monthly payment that is equal to 3.3 ~~[three]~~ percent of the member's average monthly compensation multiplied by the member's number of years of service credit and any fraction of a year of service credit; or

(2) a group B member who retires under Section 5.01 of this Act is a monthly payment that is equal to three percent of the member's average monthly compensation multiplied by the member's number of years of service credit and any fraction of a year of service credit.

SECTION 19. Section 5.05, Chapter 183 (S.B. 598), 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

1 if the member, while serving as a firefighter in the fire
2 department:

3 (1) has attained the age of 45 years and has at least
4 10 years of service credit in the fund; or

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

7 (b) The retirement annuity of a group A member ~~[person]~~ who
8 retires under this section after September 1, 1997, is the same as
9 for normal service retirement, but may not be increased under
10 Section 9.04 of this Act until the person would have met the
11 requirements of Section 9.041(b) ~~[5.01]~~ of this Act ~~[if the person~~
12 ~~had remained in active service as a firefighter]~~.

13 (c) A group B member is not eligible for early retirement
14 under this section.

15 SECTION 20. Section 6.01, Chapter 183 (S.B. 598), Acts of
16 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
17 Vernon's Texas Civil Statutes), is amended to read as follows:

18 Sec. 6.01. INITIAL ELIGIBILITY FOR DISABILITY RETIREMENT.
19 A firefighter is eligible to retire and receive a disability
20 retirement annuity if:

21 (1) application for retirement is made by the member
22 or the member's legal representative ~~[or if the board of trustees~~
23 ~~determines that, although no application has been filed, retirement~~
24 ~~is for the good of the fire department]~~;

25 (2) the medical board certifies that the member is
26 unable to perform the duties of the member's occupation as a
27 firefighter and sends the member's application to the board of

1 trustees; and

2 (3) the board of trustees approves the disability
3 retirement.

4 SECTION 21. Section 6.03, Chapter 183 (S.B. 598), Acts of
5 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
6 Vernon's Texas Civil Statutes), is amended to read as follows:

7 Sec. 6.03. AMOUNT OF DISABILITY BENEFIT. Subject to
8 adjustment under Section 6.05 or Section 9.04 or 9.042, as
9 applicable, of this Act, the disability retirement benefit payable
10 to a member is the normal service retirement benefit described by
11 Section 5.04 of this Act, but not less than the member would have
12 received after 20 years of service credit.

13 SECTION 22. Section 6.04, Chapter 183 (S.B. 598), Acts of
14 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
15 Vernon's Texas Civil Statutes), is amended to read as follows:

16 Sec. 6.04. TERMINATION DURING FIRST 2-1/2 YEARS. If,
17 during the first 2-1/2 years of disability retirement, a retiree
18 recovers to the extent that the person is able to perform the duties
19 of the person's job as a firefighter, the board of trustees may
20 terminate the disability retirement benefit [~~and restore the person~~
21 ~~to active service at not less than the same rank the person held at~~
22 ~~the time of disability retirement~~].

23 SECTION 23. Section 7.01, Chapter 183 (S.B. 598), Acts of
24 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
25 Vernon's Texas Civil Statutes), is amended to read as follows:

26 Sec. 7.01. SURVIVING SPOUSE OF FIREFIGHTER. If a
27 firefighter dies before retirement, regardless of whether the

1 firefighter is a group A or group B member, the firefighter's
2 surviving spouse is entitled to receive an immediate monthly
3 benefit from the fund of 75 percent of the service retirement
4 benefit that the firefighter would have received if the firefighter
5 had retired on the date of death, but not less than 75 percent of the
6 monthly payment the decedent would have received based on 20 years
7 of service credit.

8 SECTION 24. Section 7.02, Chapter 183 (S.B. 598), Acts of
9 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
10 Vernon's Texas Civil Statutes), is amended to read as follows:

11 Sec. 7.02. SURVIVING SPOUSE OF GROUP A RETIREE. (a) On the
12 death of a retiree who is a group A member, the retiree's surviving
13 spouse is entitled to receive an immediate monthly benefit from the
14 fund of 75 percent of the retirement benefit that was being paid to
15 the retiree if the spouse [+]

16 [~~(1)~~] was married to the retiree at the time of the
17 retiree's retirement[~~, or~~

18 [~~(2) married the retiree after the retiree's~~
19 ~~retirement and was married to the retiree for at least 24~~
20 ~~consecutive months~~].

21 (b) With [~~For purposes of Subsection (a)(1) of this section,~~
22 ~~with~~] respect to an informal marriage established in this state, a
23 surviving spouse is considered married to a retiree as of the date a
24 declaration of informal marriage was recorded in accordance with
25 Subchapter E, Chapter 2, Family Code.

26 (c) This section does not apply to the surviving spouse of a
27 group B member.

SECTION 25. The heading to Section 7.03, Chapter 183 (S.B. 598), Acts of the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes), is amended to read as follows:

Sec. 7.03. SURVIVING SPOUSE OF FORMER GROUP A FIREFIGHTER.

SECTION 26. Section 7.03, Chapter 183 (S.B. 598), Acts of the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes), is amended by amending Subsection (a) and adding Subsection (e) to read as follows:

(a) An immediate monthly benefit is payable to the surviving spouse of a former firefighter who:

(1) was a group A member;

(2) before termination of employment with the fire department had accumulated at least 10 years of service credit in the fund and had made required contributions to the fund for a period of at least 10 years; and

(3) [~~(2)~~] did not withdraw the member's contributions from the fund at the time of or after the termination of employment.

(e) This section does not apply to the surviving spouse of a group B member.

SECTION 27. Section 7.05, Chapter 183 (S.B. 598), Acts of the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes), is amended by amending Subsections (a) and (b) and adding Subsection (d) to read as follows:

(a) On the death of a member who at the time of the member's death was a firefighter, regardless of whether the member is a group A or group B member, or a retired group A member, if there is no

surviving spouse, a benefit is payable to the decedent's surviving dependent children, if any. The total monthly benefit payable under this subsection is 75 percent of the monthly payment that the decedent would have received under the service retirement benefit described by Section 5.04 of this Act, but not less than 75 percent of the monthly payment the decedent would have received based on 20 years of service credit. If there is more than one dependent child of the decedent, each dependent child is entitled to receive an equal share of the total monthly payment under this subsection.

(b) On the death of a member who was a firefighter or a retired group A member ~~[under this Act]~~, if there is a surviving spouse, a benefit is payable to each of the decedent's surviving dependent children, if any. The monthly amount of the benefit payable to each child is 15 percent of the monthly payment that the decedent would have received under the service retirement benefit described by Section 5.04 of this Act, but not less than 15 percent of the monthly payment the decedent would have received based on 20 years of service credit. If the decedent left more than five surviving dependent children, the monthly benefit payable to each dependent child shall be reduced so that the total monthly benefit payable under this subsection does not exceed the total monthly benefit that would have been payable if the decedent had left no surviving spouse.

(d) This section does not apply to the surviving children of a group B member.

SECTION 28. Section 7.06, Chapter 183 (S.B. 598), Acts of the 64th Legislature, Regular Session, 1975 (Article 6243e.1,

Vernon's Texas Civil Statutes), is amended to read as follows:

Sec. 7.06. PAYMENTS TO DEPENDENT PARENTS. (a) If a deceased member who was a retired group A member leaves no surviving spouse, no surviving designated beneficiary, and no surviving children entitled to receive a benefit under this Act but is survived by one or more dependent parents, the dependent parent, or one of the surviving parents designated by the board of trustees, is entitled to receive a monthly benefit payment equal to the monthly amount that would have been payable to a surviving spouse of the deceased. All payments under this section cease on the death of the surviving dependent parent.

(b) This section does not apply to the surviving dependent parents of a group B member.

SECTION 29. Section 7.09, Chapter 183 (S.B. 598), Acts of the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes), is amended to read as follows:

Sec. 7.09. SURVIVING BENEFICIARY OF CERTAIN UNMARRIED GROUP A MEMBERS. (a) On the death of a ~~[retiree or of a]~~ member, including a retiree, who is a group A member and, at the time of the member's death, was eligible for retirement but had ~~[has]~~ not retired, a benefit is payable under this section if:

(1) the ~~[retiree or]~~ member designated a beneficiary to receive the benefit payable under this section on a form filed with the fund; and

(2) this Act does not otherwise provide a benefit payable to a surviving spouse or child of the member ~~[or retiree]~~.

(b) The benefit payable under this section is an immediate

1 monthly benefit from the fund of 75 percent of the amount of the:

2 (1) retirement benefit that was being paid to the
3 group A member as a retiree; or

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

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

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

17 (e) This section does not apply to a group B member.

18 SECTION 30. Section 8.01, Chapter 183 (S.B. 598), Acts of
19 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
20 Vernon's Texas Civil Statutes), is amended to read as follows:

21 Sec. 8.01. MEMBER REMAINING IN ACTIVE SERVICE. In lieu of
22 either leaving active service and beginning to receive a service
23 retirement annuity under Section 5.01 of this Act or remaining in
24 active service and continuing to accrue additional service credit
25 under Section 5.02 of this Act, a member who is eligible to receive
26 a normal service retirement benefit under Section 5.01 of this Act
27 may remain in active service, become a participant in the DROP

1 ~~[deferred retirement option plan ("DROP")]~~ in accordance with
2 ~~[Sections 8.02 and 8.03 of]~~ this Act, and defer the beginning of the
3 person's retirement annuity. Once an election to participate in
4 the DROP has been made, the election continues in effect as long as
5 the member remains in active service as a firefighter. When the
6 member leaves active service, the member may apply for a service
7 retirement annuity under Section 5.01 of this Act.

8 SECTION 31. Section 8.02, Chapter 183 (S.B. 598), Acts of
9 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
10 Vernon's Texas Civil Statutes), is amended to read as follows:

11 Sec. 8.02. ELECTION TO PARTICIPATE IN DROP. The election to
12 participate in the DROP shall be made in accordance with procedures
13 adopted by the board of trustees. The election may be made at any
14 time on or after the date the member becomes eligible for normal
15 service retirement under Section 5.01 of this Act or early
16 retirement under Section 5.05 of this Act and becomes effective on
17 the first day of the first month after the date of the election. At
18 the same time that a member makes an election to participate in the
19 DROP, the member must agree in writing to terminate service with the
20 fire department on a date not later than the seventh anniversary of
21 the effective date of the election under this section. An agreement
22 to terminate service is binding on the member and the fire
23 department, except that the member may terminate active service at
24 any time before the date selected. An election to participate in
25 the DROP has no effect on either the municipality's or the member's
26 contributions under Article 10 ~~[Section 10.01]~~ of this Act.

27 SECTION 32. Section 8.03, Chapter 183 (S.B. 598), Acts of

the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes), is amended to read as follows:

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

(b) In addition to the amounts credited under Subsection (a) of this section, the board of trustees shall cause an amount equal to all or a portion of the firefighter's [~~The member's~~] contributions under Section 10.011 [~~Section 10.01(d)~~] of this Act made after the effective date of the election to participate in the DROP to [~~shall also~~] be credited to the member's DROP account as follows:

(1) if the member is a group A member, 100 percent of the contributions; or

(2) if the member is a group B member, 50 percent of the contributions.

(c) Amounts held in a member's DROP account during the DROP period shall be credited with interest on December 31 [~~at the end~~] of each calendar year [~~month with interest~~] at a rate equal to:

(1) [~~one-twelfth of~~] five percent for a group A

1 member; or

2 (2) four percent for a group B member ~~[until the~~
3 ~~member's retirement]~~.

4 SECTION 33. Article 8, Chapter 183 (S.B. 598), Acts of the
5 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's
6 Texas Civil Statutes), is amended by adding Section 8.031 to read as
7 follows:

8 Sec. 8.031. INTEREST CREDITED AFTER DROP PERIOD. Amounts
9 held in a member's DROP account after the DROP period shall be
10 credited with interest:

11 (1) if the member is a group A member, for each period:

12 (A) before January 1, 2026, at the end of each
13 calendar month at a rate equal to one-twelfth of five percent; or

14 (B) on or after January 1, 2026, on December 31 of
15 each calendar year at a rate equal to five percent; or

16 (2) if the member is a group B member, on December 31
17 of each calendar year at a rate equal to:

18 (A) four percent, if the fund's annual investment
19 return for the preceding calendar year is greater than zero
20 percent; or

21 (B) two percent, if the fund's annual investment
22 return for the preceding calendar year is equal to or less than zero
23 percent.

24 SECTION 34. Section 8.04, Chapter 183 (S.B. 598), Acts of
25 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
26 Vernon's Texas Civil Statutes), is amended to read as follows:

27 Sec. 8.04. ADJUSTMENTS TO ~~[AMOUNT OF]~~ CREDITS TO MEMBER'S

DROP ACCOUNT. (a) The amount credited ~~[monthly]~~ to the member's DROP account:

(1) shall 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 but before the effective date of the member's retirement;~~

~~[(2) shall be increased]~~ by any ~~[annual]~~ cost-of-living adjustments under Section 9.04 of this Act that occur during the group A member's DROP period, including adjustments granted before January 1, 2026, ~~[between the effective date of the member's election to participate in the DROP and the effective date of the member's retirement]~~ but only as to amounts credited to the member's DROP account after a cost-of-living adjustment; and

(2) ~~[(3)]~~ is subject to the limitations prescribed by Section 9.03 of this Act.

(b) Subsection (a)(1) of this section does not apply to a group B member.

SECTION 35. Section 8.05(d), Chapter 183 (S.B. 598), Acts of the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes), is amended to read as follows:

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

(1) impair the distribution rights under that subsection; or

(2) cause distributions to occur later than required

1 under Section 401(a)(9), Internal Revenue Code [~~of 1986~~].

2 SECTION 36. Section 8.06, Chapter 183 (S.B. 598), Acts of
3 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
4 Vernon's Texas Civil Statutes), is amended to read as follows:

5 Sec. 8.06. ESTABLISHMENT OF DROP ACCOUNT AT RETIREMENT FOR
6 GROUP A MEMBERS. (a) In lieu of electing to participate in the DROP
7 before actual retirement, a group A member who is eligible for
8 normal service retirement or early retirement and who terminates or
9 has terminated active service as a firefighter may establish a DROP
10 account under this section.

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

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

17 (1) the board of trustees shall cause to be credited to
18 a DROP account maintained within the fund for the benefit of that
19 person an amount equal to the credits that the member's DROP account
20 would have received, including interest in accordance with Section
21 8.03 of this Act, if the member had established the DROP account
22 after becoming eligible for service retirement, but not more than
23 seven years before the actual [~~effective~~] date of the member's
24 [~~person's~~] retirement from the fire department;

25 (2) the date used in computations under Subdivision
26 (1) of this subsection [~~section~~] as if the member had established
27 the DROP account on that date is the effective date of the member's

1 election to participate in the DROP;

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

5 (4) the member's DROP account shall be credited with
6 interest as provided by:

7 (A) Section 8.03 [~~8.05~~] of this Act during the
8 DROP period; or

9 (B) Section 8.031 of this Act after the DROP
10 period.

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

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

24 (2) the amount of the benefit payable to the surviving
25 spouse under Section 7.03 of this Act is 75 percent of the benefit
26 the member would have been eligible to receive if the member had
27 established the DROP account on becoming eligible for service

1 retirement, but not more than seven years before the date of the
2 member's death.

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

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

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

1 (f) A group B member is not eligible to establish a DROP
2 account under this section.

3 SECTION 37. Section 8.08, Chapter 183 (S.B. 598), 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. 8.08. SUBSEQUENT DISABILITY OF DROP PARTICIPANT. A
7 member who participates in the DROP becomes ineligible for any
8 disability benefits described by Article 6 of this Act. Instead,
9 if the board of trustees determines that the member would have been
10 eligible for disability retirement, the board of trustees shall
11 grant a normal service retirement annuity as described by Section
12 5.04 of this Act and shall pay the member both:

13 (1) the service retirement annuity as calculated under
14 Section 8.03(a) of this Act; and

15 (2) a distribution of the DROP account that has
16 accumulated as of the date of termination of employment in
17 accordance with [as described by] Section 8.05 of this Act.

18 SECTION 38. Section 8.09, Chapter 183 (S.B. 598), Acts of
19 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
20 Vernon's Texas Civil Statutes), is amended to read as follows:

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

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

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

4 (2) ~~[(3)]~~ shall be increased by any ~~[annual]~~
5 cost-of-living adjustments under Section 9.04 of this Act that
6 occur during the group A member's DROP period, including
7 adjustments granted before January 1, 2026 ~~[between the effective~~
8 ~~date of the member's election to participate in the DROP and the~~
9 ~~effective date of the member's retirement]~~;

10 (3) ~~[(4)]~~ may not be increased for additional service
11 credit after the effective date of the member's election to
12 participate in the DROP; and

13 (4) ~~[(5)]~~ is subject to the limitations prescribed by
14 Section 9.03 of this Act.

15 (b) Subsection (a)(2) of this section does not apply to a
16 group B member.

17 SECTION 39. Section 8.10, Chapter 183 (S.B. 598), Acts of
18 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
19 Vernon's Texas Civil Statutes), is amended to read as follows:

20 Sec. 8.10. TERMINATION OR MODIFICATION OF DROP BY FUND. To
21 maintain the actuarial soundness of the fund ~~[If the board's~~
22 ~~actuary, not sooner than January 1, 2000, certifies to the board~~
23 ~~that DROP participation is resulting in a significant actuarial~~
24 ~~loss to the fund]~~, the board of trustees may:

25 (1) reduce the interest paid on DROP accounts or take
26 other action that would reduce the future credits to DROP accounts
27 on or ~~[, but only for all DROP accounts that are established]~~ after

1 the effective date of the reduction [~~action by the board of~~
2 ~~trustees~~]; or

3 (2) terminate the deferred retirement option plan for
4 all members who have not at that time established a DROP account.

5 SECTION 40. Section 9.03, Chapter 183 (S.B. 598), Acts of
6 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
7 Vernon's Texas Civil Statutes), is amended to read as follows:

8 Sec. 9.03. LIMITATION ON PAYMENT OF BENEFITS. (a) If the
9 amount of any benefit payment under this Act would exceed the
10 limitations provided by Section 415 of the Internal Revenue Code
11 [~~of 1986~~], and the regulations adopted under that section, the
12 board of trustees shall reduce the amount of the benefit as needed
13 to comply with that section.

14 (b) A person's vested accrued benefit in effect on September
15 1, 2025, [~~September 1, 1995~~] may not be reduced under this section.

16 SECTION 41. The heading to Section 9.04, Chapter 183 (S.B.
17 598), Acts of the 64th Legislature, Regular Session, 1975 (Article
18 6243e.1, Vernon's Texas Civil Statutes), is amended to read as
19 follows:

20 Sec. 9.04. COST-OF-LIVING ADJUSTMENTS FOR GROUP A MEMBERS
21 AND SURVIVORS [~~ADJUSTMENT; OTHER ADJUSTMENTS~~].

22 SECTION 42. Section 9.04, Chapter 183 (S.B. 598), Acts of
23 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
24 Vernon's Texas Civil Statutes), is amended by amending Subsections
25 (a), (a-1), and (a-2) and adding Subsections (c), (d), and (e) to
26 read as follows:

27 (a) Subject to this section and Sections [~~except as provided~~

1 ~~by Section]~~ 5.05 and 9.041 of this Act, the board of trustees may
2 approve a ~~[person receiving a retirement or survivor's benefit~~
3 ~~under this Act is entitled each calendar year to a]~~ cost-of-living
4 adjustment for:

5 (1) eligible retirees who were group A members; and

6 (2) beneficiaries entitled to survivor benefits under
7 this Act after the death of a group A member ~~[of that person's~~
8 ~~benefit calculated in accordance with this section]~~.

9 (a-1) The ~~[annual]~~ cost-of-living adjustment approved under
10 this section:

11 (1) may not exceed ~~[is based on]~~ the collective
12 adjustment amount calculated in accordance with Subsection (a-2) of
13 this section for a given calendar year;

14 (1-a) may be ~~[and]~~ allocated among persons eligible
15 for an adjustment under this section in a manner and in an amount
16 determined by the board of trustees;

17 (2) may not take effect earlier than January 1 of the
18 calendar year following the date the board of trustees approves the
19 adjustment, but may take effect at any time during the ~~[a]~~ given
20 calendar year, as determined by the board of trustees; and

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

24 (a-2) The collective adjustment amount must be ~~[described~~
25 ~~by Subsection (a-1) of this section]~~:

26 (1) except as provided by Subdivision (2) of this
27 subsection, ~~[is]~~ an amount equal to the actuarial value, as

1 determined by the board's actuary based on the interest and
 2 mortality assumptions adopted by the board of trustees for the most
 3 recent actuarial valuation of the fund, of 1.5 percent [~~the~~
 4 ~~percentage increase in the Consumer Price Index for All Urban~~
 5 ~~Consumers as determined by the United States Department of Labor~~
 6 ~~for the applicable determination period ending in a calendar month~~
 7 ~~that precedes by not more than four months the month in which the~~
 8 ~~cost-of-living adjustment is to take effect,~~] multiplied by the
 9 total amount of benefits payable in the month immediately preceding
 10 the date an adjustment is to take effect to persons who are eligible
 11 to receive an adjustment under this section; and

12 (2) if applicable, ~~+~~
 13 [~~(A) is~~] reduced by an amount that the board's
 14 actuary determines is necessary to comply with limitations
 15 prescribed by this section, except the adjustment under this
 16 section may not be reduced to an amount that is less than zero
 17 ~~[maintain the financial stability of the fund, or~~
 18 [~~(B) is increased in accordance with Subsection~~
 19 ~~(b) of this section]~~.

20 (c) The board of trustees may not approve a cost-of-living
 21 adjustment for a calendar year:

22 (1) unless the board's actuary certifies that:
 23 (A) the amortization period of the fund as a
 24 whole, after taking into account the cost-of-living adjustment,
 25 will not exceed:

26 (i) 25 years for a cost-of-living
 27 adjustment payable beginning in calendar years 2026 through 2035;

1 (ii) 20 years for a cost-of-living
2 adjustment payable beginning in calendar years 2036 through 2040;
3 or

4 (iii) 15 years for a cost-of-living
5 adjustment payable beginning in calendar year 2041 or a subsequent
6 calendar year; and

7 (B) the funded ratio for any year during the
8 remainder of the amortization period of the fund as a whole or for
9 10 years, whichever is greater, after taking into account the
10 cost-of-living adjustment, is:

11 (i) 80 percent or more for a cost-of-living
12 adjustment payable beginning in calendar years 2026 through 2040;

13 (ii) 85 percent or more for a
14 cost-of-living adjustment payable beginning in calendar years 2041
15 through 2045; or

16 (iii) 90 percent or more for a
17 cost-of-living adjustment beginning in calendar year 2046 or a
18 subsequent calendar year;

19 (2) that begins on the second January 1 following a
20 calendar year in which:

21 (A) the annual investment return as reported in
22 the fund's annual report for the calendar year is less than zero; or

23 (B) the five-year investment return as reported
24 in the fund's annual report for the calendar year is less than the
25 fund's assumed rate of return used in the actuarial valuation for
26 the calendar year; or

27 (3) in which the estimated municipal contribution

1 rate, after taking into account the cost-of-living adjustment,
2 would exceed four percent above the corridor midpoint.

3 (d) For purposes of Subsection (c)(1) of this section, the
4 board's actuary shall:

5 (1) use the actuarial valuation dated as of the second
6 December 31 preceding the calendar year in which the cost-of-living
7 adjustment is to take effect, including the unfunded actuarial
8 accrued liability, amortization period, and funded ratio as of that
9 December 31; and

10 (2) make the certifications required by that
11 subdivision not later than October 31 of the calendar year
12 immediately preceding the calendar year in which the cost-of-living
13 adjustment is to take effect.

14 (e) Notwithstanding any of the limitations prescribed by
15 this section or Section 9.041 of this Act, the governing body of the
16 municipality may approve a cost-of-living adjustment for any
17 calendar year in which a cost-of-living adjustment may not
18 otherwise be granted due to the limitations under this section in a
19 manner and in an amount determined by the governing body of the
20 municipality based on a recommendation from the board.

21 SECTION 43. Chapter 183 (S.B. 598), Acts of the 64th
22 Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's
23 Texas Civil Statutes), is amended by adding Sections 9.041 and
24 9.042 to read as follows:

25 Sec. 9.041. COST-OF-LIVING ADJUSTMENT ELIGIBILITY FOR
26 CERTAIN GROUP A MEMBERS AND SURVIVORS. (a) Except as provided by
27 Subsection (b) of this section, for each calendar year beginning on

or after January 1, 2027, a retiree who is a group A member or a beneficiary who is receiving survivor benefits under this Act after the death of a group A member is not eligible for a cost-of-living adjustment under this Act until January 1 of the calendar year immediately following the later of the year:

(1) in which the member or beneficiary, as applicable, attains 67 years of age; or

(2) that is the fifth anniversary of the member's actual date of retirement from the fire department.

(b) For each calendar year beginning on or after January 1, 2027, a retiree who is a group A member who is receiving an early retirement annuity benefit under Section 5.05 of this Act is not eligible for a cost-of-living adjustment under this Act until January 1 of the calendar year immediately following the year in which the member attains 69 years of age.

Sec. 9.042. COST-OF-LIVING ADJUSTMENT FOR GROUP B MEMBERS AND SURVIVORS. The retirement annuity of a retiree who is a group B member or the survivor benefit of a beneficiary who is receiving survivor benefits under this Act after the death of a group B member must be increased by the group B cost-of-living adjustment percentage each year on a compounding basis beginning on January 1 of the calendar year immediately following the later of the year:

(1) in which the member or beneficiary, as applicable, attains 67 years of age;

(2) that is the fifth anniversary of the member's actual date of retirement from the fire department; or

(3) if applicable, in which the member's DROP account

1 is fully distributed.

2 SECTION 44. Sections 9.10(a), (d), and (f), Chapter 183
3 (S.B. 598), Acts of the 64th Legislature, Regular Session, 1975
4 (Article 6243e.1, Vernon's Texas Civil Statutes), are amended to
5 read as follows:

6 (a) An optional retirement annuity is an annuity that is
7 certified by the board's actuary to be the actuarial equivalent of
8 the annuity provided under Section 5.04 of this Act and the
9 survivor's benefits provided under Article 7 of this Act, as
10 applicable. [~~An optional retirement annuity is payable throughout~~
11 ~~the life of the retiree.~~]

12 (d) The board of trustees by rule may provide for different
13 forms of optional retirement annuities, including an optional
14 retirement annuity that is payable:

15 (1) [~~an optional retirement annuity is payable~~] after
16 a member's death throughout the life of a person designated by the
17 member, including an annuity that provides that, [~~or~~

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

22 (2) throughout the life of a retiree who is a group A
23 member with no survivor benefit;

24 (3) with a partial lump-sum option for a member who
25 does not elect to participate in the DROP; or

26 (4) as an optional joint and survivor benefit for a
27 group B member.

(f) Except as provided by Subsections (g), (h), and (i) of this section, if a group A member elects an optional retirement annuity that, on the group A member's death, pays to the member's spouse an amount that is less than 75 percent of the annuity that is payable during the joint lives of the group A member and the member's spouse, the spouse must consent to the election. The spouse's consent must be in writing and witnessed by an officer or employee of the fund or acknowledged by a notary public.

SECTION 45. Article 9, Chapter 183 (S.B. 598), Acts of the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes), is amended by adding Section 9.11 to read as follows:

Sec. 9.11. BENEFITS PAYABLE TO ALTERNATE PAYEES UNDER QUALIFIED DOMESTIC RELATIONS ORDERS. (a) Benefits payable under the fund, including service retirement benefits, disability retirement benefits, survivor benefits, or DROP account benefits, or a withdrawal of contributions, may be paid to a former spouse or other alternate payee under the terms of a domestic relations order, but only if the fund determines that the order constitutes a qualified domestic relations order under Chapter 804, Government Code.

(b) An alternate payee will receive a full distribution of any portion of a member's DROP account awarded to the alternate payee pursuant to a qualified domestic relations order as soon as administratively practicable after the alternate payee is first entitled to distribution of such amounts as determined by the fund.

(c) On the death of an alternate payee under a qualified

1 domestic relations order, the interest of the alternate payee in
2 the benefits under this Act ends and remaining benefits shall be
3 paid as if the qualified domestic relations order had not existed.

4 SECTION 46. The heading to Section 10.01, Chapter 183 (S.B.
5 598), Acts of the 64th Legislature, Regular Session, 1975 (Article
6 6243e.1, Vernon's Texas Civil Statutes), is amended to read as
7 follows:

8 Sec. 10.01. MUNICIPAL [~~AND MEMBER~~] CONTRIBUTIONS.

9 SECTION 47. Section 10.01, Chapter 183 (S.B. 598), Acts of
10 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
11 Vernon's Texas Civil Statutes), is amended by amending Subsections
12 (a), (b), (c), and (d) and adding Subsections (b-1) and (b-2) to
13 read as follows:

14 (a) Each municipality in which a fire department to which
15 this Act applies is located shall appropriate and contribute to the
16 fund each pay period in accordance with the following:

17 (1) for all pay periods beginning after September 30,
18 2012, and before January 1, 2026, an amount equal to 22.05 percent
19 [a percentage] of the compensation of all members during the pay
20 period; and

21 (2) for all pay periods beginning on or after January
22 1, 2026, the amount determined in accordance with Subsections (b)
23 and (c) of this section and Sections 10.05, 10.06, 10.07, and 10.08
24 of this Act, as applicable [that month as follows:

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

1 ~~[(2) 20.05 percent, beginning on the first pay date~~
2 ~~following September 30, 2011, through the pay date immediately~~
3 ~~preceding September 30, 2012,~~

4 ~~[(3) 21.05 percent, for 24 pay dates of the~~
5 ~~municipality beginning on the first pay date following September~~
6 ~~30, 2012, and~~

7 ~~[(4) 22.05 percent, for all pay dates of the~~
8 ~~municipality that follow the 24 pay dates referenced in Subdivision~~
9 ~~(3) of this subsection].~~

10 (b) For each pay period that begins on or after January 1,
11 2026, and before January 1, 2027, the municipality shall contribute
12 an amount equal to the sum of:

13 (1) the municipal contribution rate, as determined in
14 the initial risk sharing valuation study conducted under Section
15 10.05 of this Act, multiplied by the pensionable payroll for the
16 applicable pay period; and

17 (2) 1/26 of the municipal legacy contribution amount
18 for the 2026 calendar year, as determined and adjusted in the
19 initial risk sharing valuation study conducted under Section 10.05
20 of this Act ~~[Each firefighter shall pay into the fund each month a~~
21 ~~percentage of the firefighter's compensation for that month as~~
22 ~~follows:~~

23 ~~[(1) 15.70 percent, for the pay dates of the~~
24 ~~municipality following September 30, 2010, through the pay date~~
25 ~~immediately preceding September 30, 2011,~~

26 ~~[(2) 16.20 percent, beginning on the first pay date of~~
27 ~~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-1) For each pay period that begins on or after January 1, 2027, the municipality shall contribute an amount equal to the sum of:

(1) the municipal contribution rate for the applicable calendar year, as determined in a subsequent risk sharing valuation study conducted under Section 10.06 of this Act and adjusted under Section 10.07 or 10.08 of this Act, as applicable, multiplied by the pensionable payroll for the applicable pay period; and

(2) 1/26 of the municipal legacy contribution amount for the applicable calendar year, as determined and adjusted in the initial risk sharing valuation study conducted under Section 10.05

of this Act.

(b-2) If the municipality elects to change the municipality's payroll period to a period other than a biweekly payroll period or for any calendar year that has more than 26 pay periods, the fractional amounts of the municipal legacy contribution stated in Subsections (b)(2) and (b-1)(2) of this section may be appropriately adjusted such that the municipality's municipal legacy contribution for such calendar year equals the contribution required under Subsection (b)(2) or (b-1)(2) of this section, 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 Section 10.011 of this Act ~~[this section]~~. In that event:

(1) the municipality shall appropriate and contribute to the fund each pay period ~~[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 pay period ~~[month]~~ as if the firefighter had made the entire contribution required of that firefighter under Section 10.011 of this Act ~~[10.01(b)]~~.

(d) The governing body of each municipality may authorize the municipality 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~~

1 ~~contribution above 13.70 percent to any percentage recommended by a~~
2 ~~majority vote of the board of trustees.]~~

3 SECTION 48. Article 10, Chapter 183 (S.B. 598), Acts of the
4 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's
5 Texas Civil Statutes), is amended by adding Section 10.011 to read
6 as follows:

7 Sec. 10.011. FIREFIGHTER CONTRIBUTIONS. (a) Subject to
8 Subsection (b) of this section or Section 10.09 of this Act, each
9 firefighter who is a member of the fund shall pay into the fund an
10 amount equal to 18.70 percent of the firefighter's compensation for
11 the first pay period of the municipality beginning on or after
12 September 30, 2016, and all subsequent pay periods of the
13 municipality thereafter.

14 (b) The firefighters described by Subsection (a) of this
15 section, by a majority vote, may voluntarily increase the
16 firefighter contribution to a rate that is:

17 (1) higher than the rate prescribed by Subsection (a)
18 of this section; and

19 (2) recommended by a majority vote of the board of
20 trustees.

21 SECTION 49. Section 10.02, Chapter 183 (S.B. 598), Acts of
22 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
23 Vernon's Texas Civil Statutes), is amended to read as follows:

24 Sec. 10.02. PICKUP OF FIREFIGHTER CONTRIBUTIONS. A
25 municipality to which this Act applies shall pick up the
26 firefighter contributions to the fund that are required or
27 authorized pursuant to Section 10.011 [~~10.01~~] of this Act,

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

15 SECTION 50. Section 10.03, Chapter 183 (S.B. 598), Acts of
 16 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
 17 Vernon's Texas Civil Statutes), is amended to read as follows:

18 Sec. 10.03. CONTRIBUTIONS AND INCOME AS ASSETS OF
 19 FUND. All contributions paid to the fund under ~~[Sections 10.01 and~~
 20 ~~10.02 of]~~ this article ~~[Act]~~ become a part of the assets of the
 21 fund. All interest and dividends on investments of the assets of
 22 the fund shall be deposited into the fund and are part of it.

23 SECTION 51. Section 10.04, Chapter 183 (S.B. 598), Acts of
 24 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
 25 Vernon's Texas Civil Statutes), is amended to read as follows:

26 Sec. 10.04. INTEREST ON INDIVIDUAL ACCOUNTS. (a) This
 27 subsection applies only to a group A member. The fund shall credit

1 interest on December 31 of each year to the account of each
 2 firefighter, and of each former firefighter, who has not retired in
 3 an amount equal to five percent of the accumulated contributions,
 4 including previously credited interest, on deposit on January 1 of
 5 that year. The fund may not pay interest on a firefighter's or
 6 former firefighter's contributions [~~for part of a year or~~] for any
 7 period that is more than five calendar years after the date of
 8 termination of employment. This subsection expires December 31,
 9 2025.

10 (a-1) Beginning January 1, 2026, a group A member is not
 11 entitled to interest on amounts credited to the member's individual
 12 account.

13 (b) A group B member is not entitled to interest on amounts
 14 credited to the member's individual account for any period.

15 SECTION 52. Article 10, Chapter 183 (S.B. 598), Acts of the
 16 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's
 17 Texas Civil Statutes), is amended by adding Sections 10.05, 10.06,
 18 10.07, 10.08, and 10.09 to read as follows:

19 Sec. 10.05. INITIAL RISK SHARING VALUATION STUDY. (a) The
 20 fund shall cause the board's actuary to prepare an initial risk
 21 sharing valuation study that is dated as of December 31, 2024, in
 22 accordance with this section.

23 (b) The initial risk sharing valuation study must:

24 (1) except as otherwise provided by this section, be
 25 prepared in accordance with the requirements of Section 10.06 of
 26 this Act;

27 (2) be based on the actuarial assumptions that were

1 used by the board's actuary in the valuation completed for the year
2 ending December 31, 2023, provided that for purposes of determining
3 the municipal legacy contribution amounts, corridor midpoint, and
4 municipal contribution rate for the calendar year beginning January
5 1, 2026:

6 (A) the actuarial value of assets must be equal
7 to the market value of assets of the fund as of December 31, 2024;
8 and

9 (B) the board's actuary shall use a
10 cost-of-living adjustment assumption of 0.25 percent for purposes
11 of valuing the cost-of-living adjustment for group A members under
12 Section 9.04 of this Act;

13 (3) project the corridor midpoint for the next 30
14 calendar years beginning with the calendar year that begins on
15 January 1, 2026; and

16 (4) include a schedule of municipal legacy
17 contribution amounts for 30 calendar years beginning with the
18 calendar year that begins on January 1, 2026.

19 (c) For purposes of Subsection (b)(4) of this section, the
20 schedule of municipal legacy contribution amounts must be
21 determined in such a manner that the total annual municipal legacy
22 contribution amount for the first three calendar years will result
23 in a phase-in of the anticipated increase in the municipal
24 contribution rate from the calendar year that begins on January 1,
25 2025, to the rate equal to the sum of the estimated municipal
26 contribution rate for the calendar year that begins on January 1,
27 2026, and the rate of pensionable payroll equal to the municipal

1 legacy contribution amount for January 1, 2026, determined as if
2 there was no phase-in of the increase to the municipal legacy
3 contribution amount. The phase-in must reflect approximately
4 one-third of the increase each year over the three-year phase-in
5 period.

6 (d) The municipality's contribution under Section 10.01 of
7 this Act for:

8 (1) the calendar years that begin on January 1, 2026,
9 January 1, 2027, and January 1, 2028, must be adjusted to reflect
10 the impact of the phase-in prescribed by this section; and

11 (2) each calendar year that begins on January 1, 2029,
12 through January 1, 2055, must reflect a municipal legacy
13 contribution amount that is 2.5 percent greater than the municipal
14 legacy contribution amount for the preceding calendar year.

15 (e) The estimated municipal contribution rate for the
16 calendar year that begins on January 1, 2026, must be based on the
17 projected pensionable payroll, as determined under the initial risk
18 sharing valuation study required by this section, assuming a
19 payroll growth rate of 2.5 percent.

20 Sec. 10.06. SUBSEQUENT RISK SHARING VALUATION STUDIES. (a)
21 The fund shall cause the board's actuary to prepare a risk sharing
22 valuation study that is dated as of December 31 of each calendar
23 year beginning with the 2025 calendar year in accordance with this
24 section and actuarial standards of practice.

25 (b) Each risk sharing valuation study must:

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

1 (2) calculate the unfunded actuarial accrued
2 liability of the fund as of the last day of the applicable calendar
3 year, including the liability layer, if any, associated with the
4 most recently completed calendar year;

5 (3) calculate the estimated municipal contribution
6 rate for the following calendar year;

7 (4) determine the municipal contribution rate and the
8 firefighter contribution rate for the following calendar year,
9 taking into account any adjustments required under Section 10.07,
10 10.08, or 10.09 of this Act, as applicable; and

11 (5) except as provided by Subsection (e) of this
12 section, be based on the assumptions and methods adopted by the
13 board in accordance with Section 2.14 of this Act, if applicable,
14 and that are consistent with actuarial standards of practice and
15 the following principles:

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

20 (B) each liability layer is assigned an
21 amortization period;

22 (C) each liability loss layer will be amortized
23 over a period of 20 years from the first day of the calendar year
24 beginning 12 months after the date of the risk sharing valuation
25 study in which the liability loss layer is first recognized, except
26 that the legacy liability must be amortized over a 30-year period
27 beginning January 1, 2026;

1 (D) each liability gain layer will be amortized
2 over:

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

6 (ii) if there is no liability loss layer, a
7 period of 20 years from the first day of the calendar year beginning
8 12 months after the date of the risk sharing valuation study in
9 which the liability gain layer is first recognized;

10 (E) liability layers will be funded according to
11 the level percent of payroll method;

12 (F) payroll for purposes of determining the
13 corridor midpoint, municipal contribution rate, and municipal
14 legacy contribution amount must be projected using the annual
15 payroll growth rate assumption adopted by the board of trustees;
16 and

17 (G) the municipal contribution rate will be
18 calculated each calendar year without inclusion of the legacy
19 liability.

20 (c) The municipality may contribute an amount in addition to
21 the scheduled municipal legacy contribution amounts to reduce the
22 number or amount of scheduled future municipal legacy contribution
23 payments. If the municipality contributes an additional amount
24 under this subsection, the board's actuary shall create a new
25 schedule of municipal legacy contribution amounts that reflects
26 payment of the additional contribution.

27 (d) The municipality and the board of trustees may agree on

a written transition plan for resetting the corridor midpoint, firefighter contribution rate, and municipal contribution rate:

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

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

(e) Subject to Section 2.14 of this Act, the board may by rule adopt actuarial principles other than those required under Subsection (b)(5) of this section, provided the actuarial principles:

(1) are consistent with actuarial standards of practice;

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

(3) do not operate to change the municipal legacy contribution amount.

Sec. 10.07. ADJUSTMENT TO MUNICIPAL CONTRIBUTION RATE IF ESTIMATED MUNICIPAL CONTRIBUTION RATE LOWER THAN CORRIDOR MIDPOINT. (a) Subject to Subsection (b) of this section, for the calendar year beginning January 1, 2026, and for each subsequent calendar year, if the estimated municipal contribution rate is lower than the corridor midpoint, the municipal contribution rate for the applicable year is:

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

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

(b) The municipal contribution rate may not be lower than

the minimum municipal 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 municipal legacy contribution amount may no longer be included in the municipal contribution under Section 10.01 of this Act.

Sec. 10.08. ADJUSTMENT TO MUNICIPAL CONTRIBUTION RATE IF ESTIMATED MUNICIPAL CONTRIBUTION RATE EQUAL TO OR GREATER THAN CORRIDOR MIDPOINT. For the calendar year beginning January 1, 2026, and for each subsequent calendar year, if the estimated municipal contribution rate is equal to or greater than the corridor midpoint and:

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

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

Sec. 10.09. INCREASED FIREFIGHTER CONTRIBUTION RATE IF ESTIMATED MUNICIPAL CONTRIBUTION RATE GREATER THAN MAXIMUM MUNICIPAL CONTRIBUTION RATE. (a) This section governs the determination of the firefighter contribution rate applicable in a calendar year under Section 10.011 of this Act if the estimated municipal contribution rate determined under Section 10.06(b)(3)

1 of this Act is greater than the maximum municipal contribution
2 rate.

3 (b) Except as provided by Subsection (c) of this section, if
4 the estimated municipal contribution rate is greater than the
5 corridor maximum, the firefighter contribution rate will increase
6 by an amount equal to the difference between the following:

7 (1) the estimated municipal contribution rate; and

8 (2) the maximum municipal contribution rate.

9 (c) The firefighter contribution rate may not be increased
10 by more than two percentage points under this section.

11 (d) If the estimated municipal contribution rate is more
12 than two percentage points greater than the maximum municipal
13 contribution rate, the municipality and the board of trustees shall
14 enter into discussions to determine additional funding solutions.

15 SECTION 53. Section 11.03(b), Chapter 183 (S.B. 598), Acts
16 of the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
17 Vernon's Texas Civil Statutes), is amended to read as follows:

18 (b) The board of trustees may not adopt an amendment to the
19 investment policy adopted under this section unless the proposed
20 amendment is approved by the affirmative vote ~~[of a majority of the~~
21 ~~members]~~ of the board ~~[at not fewer than three regular meetings of~~
22 ~~the board]~~.

23 SECTION 54. Section 12.01, Chapter 183 (S.B. 598), Acts of
24 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
25 Vernon's Texas Civil Statutes), is amended to read as follows:

26 Sec. 12.01. EXECUTIVE DIRECTOR ~~[ADMINISTRATOR]~~ AND
27 EMPLOYEES. The board of trustees shall appoint an executive

1 director [~~administrator~~] who shall administer the fund under the
2 supervision and direction of the board of trustees. The board of
3 trustees shall employ such other employees as are required for the
4 efficient administration of the fund.

5 SECTION 55. Sections 12.03(a) and (e), Chapter 183 (S.B.
6 598), Acts of the 64th Legislature, Regular Session, 1975 (Article
7 6243e.1, Vernon's Texas Civil Statutes), are amended to read as
8 follows:

9 (a) The board of trustees shall engage [~~employ~~] an actuary
10 who may be the consultant and technical advisor to the board of
11 trustees regarding the operation of the fund and may perform such
12 duties as may be required by the board.

13 (e) An actuary engaged [~~employed~~] under this section must be
14 a fellow of the Society of Actuaries, a member of the American
15 Academy of Actuaries, or an enrolled actuary under the federal
16 Employee Retirement Income Security Act of 1974 (29 U.S.C. Section
17 1001 et seq.).

18 SECTION 56. Section 12.07, Chapter 183 (S.B. 598), Acts of
19 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
20 Vernon's Texas Civil Statutes), is amended to read as follows:

21 Sec. 12.07. AUDITS; ENGAGEMENT [~~EMPLOYMENT~~] OF CERTIFIED
22 PUBLIC ACCOUNTANTS. The board of trustees shall engage [~~employ~~] a
23 certified public accountant or firm of certified public accountants
24 to perform an audit of the fund at least annually. The municipality
25 may pay the entire cost of an audit. If not paid by the
26 municipality, the cost may be paid from the assets of the fund.

27 SECTION 57. The following provisions of Chapter 183 (S.B.

598), Acts of the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes), are repealed:

(1) Sections 5.04(b-1) and (c);

(2) Section 7.07;

(3) Section 8.05(b); and

(4) Sections 9.04(a-4), (b), and (b-1).

SECTION 58. (a) In this section, "board of trustees" has the meaning assigned by Section 1.02(3), Chapter 183 (S.B. 598), Acts of the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes).

(b) Section 2.02, Chapter 183 (S.B. 598), Acts of the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes), as amended by this Act, does not affect the term of a member of the board of trustees elected under that section, as that section existed immediately before the effective date of this Act, and serving on the board of trustees on the effective date of this Act.

(c) When the term of the member of the board of trustees elected under Section 2.02(3), Chapter 183 (S.B. 598), Acts of the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes), as that section existed immediately before the effective date of this Act, who has a term that expires in December 2025, expires:

(1) the resulting vacancy on the board of trustees and the new position on the board of trustees created by the amendment of Section 2.02(3), Chapter 183 (S.B. 598), Acts of the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's

1 Texas Civil Statutes), shall be filled by election of the members of
2 the fund in accordance with Section 2.03, Chapter 183 (S.B. 598),
3 Acts of the 64th Legislature, Regular Session, 1975 (Article
4 6243e.1, Vernon's Texas Civil Statutes), as amended by this Act, by
5 an election held in November 2025;

6 (2) the candidate who receives the highest number of
7 votes in the election shall serve a four-year term, ending in
8 December 2029; and

9 (3) notwithstanding Section 2.03(e), Chapter 183
10 (S.B. 598), Acts of the 64th Legislature, Regular Session, 1975
11 (Article 6243e.1, Vernon's Texas Civil Statutes), as amended by
12 this Act, the candidate who receives the second highest number of
13 votes in the election shall serve an initial three-year term,
14 ending in December 2028.

15 (d) As soon as practicable after September 1, 2025, the
16 governing body of a municipality subject to Chapter 183 (S.B. 598),
17 Acts of the 64th Legislature, Regular Session, 1975 (Article
18 6243e.1, Vernon's Texas Civil Statutes), shall appoint a member to
19 the board of trustees under Section 2.02(a)(4), Chapter 183 (S.B.
20 598), Acts of the 64th Legislature, Regular Session, 1975 (Article
21 6243e.1, Vernon's Texas Civil Statutes), as added by this Act, to
22 serve a term beginning January 1, 2026.

23 SECTION 59. This Act takes effect September 1, 2025.

ADOPTED

MAY 19 2025

Latey Law
Secretary of the Senate

By: 

Substitute the following for H.B. No. 2802:

By: C. Schwab

H.B. No. 2802

C.S. H.B. No. 2802

A BILL TO BE ENTITLED

AN ACT

relating to the administration of, contributions to, and benefits under retirement systems for firefighters in certain municipalities.

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

SECTION 1. The heading to Chapter 183 (S.B. 598), Acts of the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes), is amended to read as follows:

Art. 6243e.1. FIREFIGHTERS RELIEF AND RETIREMENT FUND IN CITIES OF 950,000 [~~450,000~~] TO 1,050,000 [~~500,000~~].

SECTION 2. Section 1.02, Chapter 183 (S.B. 598), Acts of the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes), is amended by amending Subdivisions (1), (2), (3), and (4) and adding Subdivisions (1-a), (2-a), (2-b), (2-c), (2-d), (2-e), (5-a), (5-b), (5-c), (6-a), (6-b), (6-c), (6-d), (6-e), (8-a), (9-a), (9-b), (9-c), (9-d), (10-a), (10-b), (10-c), (10-d), (10-e), (10-f), (11-a), (11-b), (11-c), (11-d), (11-e), (11-f), (11-g), (13-a), and (13-b) to read as follows:

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

(1-a) "Actuarial accrued liability" means the portion of the actuarial present value of projected benefits of the fund

1 attributed to past periods of member service based on the cost
2 method used in the risk sharing valuation study prepared under
3 Section 10.05 or 10.06 of this Act, as applicable.

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

8 (2-a) "Actuarial value of assets" means the value of
9 the fund's assets as calculated using the asset smoothing method
10 used in the risk sharing valuation study prepared under Section
11 10.05 or 10.06 of this Act, as applicable.

12 (2-b) "Adjustment factor" means the assumed rate of
13 return for the fund adopted by the board less two percentage points.

14 (2-c) "Amortization period" means:

15 (A) the period necessary to fully pay a liability
16 layer; or

17 (B) if referring to the amortization period of
18 the fund as a whole, the number of years incorporated in a weighted
19 average amortization factor for the sum of the legacy liability and
20 all liability layers as determined in each annual actuarial
21 valuation of assets and liabilities of the fund.

22 (2-d) "Amortization rate" means, for a given calendar
23 year, the percentage rate determined by:

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

26 (B) subtracting the municipal legacy
27 contribution amount for the same calendar year, as determined in

1 the risk sharing valuation study prepared under Section 10.05 or
2 10.06 of this Act, as applicable, from the sum under Paragraph (A)
3 of this subdivision; and

4 (C) dividing the amount determined under
5 Paragraph (B) of this subdivision by the projected pensionable
6 payroll for the same calendar year.

7 (2-e) "Annual investment return" means the annual
8 money-weighted rate of return, net of investment expenses, reported
9 by the fund in the annual report for a given calendar year.

10 (3) "Board of trustees" or "board" means the board of
11 ~~[firefighters relief and retirement fund]~~ trustees of the fund
12 under ~~[existing pursuant to]~~ this Act, unless the context requires
13 otherwise.

14 (4) "Board's actuary" means the actuary engaged by the
15 fund ~~[employed]~~ under Section 12.03 of this Act.

16 (5-a) "Corridor" means the range of municipal
17 contribution rates that are:

18 (A) equal to or greater than the minimum
19 municipal contribution rate; and

20 (B) equal to or less than the maximum municipal
21 contribution rate.

22 (5-b) "Corridor margin" means five percentage points.

23 (5-c) "Corridor midpoint" means the projected
24 municipal contribution rate specified for each calendar year for 30
25 years as provided by the initial risk sharing valuation study under
26 Section 10.05 of this Act, rounded to the nearest hundredths
27 decimal place.

1 (6-a) "DROP" means the deferred retirement option plan
2 under Article 8 of this Act.

3 (6-b) "DROP participant" means a member who is
4 participating in the DROP.

5 (6-c) "DROP period" means the period between the
6 effective date of a member's election to participate in DROP and the
7 actual date of the member's retirement from the fire department,
8 subject to the seven-year limitation prescribed by Section 8.02 of
9 this Act.

10 (6-d) "Employer normal cost rate" means, for a given
11 calendar year, the normal cost rate minus the applicable
12 firefighter contribution rate determined under Section 10.011 of
13 this Act.

14 (6-e) "Estimated municipal contribution rate" means,
15 for a given calendar year, a municipal contribution rate equal to
16 the sum of the municipal normal cost rate and the amortization rate
17 of the liability layers, as applicable, excluding the legacy
18 liability layer, and before adjustments to the rate under Section
19 10.07 or 10.08 of this Act, as applicable.

20 (8-a) "Five-year investment return" means the average
21 money-weighted rate of return of the fund, based on a rolling
22 five-year basis and net of investment expenses, for the applicable
23 five-year period.

24 (9-a) "Funded ratio" means the ratio of the actuarial
25 value of assets divided by the actuarial accrued liability.

26 (9-b) "Group A member" means a member included in
27 group A membership under Section 3.011 of this Act.

1 (9-c) "Group B cost-of-living adjustment percentage"
2 means a percentage that:

3 (A) except as provided by Paragraph (B) of this
4 subdivision, is equal to the fund's five-year investment return
5 minus the adjustment factor, and multiplied by 50 percent; and

6 (B) may not be less than zero or more than two
7 percent.

8 (9-d) "Group B member" means a member included in
9 group B membership under Section 3.011 of this Act.

10 (10-a) "Legacy liability" means the unfunded
11 actuarial accrued liability determined as of December 31, 2024, and
12 for each subsequent calendar year, adjusted as follows:

13 (A) reduced by the municipal legacy contribution
14 amount for the calendar year allocated to the amortization of the
15 legacy liability; and

16 (B) adjusted by the assumed rate of return
17 adopted by the board of trustees for the calendar year ending
18 December 31, 2024.

19 (10-b) "Level percent of payroll method" means the
20 amortization method that defines the amount of the liability layer
21 recognized each calendar year as a level percent of pensionable
22 payroll until the amount of the liability layer remaining is
23 reduced to zero.

24 (10-c) "Liability gain layer" means a liability layer
25 that decreases the unfunded actuarial accrued liability.

26 (10-d) "Liability layer" means:

27 (A) the legacy liability established in the

1 initial risk sharing valuation study under Section 10.05 of this
2 Act; or

3 (B) for calendar years after December 31, 2024,
4 the amount that the fund's unfunded actuarial accrued liability
5 increases or decreases, as applicable, due to the unanticipated
6 change for the calendar year as determined in each subsequent risk
7 sharing valuation study prepared under Section 10.06 of this Act.

8 (10-e) "Liability loss layer" means a liability layer
9 that increases the unfunded actuarial accrued liability. For
10 purposes of this Act, the legacy liability is a liability loss
11 layer.

12 (10-f) "Maximum municipal contribution rate" means,
13 for a given calendar year, the rate equal to the corridor midpoint
14 plus the corridor margin.

15 (11-a) "Minimum municipal contribution rate" means,
16 for a given calendar year, the rate equal to the corridor midpoint
17 minus the corridor margin.

18 (11-b) "Municipal contribution rate" means, for a
19 given calendar year, a percentage rate equal to the sum of the
20 employer normal cost rate and the amortization rate, as adjusted
21 under Section 10.07 or 10.08 of this Act, if applicable.

22 (11-c) "Municipal legacy contribution amount" means,
23 for each calendar year, a predetermined payment amount expressed in
24 dollars in accordance with a payment schedule amortizing the legacy
25 liability for the calendar year ending December 31, 2024, that is
26 included in the initial risk sharing valuation study under Section
27 10.05 of this Act.

1 (11-d) "Normal cost rate" means, for a given calendar
2 year, the salary weighted average of the individual normal cost
3 rates determined for the current active member population, plus the
4 assumed administrative expenses determined in the most recent
5 actuarial experience study.

6 (11-e) "Payoff year" means the year a liability layer
7 is fully amortized under the amortization period.

8 (11-f) "Pensionable payroll" means the compensation
9 of all members in active service for a calendar year or pay period,
10 as applicable.

11 (11-g) "Projected pensionable payroll" means the
12 estimated pensionable payroll for the calendar year beginning 12
13 months after the date of the risk sharing valuation study prepared
14 under Section 10.05 or 10.06 of this Act, as applicable, at the time
15 of calculation by:

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

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

23 (13-a) "Unanticipated change" means, with respect to
24 the unfunded actuarial accrued liability in each subsequent risk
25 sharing valuation study prepared under Section 10.06 of this Act,
26 the difference between:

27 (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 risk sharing valuation study.

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

SECTION 3. Article 1, Chapter 183 (S.B. 598), Acts of the
64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's
Texas Civil Statutes), is amended by adding Section 1.031 to read as
follows:

Sec. 1.031. OPERATING NAME. The board of trustees may by
rule adopt a name under which the fund may operate other than the
name prescribed by Section 1.03 of this Act.

SECTION 4. Article 2, Chapter 183 (S.B. 598), Acts of the
64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's
Texas Civil Statutes), is amended by adding Section 2.015 to read as
follows:

Sec. 2.015. FUND QUALIFICATION. This Act shall be
construed, and the fund shall be administered, in a manner that
maintains the qualified status of the fund under Section 401(a) of
the Internal Revenue Code.

SECTION 5. Section 2.02, Chapter 183 (S.B. 598), 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 (1) the mayor of the municipality or a member of the
2 governing body of the municipality designated by the mayor;

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

7 (3) four [~~three~~] members of the fund to be selected by
8 vote of the firefighters and retirees in the manner provided by this
9 Act; and

10 (4) one member of the public selected and appointed by
11 the governing body of the municipality in accordance with Section
12 2.025 of this Act.

13 (b) The board of trustees may by rule specify the number of
14 elected members of the board of trustees under Subsection (a) of
15 this section who must be firefighters or retirees.

16 SECTION 6. Article 2, Chapter 183 (S.B. 598), Acts of the
17 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's
18 Texas Civil Statutes), is amended by adding Section 2.025 to read as
19 follows:

20 Sec. 2.025. APPOINTED PUBLIC MEMBER OF BOARD. (a) To serve
21 on the board under Section 2.02(a)(4) of this Act, a person:

22 (1) must:

23 (A) be a qualified voter;

24 (B) be a resident and have been a resident of the
25 municipality for the five-year period preceding the date of the
26 appointment; and

27 (C) have demonstrated experience in the field of

1 finance or investments; and

2 (2) may not be:

3 (A) a current or former employee or officer of
4 the municipality;

5 (B) a current or former employee of the fund or a
6 current or former member of the board of trustees; or

7 (C) a current or former member or beneficiary of
8 the fund.

9 (b) A member of the board of trustees under Section
10 2.02(a)(4) of this Act:

11 (1) holds office for a term of four years; and

12 (2) serves during the term for which the member was
13 appointed and until the member's successor is selected and has
14 qualified, unless a vacancy results because of death, resignation,
15 or removal.

16 (c) A vacancy on the board of trustees in the position under
17 Section 2.02(a)(4) of this Act shall be filled in the same manner as
18 the original appointment.

19 SECTION 7. Section 2.03, Chapter 183 (S.B. 598), Acts of the
20 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's
21 Texas Civil Statutes), is amended by amending Subsections (c), (e),
22 and (h) and adding Subsection (c-1) to read as follows:

23 (c) Each election is by secret ~~[written]~~ ballot on a date
24 and using a method the board of trustees determines. Only persons
25 who have been nominated may be listed on the ~~[written]~~
26 ballot. Nominations:

27 (1) may be made in person, by mail, ~~[or]~~ by telephone,

1 or by any other method approved by the board of trustees; [~~to the~~
2 ~~office of the fund]~~ and

3 (2) must be received between September 1 and September
4 15.

5 (c-1) Nominations or elections may be conducted by
6 electronic means.

7 (e) The elected members of the board of trustees hold office
8 for staggered terms of four [~~three~~] years, with the term of one
9 trustee expiring each year. Elected members of the board of
10 trustees shall serve during the term for which they are elected and
11 until their successors are elected and have qualified, unless a
12 vacancy results because of death, resignation, or removal.

13 (h) The administrative expenses of an election under this
14 section may be paid from the assets of the fund. Assets of the fund
15 may not be used to pay campaign expenses incurred by or for a
16 candidate [~~member~~]. Administrative office supplies and equipment
17 belonging to the fund may not be used to assist any candidate or
18 person seeking to assist a candidate for a position on the board of
19 trustees.

20 SECTION 8. Section 2.05, Chapter 183 (S.B. 598), Acts of the
21 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's
22 Texas Civil Statutes), is amended to read as follows:

23 Sec. 2.05. OFFICERS. [~~The mayor is the presiding officer~~
24 ~~and the city treasurer is the secretary-treasurer of the board of~~
25 ~~trustees.~~] The board shall elect annually from its membership a
26 chair to serve as the presiding officer and a vice-chair to serve as
27 the [~~an~~] alternate presiding officer who shall preside in the

1 absence or disability of the chair ~~[mayor]~~.

2 SECTION 9. Section 2.07, Chapter 183 (S.B. 598), Acts of the
3 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's
4 Texas Civil Statutes), is amended to read as follows:

5 Sec. 2.07. MEETINGS; MINUTES. The board of trustees shall
6 hold regular ~~[monthly]~~ meetings not fewer than four times each
7 calendar year at a time and place that it designates and may hold
8 special meetings on the call of the presiding officer or alternate
9 presiding officer. The board of trustees shall keep accurate
10 minutes of its meetings and records of its proceedings.

11 SECTION 10. Section 2.08, Chapter 183 (S.B. 598), Acts of
12 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
13 Vernon's Texas Civil Statutes), is amended to read as follows:

14 Sec. 2.08. ADMINISTRATION OF FUNDS. The board of trustees
15 shall:

16 (1) keep separate from all other municipal funds all
17 money and other assets it receives for the benefit of the fund;

18 (2) keep a record of all claims, receipts, and
19 disbursements and make disbursements only ~~[on vouchers signed]~~ by
20 such persons as the board of trustees designates ~~[by resolution]~~;
21 and

22 (3) publish annually a report containing a balance
23 sheet showing the financial and actuarial condition of the fund, a
24 statement showing receipts and disbursements during the year
25 covered by the report, and such additional matters as may be
26 determined appropriate by the board of trustees.

27 SECTION 11. Section 2.09, Chapter 183 (S.B. 598), Acts of

1 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
2 Vernon's Texas Civil Statutes), is amended to read as follows:

3 Sec. 2.09. DETERMINATION BY BOARD. (a) The board of
4 trustees is authorized to hear and determine all matters regarding:

5 (1) eligibility of any person to participate in a fund
6 under this Act;

7 (2) eligibility of any person to receive a service,
8 disability, or survivor's benefit and the amount of that benefit;
9 ~~[and]~~

10 (3) whether a child or a parent of a deceased member
11 was dependent on the member for financial support; and

12 (4) any other determinations related to the
13 administration of the fund.

14 (b) All determinations made by the board of trustees shall
15 be final and binding.

16 SECTION 12. Section 2.13(a), Chapter 183 (S.B. 598), 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 (a) Information contained in records in the custody of the
20 fund concerning an individual member, retiree, annuitant, or
21 beneficiary is confidential and not subject to public disclosure
22 under Chapter 552 [Section 552.101], Government Code, and may not
23 be disclosed in a form identifiable with a specific individual
24 unless:

25 (1) the information is disclosed to:

26 (A) the individual or the individual's attorney,
27 guardian, executor, administrator, conservator, or other person

1 who the executive director [~~administrator~~] of the fund determines
2 is acting in the interest of the individual or the individual's
3 estate;

4 (B) a spouse or former spouse of the individual
5 after the executive director [~~administrator~~] of the fund determines
6 that the information is relevant to the spouse's or former spouse's
7 interest in member accounts, benefits, or other amounts payable by
8 the fund;

9 (C) a governmental official or employee after the
10 executive director [~~administrator~~] of the fund determines that
11 disclosure of the information requested is reasonably necessary to
12 the performance of the duties of the official or employee; or

13 (D) a person authorized by the individual in
14 writing to receive the information; or

15 (2) the information is disclosed pursuant to a
16 subpoena and the executive director [~~administrator~~] of the fund
17 determines that the individual will have a reasonable opportunity
18 to contest the subpoena.

19 SECTION 13. Article 2, Chapter 183 (S.B. 598), Acts of the
20 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's
21 Texas Civil Statutes), is amended by adding Section 2.14 to read as
22 follows:

23 Sec. 2.14. PROCESS FOR EXPERIENCE STUDIES AND CHANGES TO
24 ACTUARIAL ASSUMPTIONS. (a) At least once every five years, the
25 board of trustees shall have the board's actuary conduct an
26 experience study to review the actuarial assumptions and methods
27 adopted by the board for the purposes of determining the actuarial

1 liabilities and actuarially determined contribution rates of the
2 fund. The fund shall notify the municipality at the beginning of an
3 upcoming experience study by the board's actuary.

4 (b) In connection with the fund's experience study, the
5 municipality may:

6 (1) conduct a separate experience study using an
7 actuary chosen by the municipality;

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

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

12 (c) If the municipality chooses to:

13 (1) have a separate experience study performed under
14 Subsection (b)(1) of this section, the municipality shall complete
15 the study not later than three months after the date the fund
16 notified the municipality of the fund's intent to conduct an
17 experience study; or

18 (2) have the municipality's actuary review the fund's
19 experience study under Subsection (b)(2) of this section, the
20 municipality shall complete the review not later than one month
21 after the date the preliminary results of the experience study are
22 presented to the board of trustees.

23 (d) If the municipality chooses to have a separate
24 experience study performed under Subsection (b)(1) of this section,
25 or to have the municipality's actuary review the fund's experience
26 study under Subsection (b)(2) of this section, the board's actuary
27 and the municipality's actuary shall determine what the

1 hypothetical municipal contribution rate would be using the
2 proposed actuarial assumptions from the experience studies and data
3 from the most recent actuarial valuation.

4 (e) If the difference between the hypothetical municipal
5 contribution rates determined by the board's actuary and the
6 municipality's actuary under Subsection (d) of this section:

7 (1) is less than or equal to two percent of pensionable
8 payroll, then no further action is needed and the board shall use
9 the experience study performed by the board's actuary in
10 determining assumptions; or

11 (2) is greater than two percent of pensionable
12 payroll, then the board's actuary and the municipality's actuary
13 shall have not more than 20 business days after the date of
14 determination to reconcile the difference in actuarial assumptions
15 or methods causing the different hypothetical municipal
16 contribution rates, and:

17 (A) if, as a result of the reconciliation efforts
18 under this subdivision, the difference between the municipal
19 contribution rates determined by the board's actuary and the
20 municipality's actuary is reduced to less than or equal to two
21 percentage points, then no further action is needed and the board
22 shall use the experience study performed by the board's actuary in
23 determining actuarial assumptions; or

24 (B) if, after 20 business days, the board's
25 actuary and the municipality's actuary are not able to reach a
26 reconciliation that reduces the difference in the hypothetical
27 municipal contribution rates to an amount less than or equal to two

1 percentage points, an independent third-party actuary shall be
2 retained to opine on the differences in the assumptions made and
3 actuarial methods used by the board's actuary and the
4 municipality's actuary.

5 (f) The independent third-party actuary retained in
6 accordance with Subsection (e)(2)(B) of this section shall be
7 chosen by the municipality from a list of three actuarial firms
8 provided by the fund.

9 (g) If an independent third-party actuary is retained under
10 Subsection (e)(2)(B) of this section, the third-party actuary's
11 findings will be presented to the board along with the experience
12 study conducted by the board's actuary and, if applicable, the
13 municipality's actuary. If the board adopts actuarial assumptions
14 or methods contrary to the third-party actuary's findings:

15 (1) the fund shall provide a formal letter describing
16 the rationale for the board's action to the governing body of the
17 municipality and State Pension Review Board; and

18 (2) the board's actuary and executive director shall
19 be made available at the request of the governing body of the
20 municipality or the State Pension Review Board to present in person
21 the rationale for the board's action.

22 (h) If the board proposes a change to actuarial assumptions
23 or methods that is not in connection with an experience study
24 described by this section, the fund and the municipality shall
25 follow the same process prescribed by this section with respect to
26 an experience study in connection with the proposed change.

27 SECTION 14. Section 3.01, Chapter 183 (S.B. 598), Acts of

the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes), is amended to read as follows:

Sec. 3.01. GENERAL REQUIREMENT. A person who begins service as a firefighter in a municipality to which this Act applies and who is not ineligible for membership in the fund becomes a member of the fund as a condition of that person's employment ~~[appointment]~~. Each member shall be a group A member or group B member in accordance with Section 3.011.

SECTION 15. Article 3, Chapter 183 (S.B. 598), Acts of the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes), is amended by adding Section 3.011 to read as follows:

Sec. 3.011. GROUP A AND GROUP B MEMBERSHIP. Each member of the fund is either a group A member or a group B member as follows:

(1) a member of the fund is a group A member if the member was:

(A) a retiree on December 31, 2025;

(B) employed by the municipality as a firefighter on December 31, 2025; or

(C) terminated from employment with the municipality as a firefighter on or before December 31, 2025, if the member:

(i) has at least 10 years of accumulated service credit; and

(ii) has not:

(a) withdrawn the member's accumulated contributions under Section 9.06 of this Act; or

1 (b) refunded the member's accumulated
2 contributions under Section 4.04 of this Act; and

3 (2) a member of the fund is a group B member if the
4 member:

5 (A) except as provided by Subdivision (1)(C) of
6 this section, became employed by the municipality as a firefighter
7 on or after January 1, 2026; or

8 (B) otherwise does not satisfy the requirements
9 of a group A member.

10 SECTION 16. Section 4.02, Chapter 183 (S.B. 598), Acts of
11 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
12 Vernon's Texas Civil Statutes), is amended to read as follows:

13 Sec. 4.02. MILITARY SERVICE. (a) A member of the fund
14 retains all accumulated service credit and is allowed service
15 credit for each month during which the member leaves employment
16 with the fire department and performs active duty service in the
17 armed forces or the armed forces reserves of the United States or
18 their auxiliaries, except that:

19 (1) the military service credit may not be for more
20 than five years and the person must return to service with the fire
21 department not later than the 180th day after the date of discharge
22 or release from military service or from hospitalization continuing
23 after discharge for a period of not more than one year;

24 (2) the member must leave the member's contributions
25 in the fund during the period of absence; ~~and~~

26 (3) the member must file a written application with
27 the fund for the military service credit, accompanied by

1 satisfactory proof of the member's military service; and

2 (4) for military service credit related to military
3 service performed on or after January 1, 2026, the member and the
4 municipality must each deposit to the fund an amount equal to the
5 sum of contributions that would have been contributed to the fund by
6 the member and the municipality, respectively, if the member had
7 remained in active employment with the fire department during the
8 period the claimed military service was performed. /

→ 9 (b) The payments required under this section must be made in
10 accordance with the applicable requirements of Section 414(u) of
11 the Internal Revenue Code and the Uniformed Services Employment and
12 Reemployment Rights Act of 1994 (38 U.S.C. Section 4301 et seq.).
13 The board of trustees may adopt rules relating to the payment of
14 contributions under this section as the board of trustees considers
15 necessary for the administration of this section.

16 SECTION 17. Section 5.03, Chapter 183 (S.B. 598), Acts of
17 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
18 Vernon's Texas Civil Statutes), is amended to read as follows:

19 Sec. 5.03. DETERMINATION OF AVERAGE MONTHLY SALARY. (a) A
20 member's average monthly salary is computed as:

21 (1) for a group A member, the average of the member's
22 compensation for the 36 months of highest compensation during the
23 group A member's credited service; or

24 (2) for a group B member, the average of the member's
25 compensation for the 60 months of highest compensation during the
26 group B member's credited service.

27 (b) If a member [~~person~~] has less than 36 or 60 months of

1 credited service, as applicable, the average monthly salary is
2 computed, as if the member had been employed by the fire department
3 for 36 or 60 months, as applicable, by attributing to a period that
4 is immediately before the member's employment and that is equal to
5 the difference between the number of months the member has been
6 employed by the fire department and 36 or 60 months, as applicable,
7 of compensation the member would have received at the rank the
8 member held when the person became a member.

9 SECTION 18. Section 5.04(a), Chapter 183 (S.B. 598), Acts
10 of the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
11 Vernon's Texas Civil Statutes), is amended to read as follows:

12 (a) The service retirement annuity of:

13 (1) a group A member [~~person~~] who retires under
14 Section 5.01 of this Act [~~on or after January 1, 1995,~~] is a monthly
15 payment that is equal to 3.3 [~~three~~] percent of the member's average
16 monthly compensation multiplied by the member's number of years of
17 service credit and any fraction of a year of service credit; or

18 (2) a group B member who retires under Section 5.01 of
19 this Act is a monthly payment that is equal to three percent of the
20 member's average monthly compensation multiplied by the member's
21 number of years of service credit and any fraction of a year of
22 service credit.

23 SECTION 19. Section 5.05, Chapter 183 (S.B. 598), Acts of
24 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
25 Vernon's Texas Civil Statutes), is amended to read as follows:

26 Sec. 5.05. EARLY RETIREMENT. (a) A group A member is
27 eligible to retire and receive a normal service retirement annuity

1 if the member, while serving as a firefighter in the fire
2 department:

3 (1) has attained the age of 45 years and has at least
4 10 years of service credit in the fund; or

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

7 (b) The retirement annuity of a group A member ~~[person]~~ who
8 retires under this section after September 1, 1997, is the same as
9 for normal service retirement, but may not be increased under
10 Section 9.04 of this Act until the person would have met the
11 requirements of Section 9.041(b) ~~[5.01]~~ of this Act ~~[if the person~~
12 ~~had remained in active service as a firefighter]~~.

13 (c) A group B member is not eligible for early retirement
14 under this section.

15 SECTION 20. Section 6.01, Chapter 183 (S.B. 598), Acts of
16 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
17 Vernon's Texas Civil Statutes), is amended to read as follows:

18 Sec. 6.01. INITIAL ELIGIBILITY FOR DISABILITY RETIREMENT.
19 A firefighter is eligible to retire and receive a disability
20 retirement annuity if:

21 (1) application for retirement is made by the member
22 or the member's legal representative ~~[or if the board of trustees~~
23 ~~determines that, although no application has been filed, retirement~~
24 ~~is for the good of the fire department]~~;

25 (2) the medical board certifies that the member is
26 unable to perform the duties of the member's occupation as a
27 firefighter and sends the member's application to the board of

1 trustees; and

2 (3) the board of trustees approves the disability
3 retirement.

4 SECTION 21. Section 6.03, Chapter 183 (S.B. 598), Acts of
5 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
6 Vernon's Texas Civil Statutes), is amended to read as follows:

7 Sec. 6.03. AMOUNT OF DISABILITY BENEFIT. Subject to
8 adjustment under Section 6.05 or Section 9.04 or 9.042, as
9 applicable, of this Act, the disability retirement benefit payable
10 to a member is the normal service retirement benefit described by
11 Section 5.04 of this Act, but not less than the member would have
12 received after 20 years of service credit.

13 SECTION 22. Section 6.04, Chapter 183 (S.B. 598), Acts of
14 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
15 Vernon's Texas Civil Statutes), is amended to read as follows:

16 Sec. 6.04. TERMINATION DURING FIRST 2-1/2 YEARS. If,
17 during the first 2-1/2 years of disability retirement, a retiree
18 recovers to the extent that the person is able to perform the duties
19 of the person's job as a firefighter, the board of trustees may
20 terminate the disability retirement benefit [~~and restore the person~~
21 ~~to active service at not less than the same rank the person held at~~
22 ~~the time of disability retirement~~].

23 SECTION 23. Section 7.01, Chapter 183 (S.B. 598), Acts of
24 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
25 Vernon's Texas Civil Statutes), is amended to read as follows:

26 Sec. 7.01. SURVIVING SPOUSE OF FIREFIGHTER. If a
27 firefighter dies before retirement, regardless of whether the

1 firefighter is a group A or group B member, the firefighter's
2 surviving spouse is entitled to receive an immediate monthly
3 benefit from the fund of 75 percent of the service retirement
4 benefit that the firefighter would have received if the firefighter
5 had retired on the date of death, but not less than 75 percent of the
6 monthly payment the decedent would have received based on 20 years
7 of service credit.

8 SECTION 24. Section 7.02, Chapter 183 (S.B. 598), Acts of
9 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
10 Vernon's Texas Civil Statutes), is amended to read as follows:

11 Sec. 7.02. SURVIVING SPOUSE OF GROUP A RETIREE. (a) On the
12 death of a retiree who is a group A member, the retiree's surviving
13 spouse is entitled to receive an immediate monthly benefit from the
14 fund of 75 percent of the retirement benefit that was being paid to
15 the retiree if the spouse [+]

16 [~~(1)~~] was married to the retiree at the time of the
17 retiree's retirement [~~+~~ ~~or~~

18 [~~(2) married the retiree after the retiree's~~
19 ~~retirement and was married to the retiree for at least 24~~
20 ~~consecutive months~~].

21 (b) With [~~For purposes of Subsection (a)(1) of this section,~~
22 ~~with~~] respect to an informal marriage established in this state, a
23 surviving spouse is considered married to a retiree as of the date a
24 declaration of informal marriage was recorded in accordance with
25 Subchapter E, Chapter 2, Family Code.

26 (c) This section does not apply to the surviving spouse of a
27 group B member.

1 SECTION 25. The heading to Section 7.03, Chapter 183 (S.B.
2 598), Acts of the 64th Legislature, Regular Session, 1975 (Article
3 6243e.1, Vernon's Texas Civil Statutes), is amended to read as
4 follows:

5 Sec. 7.03. SURVIVING SPOUSE OF FORMER GROUP A FIREFIGHTER.

6 SECTION 26. Section 7.03, Chapter 183 (S.B. 598), Acts of
7 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
8 Vernon's Texas Civil Statutes), is amended by amending Subsection
9 (a) and adding Subsection (e) to read as follows:

10 (a) An immediate monthly benefit is payable to the surviving
11 spouse of a former firefighter who:

12 (1) was a group A member;

13 (2) before termination of employment with the fire
14 department had accumulated at least 10 years of service credit in
15 the fund and had made required contributions to the fund for a
16 period of at least 10 years; and

17 (3) [~~42~~] did not withdraw the member's contributions
18 from the fund at the time of or after the termination of employment.

19 (e) This section does not apply to the surviving spouse of a
20 group B member.

21 SECTION 27. Section 7.05, Chapter 183 (S.B. 598), Acts of
22 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
23 Vernon's Texas Civil Statutes), is amended by amending Subsections
24 (a) and (b) and adding Subsection (d) to read as follows:

25 (a) On the death of a member who at the time of the member's
26 death was a firefighter, regardless of whether the member is a group
27 A or group B member, or a retired group A member, if there is no

1 surviving spouse, a benefit is payable to the decedent's surviving
2 dependent children, if any. The total monthly benefit payable
3 under this subsection is 75 percent of the monthly payment that the
4 decedent would have received under the service retirement benefit
5 described by Section 5.04 of this Act, but not less than 75 percent
6 of the monthly payment the decedent would have received based on 20
7 years of service credit. If there is more than one dependent child
8 of the decedent, each dependent child is entitled to receive an
9 equal share of the total monthly payment under this subsection.

10 (b) On the death of a member who at the time of the member's
11 death was a firefighter, regardless of whether the member is a group
12 A or group B member, or a retired group A member ~~[under this Act]~~, if
13 there is a surviving spouse, a benefit is payable to each of the
14 decedent's surviving dependent children, if any. The monthly
15 amount of the benefit payable to each child is 15 percent of the
16 monthly payment that the decedent would have received under the
17 service retirement benefit described by Section 5.04 of this Act,
18 but not less than 15 percent of the monthly payment the decedent
19 would have received based on 20 years of service credit. If the
20 decedent left more than five surviving dependent children, the
21 monthly benefit payable to each dependent child shall be reduced so
22 that the total monthly benefit payable under this subsection does
23 not exceed the total monthly benefit that would have been payable if
24 the decedent had left no surviving spouse.

25 (d) This section does not apply to the surviving children of
26 a retired group B member.

27 SECTION 28. Section 7.06, Chapter 183 (S.B. 598), Acts of

1 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
2 Vernon's Texas Civil Statutes), is amended to read as follows:

3 Sec. 7.06. PAYMENTS TO DEPENDENT PARENTS. (a) If a
4 deceased member who was a retired group A member leaves no surviving
5 spouse, no surviving designated beneficiary, and no surviving
6 children entitled to receive a benefit under this Act but is
7 survived by one or more dependent parents, the dependent parent, or
8 one of the surviving parents designated by the board of trustees, is
9 entitled to receive a monthly benefit payment equal to the monthly
10 amount that would have been payable to a surviving spouse of the
11 deceased. All payments under this section cease on the death of the
12 surviving dependent parent.

13 (b) This section does not apply to the surviving dependent
14 parents of a group B member.

15 SECTION 29. Section 7.09, Chapter 183 (S.B. 598), Acts of
16 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
17 Vernon's Texas Civil Statutes), is amended to read as follows:

18 Sec. 7.09. SURVIVING BENEFICIARY OF CERTAIN UNMARRIED GROUP
19 A MEMBERS. (a) On the death of a [~~retiree or of a~~] member,
20 including a retiree, who is a group A member and, at the time of the
21 member's death, was eligible for retirement but had [~~has~~] not
22 retired, a benefit is payable under this section if:

23 (1) the [~~retiree or~~] member designated a beneficiary
24 to receive the benefit payable under this section on a form filed
25 with the fund; and

26 (2) this Act does not otherwise provide a benefit
27 payable to a surviving spouse or child of the member [~~or retiree~~].

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

(1) retirement benefit that was being paid to the group A member as a retiree; or

(2) normal service retirement benefit that the group A 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]~~ member is 10 or more years younger than the ~~[retiree or]~~ member at the time of the ~~[retiree's or]~~ 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 ~~[retiree or]~~ member were the same age.

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

(e) This section does not apply to a group B member.

SECTION 30. Section 8.01, Chapter 183 (S.B. 598), 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

1 may remain in active service, become a participant in the DROP
2 [~~deferred retirement option plan ("DROP")~~] in accordance with
3 [~~Sections 8.02 and 8.03 of~~] this Act, and defer the beginning of the
4 person's retirement annuity. Once an election to participate in
5 the DROP has been made, the election continues in effect as long as
6 the member remains in active service as a firefighter. When the
7 member leaves active service, the member may apply for a service
8 retirement annuity under Section 5.01 of this Act.

9 SECTION 31. Section 8.02, Chapter 183 (S.B. 598), Acts of
10 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
11 Vernon's Texas Civil Statutes), is amended to read as follows:

12 Sec. 8.02. ELECTION TO PARTICIPATE IN DROP. The election to
13 participate in the DROP shall be made in accordance with procedures
14 adopted by the board of trustees. The election may be made at any
15 time on or after the date the member becomes eligible for normal
16 service retirement under Section 5.01 of this Act or early
17 retirement under Section 5.05 of this Act and becomes effective on
18 the first day of the first month after the date of the election. At
19 the same time that a member makes an election to participate in the
20 DROP, the member must agree in writing to terminate service with the
21 fire department on a date not later than the seventh anniversary of
22 the effective date of the election under this section. An agreement
23 to terminate service is binding on the member and the fire
24 department, except that the member may terminate active service at
25 any time before the date selected. An election to participate in
26 the DROP has no effect on either the municipality's or the member's
27 contributions under Article 10 [~~Section 10.01~~] of this Act.

SECTION 32. Section 8.03, Chapter 183 (S.B. 598), Acts of the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes), is amended to read as follows:

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

(b) In addition to the amounts credited under Subsection (a) of this section, the board of trustees shall cause an amount equal to all or a portion of the firefighter's [~~The member's~~] contributions under Section 10.011 [~~Section 10.01(d)~~] of this Act made after the effective date of the election to participate in the DROP to [shall also] be credited to the member's DROP account as follows:

(1) if the member is a group A member, 100 percent of the contributions; or

(2) if the member is a group B member, 50 percent of the contributions.

(c) Amounts held in a member's DROP account during the DROP period shall be credited with interest on December 31 [~~at the end~~] of each calendar year [~~month with interest~~] at a rate equal to:

1 (1) [~~one-twelfth of~~] five percent for a group A
2 member; or
3 (2) four percent for a group B member [~~until the~~
4 ~~member's retirement~~].

5 SECTION 33. Article 8, Chapter 183 (S.B. 598), Acts of the
6 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's
7 Texas Civil Statutes), is amended by adding Section 8.031 to read as
8 follows:

9 Sec. 8.031. INTEREST CREDITED AFTER DROP PERIOD. Amounts
10 held in a member's DROP account after the DROP period shall be
11 credited with interest:

12 (1) if the member is a group A member, for each period:
13 (A) before January 1, 2026, at the end of each
14 calendar month at a rate equal to one-twelfth of five percent; or
15 (B) on or after January 1, 2026, on December 31 of
16 each calendar year at a rate equal to five percent; or

17 (2) if the member is a group B member, on December 31
18 of each calendar year at a rate equal to:

19 (A) four percent, if the fund's annual investment
20 return for the preceding calendar year is greater than zero
21 percent; or

22 (B) two percent, if the fund's annual investment
23 return for the preceding calendar year is equal to or less than zero
24 percent.

25 SECTION 34. Section 8.04, Chapter 183 (S.B. 598), Acts of
26 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
27 Vernon's Texas Civil Statutes), is amended to read as follows:

1 Sec. 8.04. ADJUSTMENTS TO ~~[AMOUNT OF]~~ CREDITS TO MEMBER'S
2 DROP ACCOUNT. (a) The amount credited ~~[monthly]~~ to the member's
3 DROP account:

4 (1) shall be increased ~~[as a result of any increase in~~
5 ~~the formula used in computing service retirement benefits under~~
6 ~~Section 5.04 of this Act that occurs after the effective date of the~~
7 ~~member's election to participate in the DROP but before the~~
8 ~~effective date of the member's retirement,~~

9 ~~[(2) shall be increased]~~ by any ~~[annual]~~ cost-of-living
10 adjustments under Section 9.04 of this Act that occur during the
11 group A member's DROP period, including adjustments granted before
12 January 1, 2026, ~~[between the effective date of the member's~~
13 ~~election to participate in the DROP and the effective date of the~~
14 ~~member's retirement]~~ but only as to amounts credited to the member's
15 DROP account after a cost-of-living adjustment; and

16 (2) ~~[(3)]~~ is subject to the limitations prescribed by
17 Section 9.03 of this Act.

18 (b) Subsection (a)(1) of this section does not apply to a
19 group B member.

20 SECTION 35. Section 8.05(d), Chapter 183 (S.B. 598), Acts
21 of the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
22 Vernon's Texas Civil Statutes), is amended to read as follows:

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

26 (1) impair the distribution rights under that
27 subsection; or

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

3 SECTION 36. Section 8.06, Chapter 183 (S.B. 598), 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. 8.06. ESTABLISHMENT OF DROP ACCOUNT AT RETIREMENT FOR
7 GROUP A MEMBERS. (a) In lieu of electing to participate in the DROP
8 before actual retirement, a group A member who is eligible for
9 normal service retirement or early retirement and who terminates or
10 has terminated active service as a firefighter may establish a DROP
11 account under this section.

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

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

18 (1) the board of trustees shall cause to be credited to
19 a DROP account maintained within the fund for the benefit of that
20 person an amount equal to the credits that the member's DROP account
21 would have received, including interest in accordance with Section
22 8.03 of this Act, if the member had established the DROP account
23 after becoming eligible for service retirement, but not more than
24 seven years before the actual [~~effective~~] date of the member's
25 [~~person's~~] retirement from the fire department;

26 (2) the date used in computations under Subdivision
27 (1) of this subsection [~~section~~] as if the member had established

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

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

6 (4) the member's DROP account shall be credited with
7 interest as provided by:

8 (A) Section 8.03 [~~8.05~~] of this Act during the
9 DROP period; or

10 (B) Section 8.031 of this Act after the DROP
11 period.

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

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

25 (2) the amount of the benefit payable to the surviving
26 spouse under Section 7.03 of this Act is 75 percent of the benefit
27 the member would have been eligible to receive if the member had

1 established the DROP account on becoming eligible for service
2 retirement, but not more than seven years before the date of the
3 member's death.

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

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

24 (2) the amount of the benefit payable to the dependent
25 children under Section 7.05(a) of this Act is 75 percent of the
26 benefit the member would have been entitled to receive if the member
27 had established the DROP account on becoming eligible for service

1 retirement, but based on not less than 20 years of service credit.

2 (f) A group B member is not eligible to establish a DROP
3 account under this section.

4 SECTION 37. Section 8.08, Chapter 183 (S.B. 598), Acts of
5 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
6 Vernon's Texas Civil Statutes), is amended to read as follows:

7 Sec. 8.08. SUBSEQUENT DISABILITY OF DROP PARTICIPANT. A
8 member who participates in the DROP becomes ineligible for any
9 disability benefits described by Article 6 of this Act. Instead,
10 if the board of trustees determines that the member would have been
11 eligible for disability retirement, the board of trustees shall
12 grant a normal service retirement annuity as described by Section
13 5.04 of this Act and shall pay the member both:

14 (1) the service retirement annuity as calculated under
15 Section 8.03(a) of this Act; and

16 (2) a distribution of the DROP account that has
17 accumulated as of the date of termination of employment in
18 accordance with [as described by] Section 8.05 of this Act.

19 SECTION 38. Section 8.09, Chapter 183 (S.B. 598), Acts of
20 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
21 Vernon's Texas Civil Statutes), is amended to read as follows:

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

25 (1) [may not be increased as a result of any increase
26 in the formula used in computing service retirement benefits under
27 Section 5.04 of this Act that occurs after the effective date of the

1 ~~member's election to participate in the DROP,~~

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

5 (2) [(3)] shall be increased by any ~~[annual]~~
6 cost-of-living adjustments under Section 9.04 of this Act that
7 occur during the group A member's DROP period, including
8 adjustments granted before January 1, 2026 ~~[between the effective~~
9 ~~date of the member's election to participate in the DROP and the~~
10 ~~effective date of the member's retirement]~~;

11 (3) [(4)] may not be increased for additional service
12 credit after the effective date of the member's election to
13 participate in the DROP; and

14 (4) [(5)] is subject to the limitations prescribed by
15 Section 9.03 of this Act.

16 (b) Subsection (a)(2) of this section does not apply to a
17 group B member.

18 SECTION 39. Section 8.10, Chapter 183 (S.B. 598), Acts of
19 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
20 Vernon's Texas Civil Statutes), is amended to read as follows:

21 Sec. 8.10. TERMINATION OR MODIFICATION OF DROP BY FUND. To
22 maintain the actuarial soundness of the fund ~~[If the board's~~
23 ~~actuary, not sooner than January 1, 2000, certifies to the board~~
24 ~~that DROP participation is resulting in a significant actuarial~~
25 ~~loss to the fund]~~, the board of trustees may:

26 (1) reduce the interest paid on DROP accounts or take
27 other action that would reduce the future credits to DROP accounts

1 ~~on or~~ [, ~~but only for all DROP accounts that are established~~] after
2 the effective date of the reduction [~~action by the board of~~
3 ~~trustees~~]; or

4 (2) terminate the deferred retirement option plan for
5 all members who have not at that time established a DROP account.

6 SECTION 40. Section 9.03, Chapter 183 (S.B. 598), Acts of
7 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
8 Vernon's Texas Civil Statutes), is amended to read as follows:

9 Sec. 9.03. LIMITATION ON PAYMENT OF BENEFITS. (a) If the
10 amount of any benefit payment under this Act would exceed the
11 limitations provided by Section 415 of the Internal Revenue Code
12 [~~of 1986~~], and the regulations adopted under that section, the
13 board of trustees shall reduce the amount of the benefit as needed
14 to comply with that section.

15 (b) A person's vested accrued benefit in effect on September
16 1, 2025, [~~September 1, 1995,~~] may not be reduced under this section.

17 SECTION 41. The heading to Section 9.04, Chapter 183 (S.B.
18 598), Acts of the 64th Legislature, Regular Session, 1975 (Article
19 6243e.1, Vernon's Texas Civil Statutes), is amended to read as
20 follows:

21 Sec. 9.04. COST-OF-LIVING ADJUSTMENTS FOR GROUP A MEMBERS
22 AND SURVIVORS [~~ADJUSTMENT, OTHER ADJUSTMENTS~~].

23 SECTION 42. Section 9.04, Chapter 183 (S.B. 598), Acts of
24 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
25 Vernon's Texas Civil Statutes), is amended by amending Subsections
26 (a), (a-1), and (a-2) and adding Subsections (c), (d), and (e) to
27 read as follows:

1 (a) Subject to this section and Sections ~~[except as provided~~
2 ~~by Section]~~ 5.05 and 9.041 of this Act, the board of trustees may
3 approve a ~~[person receiving a retirement or survivor's benefit~~
4 ~~under this Act is entitled each calendar year to a]~~ cost-of-living
5 adjustment for:

6 (1) eligible retirees who were group A members; and

7 (2) beneficiaries entitled to survivor benefits under
8 this Act after the death of a group A member ~~[of that person's~~
9 ~~benefit calculated in accordance with this section]~~.

10 (a-1) The ~~[annual]~~ cost-of-living adjustment approved under
11 this section:

12 (1) may not exceed ~~[is based on]~~ the collective
13 adjustment amount calculated in accordance with Subsection (a-2) of
14 this section for a given calendar year;

15 (1-a) may be ~~[and]~~ allocated among persons eligible
16 for an adjustment under this section in a manner and in an amount
17 determined by the board of trustees;

18 (2) may not take effect earlier than January 1 of the
19 calendar year following the date the board of trustees approves the
20 adjustment, but may take effect at any time during the ~~[a]~~ given
21 calendar year, as determined by the board of trustees; and

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

25 (a-2) The collective adjustment amount must be ~~[described~~
26 ~~by Subsection (a-1) of this section]~~:

27 (1) except as provided by Subdivision (2) of this

1 subsection, ~~[is]~~ an amount equal to the actuarial value, as
2 determined by the board's actuary based on the interest and
3 mortality assumptions adopted by the board of trustees for the most
4 recent actuarial valuation of the fund, of 1.5 percent ~~[the~~
5 ~~percentage increase in the Consumer Price Index for All Urban~~
6 ~~Consumers as determined by the United States Department of Labor~~
7 ~~for the applicable determination period ending in a calendar month~~
8 ~~that precedes by not more than four months the month in which the~~
9 ~~cost-of-living adjustment is to take effect,~~] multiplied by the
10 total amount of benefits payable in the month immediately preceding
11 the date an adjustment is to take effect to persons who are eligible
12 to receive an adjustment under this section; and

13 (2) if applicable, [+
14 ~~[(A) is]~~ reduced by an amount that the board's
15 actuary determines is necessary to comply with limitations
16 prescribed by this section, except the adjustment under this
17 section may not be reduced to an amount that is less than zero
18 ~~[maintain the financial stability of the fund, or~~

19 ~~[(B) is increased in accordance with Subsection~~
20 ~~(b) of this section]. / 16/17~~

21 (c) The board of trustees may not approve a cost-of-living
22 adjustment for a calendar year:

23 (1) unless the board's actuary certifies that:

24 (A) the amortization period of the fund as a
25 whole, after taking into account the cost-of-living adjustment,
26 will not exceed:

27 (i) 25 years for a cost-of-living

1 adjustment payable beginning in calendar years 2026 through 2035;
2 (ii) 20 years for a cost-of-living
3 adjustment payable beginning in calendar years 2036 through 2040;
4 or
5 (iii) 15 years for a cost-of-living
6 adjustment payable beginning in calendar year 2041 or a subsequent
7 calendar year; and
8 (B) the funded ratio for any year during the
9 remainder of the amortization period of the fund as a whole or for
10 10 years, whichever is greater, after taking into account the
11 cost-of-living adjustment, is:
12 (i) 80 percent or more for a cost-of-living
13 adjustment payable beginning in calendar years 2026 through 2040;
14 (ii) 85 percent or more for a
15 cost-of-living adjustment payable beginning in calendar years 2041
16 through 2045; or
17 (iii) 90 percent or more for a
18 cost-of-living adjustment beginning in calendar year 2046 or a
19 subsequent calendar year;
20 (2) that begins on the second January 1 following a
21 calendar year in which:
22 (A) the annual investment return as reported in
23 the fund's annual report for the calendar year is less than zero; or
24 (B) the five-year investment return as reported
25 in the fund's annual report for the calendar year is less than the
26 fund's assumed rate of return used in the actuarial valuation for
27 the calendar year; or

1 (3) in which the estimated municipal contribution
2 rate, after taking into account the cost-of-living adjustment,
3 would exceed four percent above the corridor midpoint.

4 (d) For purposes of Subsection (c)(1) of this section, the
5 board's actuary shall:

6 (1) use the actuarial valuation dated as of the second
7 December 31 preceding the calendar year in which the cost-of-living
8 adjustment is to take effect, including the unfunded actuarial
9 accrued liability, amortization period, and funded ratio as of that
10 December 31; and

11 (2) make the certifications required by that
12 subdivision not later than October 31 of the calendar year
13 immediately preceding the calendar year in which the cost-of-living
14 adjustment is to take effect.

15 (e) Notwithstanding any of the limitations prescribed by
16 this section or Section 9.041 of this Act, the governing body of the
17 municipality may approve a cost-of-living adjustment for any
18 calendar year in which a cost-of-living adjustment may not
19 otherwise be granted due to the limitations under this section in a
20 manner and in an amount determined by the governing body of the
21 municipality based on a recommendation from the board.

22 SECTION 43. Chapter 183 (S.B. 598), Acts of the 64th
23 Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's
24 Texas Civil Statutes), is amended by adding Sections 9.041 and
25 9.042 to read as follows:

26 Sec. 9.041. COST-OF-LIVING ADJUSTMENT ELIGIBILITY FOR
27 CERTAIN GROUP A MEMBERS AND SURVIVORS. (a) Except as provided by

1 Subsection (b) of this section, for each calendar year beginning on
2 or after January 1, 2027, a retiree who is a group A member or a
3 beneficiary who is receiving survivor benefits under this Act after
4 the death of a group A member is not eligible for a cost-of-living
5 adjustment under this Act until January 1 of the calendar year
6 immediately following the later of the year:

7 (1) in which the member or beneficiary, as applicable,
8 attains 67 years of age; or

9 (2) that is the fifth anniversary of the member's
10 actual date of retirement from the fire department.

11 (b) For each calendar year beginning on or after January 1,
12 2027, a retiree who is a group A member who is receiving an early
13 retirement annuity benefit under Section 5.05 of this Act is not
14 eligible for a cost-of-living adjustment under this Act until
15 January 1 of the calendar year immediately following the year in
16 which the member attains 69 years of age.

17 Sec. 9.042. COST-OF-LIVING ADJUSTMENT FOR GROUP B MEMBERS
18 AND SURVIVORS. The retirement annuity of a retiree who is a group B
19 member or the survivor benefit of a beneficiary who is receiving
20 survivor benefits under this Act after the death of a group B member
21 must be increased by the group B cost-of-living adjustment
22 percentage each year on a compounding basis beginning on January 1
23 of the calendar year immediately following the later of the year:

24 (1) in which the member or beneficiary, as applicable,
25 attains 67 years of age;

26 (2) that is the fifth anniversary of the member's
27 actual date of retirement from the fire department; or

1 (3) if applicable, in which the member's DROP account
2 is fully distributed.

3 SECTION 44. Sections 9.10(a), (d), and (f), Chapter 183
4 (S.B. 598), Acts of the 64th Legislature, Regular Session, 1975
5 (Article 6243e.1, Vernon's Texas Civil Statutes), are amended to
6 read as follows:

7 (a) An optional retirement annuity is an annuity that is
8 certified by the board's actuary to be the actuarial equivalent of
9 the annuity provided under Section 5.04 of this Act and the
10 survivor's benefits provided under Article 7 of this Act, as
11 applicable. [~~An optional retirement annuity is payable throughout~~
12 ~~the life of the retiree.~~]

13 (d) The board of trustees by rule may provide for different
14 forms of optional retirement annuities, including an optional
15 retirement annuity that is payable:

16 (1) [~~an optional retirement annuity is payable~~] after
17 a member's death throughout the life of a person designated by the
18 member, including an annuity that provides that, [for

19 ~~(2)]~~ if a retiree dies before a fixed number of
20 monthly annuity payments are made, the remaining number of payments
21 are payable to the retiree's designated beneficiary or, if a
22 designated beneficiary does not exist, to the retiree's estate;

23 (2) throughout the life of a retiree who is a group A
24 member with no survivor benefit;

25 (3) with a partial lump-sum option for a member who
26 does not elect to participate in the DROP; or

27 (4) as an optional joint and survivor benefit for a

1 group B member.

2 (f) Except as provided by Subsections (g), (h), and (i) of
3 this section, if a group A member elects an optional retirement
4 annuity that, on the group A member's death, pays to the member's
5 spouse an amount that is less than 75 percent of the annuity that is
6 payable during the joint lives of the group A member and the
7 member's spouse, the spouse must consent to the election. The
8 spouse's consent must be in writing and witnessed by an officer or
9 employee of the fund or acknowledged by a notary public.

10 SECTION 45. Article 9, Chapter 183 (S.B. 598), Acts of the
11 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's
12 Texas Civil Statutes), is amended by adding Section 9.11 to read as
13 follows:

14 Sec. 9.11. BENEFITS PAYABLE TO ALTERNATE PAYEES UNDER
15 QUALIFIED DOMESTIC RELATIONS ORDERS. (a) Benefits payable under
16 the fund, including service retirement benefits, disability
17 retirement benefits, survivor benefits, or DROP account benefits,
18 or a withdrawal of contributions, may be paid to a former spouse or
19 other alternate payee under the terms of a domestic relations
20 order, but only if the fund determines that the order constitutes a
21 qualified domestic relations order under Chapter 804, Government
22 Code.

23 (b) An alternate payee will receive a full distribution of
24 any portion of a member's DROP account awarded to the alternate
25 payee pursuant to a qualified domestic relations order as soon as
26 administratively practicable after the alternate payee is first
27 entitled to distribution of such amounts as determined by the fund.

1 (c) On the death of an alternate payee under a qualified
2 domestic relations order, the interest of the alternate payee in
3 the benefits under this Act ends and remaining benefits shall be
4 paid as if the qualified domestic relations order had not existed.

5 SECTION 46. The heading to Section 10.01, Chapter 183 (S.B.
6 598), Acts of the 64th Legislature, Regular Session, 1975 (Article
7 6243e.1, Vernon's Texas Civil Statutes), is amended to read as
8 follows:

9 Sec. 10.01. MUNICIPAL ~~[AND MEMBER]~~ CONTRIBUTIONS.

10 SECTION 47. Section 10.01, Chapter 183 (S.B. 598), Acts of
11 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
12 Vernon's Texas Civil Statutes), is amended by amending Subsections
13 (a), (b), (c), and (d) and adding Subsections (b-1) and (b-2) to
14 read as follows:

15 (a) Each municipality in which a fire department to which
16 this Act applies is located shall appropriate and contribute to the
17 fund each pay period in accordance with the following:

18 (1) for all pay periods beginning after September 30,
19 2012, and before January 1, 2026, an amount equal to 22.05 percent
20 [a percentage] of the compensation of all members during the pay
21 period; and

22 (2) for all pay periods beginning on or after January
23 1, 2026, the amount determined in accordance with Subsections (b)
24 and (c) of this section and Sections 10.05, 10.06, 10.07, and 10.08
25 of this Act, as applicable ~~[that month as follows:~~

26 ~~[(1) 19.05 percent, beginning on the first pay date~~
27 ~~following September 30, 2010, through the pay date immediately~~

1 ~~preceding September 30, 2011,~~

2 ~~[(2) 20.05 percent, beginning on the first pay date~~
3 ~~following September 30, 2011, through the pay date immediately~~
4 ~~preceding September 30, 2012,~~

5 ~~[(3) 21.05 percent, for 24 pay dates of the~~
6 ~~municipality beginning on the first pay date following September~~
7 ~~30, 2012, and~~

8 ~~[(4) 22.05 percent, for all pay dates of the~~
9 ~~municipality that follow the 24 pay dates referenced in Subdivision~~
10 ~~(3) of this subsection].~~

11 (b) For each pay period that begins on or after January 1,
12 2026, and before January 1, 2027, the municipality shall contribute
13 an amount equal to the sum of:

14 (1) the municipal contribution rate, as determined in
15 the initial risk sharing valuation study conducted under Section
16 10.05 of this Act, multiplied by the pensionable payroll for the
17 applicable pay period; and

18 (2) 1/26 of the municipal legacy contribution amount
19 for the 2026 calendar year, as determined and adjusted in the
20 initial risk sharing valuation study conducted under Section 10.05
21 of this Act ~~[Each firefighter shall pay into the fund each month a~~
22 ~~percentage of the firefighter's compensation for that month as~~
23 ~~follows.~~

24 ~~[(1) 15.70 percent, for the pay dates of the~~
25 ~~municipality following September 30, 2010, through the pay date~~
26 ~~immediately preceding September 30, 2011,~~

27 ~~[(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-1) For each pay period that begins on or after January 1, 2027, the municipality shall contribute an amount equal to the sum of:

(1) the municipal contribution rate for the applicable calendar year, as determined in a subsequent risk sharing valuation study conducted under Section 10.06 of this Act and adjusted under Section 10.07 or 10.08 of this Act, as applicable, multiplied by the pensionable payroll for the applicable pay period; and

(2) 1/26 of the municipal legacy contribution amount for the applicable calendar year, as determined and adjusted in the

1 initial risk sharing valuation study conducted under Section 10.05
2 of this Act.

3 (b-2) If the municipality elects to change the
4 municipality's payroll period to a period other than a biweekly
5 payroll period or for any calendar year that has more than 26 pay
6 periods, the fractional amounts of the municipal legacy
7 contribution stated in Subsections (b)(2) and (b-1)(2) of this
8 section may be appropriately adjusted such that the municipality's
9 municipal legacy contribution for such calendar year equals the
10 contribution required under Subsection (b)(2) or (b-1)(2) of this
11 section, as applicable.

12 (c) The governing body of each municipality may authorize
13 the municipality to contribute a portion of the contribution
14 required of each firefighter under Section 10.011 of this Act [~~this~~
15 ~~section~~]. In that event:

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

20 (2) each firefighter's individual account with the
21 fund shall be credited each pay period [~~month~~] as if the firefighter
22 had made the entire contribution required of that firefighter under
23 Section 10.011 of this Act [~~10.01(b)~~].

24 (d) The governing body of each municipality may authorize
25 the municipality to make an additional contribution to the fund in
26 whatever amount the governing body may determine. [~~The members of~~
27 ~~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 48. Article 10, Chapter 183 (S.B. 598), Acts of the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes), is amended by adding Section 10.011 to read as follows:

Sec. 10.011. FIREFIGHTER CONTRIBUTIONS. (a) Subject to Subsection (b) of this section or Section 10.09 of this Act, each firefighter who is a member of the fund shall pay into the fund an amount equal to 18.70 percent of the firefighter's compensation for the first pay period of the municipality beginning on or after September 30, 2016, and all subsequent pay periods of the municipality thereafter.

(b) The firefighters described by Subsection (a) of this section, by a majority vote, may voluntarily increase the firefighter contribution to a rate that is:

(1) higher than the rate prescribed by Subsection (a) of this section; and

(2) recommended by a majority vote of the board of trustees.

SECTION 49. Section 10.02, Chapter 183 (S.B. 598), Acts of the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes), is amended to read as follows:

Sec. 10.02. PICKUP OF FIREFIGHTER CONTRIBUTIONS. A municipality to which this Act applies shall pick up the firefighter contributions to the fund that are required or

1 authorized pursuant to Section 10.011 [~~10.01~~] of this Act,
2 whichever is higher. Firefighter contributions will be picked up
3 by a reduction in the monetary compensation of the firefighters.
4 Contributions picked up shall be treated as employer contributions
5 in accordance with Section 414(h)(2) of the Internal Revenue Code
6 for the purpose of determining tax treatment of the amounts under
7 that code. These contributions will be credited to [~~deposited to~~
8 ~~the credit of~~] the individual accounts of the firefighters in the
9 fund and shall be treated as the monthly contributions of the
10 firefighters for all purposes of this Act. These contributions are
11 not includable in the gross income of a firefighter until the time
12 that they are distributed or made available to the firefighter or
13 survivors of the firefighter. The board of trustees may at any
14 time, by majority vote, discontinue the pickup of firefighter
15 contributions by the municipality.

16 SECTION 50. Section 10.03, Chapter 183 (S.B. 598), Acts of
17 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
18 Vernon's Texas Civil Statutes), is amended to read as follows:

19 Sec. 10.03. CONTRIBUTIONS AND INCOME AS ASSETS OF
20 FUND. All contributions paid to the fund under [~~Sections 10.01 and~~
21 ~~10.02 of~~] this article [~~Act~~] become a part of the assets of the
22 fund. All interest and dividends on investments of the assets of
23 the fund shall be deposited into the fund and are part of it.

24 SECTION 51. Section 10.04, Chapter 183 (S.B. 598), Acts of
25 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
26 Vernon's Texas Civil Statutes), is amended to read as follows:

27 Sec. 10.04. INTEREST ON INDIVIDUAL ACCOUNTS. (a) This

subsection applies only to a group A member. The fund shall credit interest on December 31 of each year to the account of each firefighter, and of each former firefighter, who has not retired in an amount equal to five percent of the accumulated contributions, including previously credited interest, on deposit on January 1 of that year. The fund may not pay interest on a firefighter's or former firefighter's contributions [~~for part of a year or~~] for any period that is more than five calendar years after the date of termination of employment. This subsection expires December 31, 2025.

(a-1) Beginning January 1, 2026, a group A member is not entitled to interest on amounts credited to the member's individual account.

(b) A group B member is not entitled to interest on amounts credited to the member's individual account for any period.

SECTION 52. Article 10, Chapter 183 (S.B. 598), Acts of the 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's Texas Civil Statutes), is amended by adding Sections 10.05, 10.06, 10.07, 10.08, and 10.09 to read as follows:

Sec. 10.05. INITIAL RISK SHARING VALUATION STUDY. (a) The fund shall cause the board's actuary to prepare an initial risk sharing valuation study that is dated as of December 31, 2024, in accordance with this section.

(b) The initial risk sharing valuation study must:

(1) except as otherwise provided by this section, be prepared in accordance with the requirements of Section 10.06 of this Act;

1 (2) be based on the actuarial assumptions that were
2 used by the board's actuary in the valuation completed for the year
3 ending December 31, 2023, provided that for purposes of determining
4 the municipal legacy contribution amounts, corridor midpoint, and
5 municipal contribution rate for the calendar year beginning January
6 1, 2026:

7 (A) the actuarial value of assets must be equal
8 to the market value of assets of the fund as of December 31, 2024;
9 and

10 (B) the board's actuary shall use a
11 cost-of-living adjustment assumption of 0.25 percent for purposes
12 of valuing the cost-of-living adjustment for group A members under
13 Section 9.04 of this Act;

14 (3) project the corridor midpoint for the next 30
15 calendar years beginning with the calendar year that begins on
16 January 1, 2026; and

17 (4) include a schedule of municipal legacy
18 contribution amounts for 30 calendar years beginning with the
19 calendar year that begins on January 1, 2026.

20 (c) For purposes of Subsection (b)(4) of this section, the
21 schedule of municipal legacy contribution amounts must be
22 determined in such a manner that the total annual municipal legacy
23 contribution amount for the first three calendar years will result
24 in a phase-in of the anticipated increase in the municipal
25 contribution rate from the calendar year that begins on January 1,
26 2025, to the rate equal to the sum of the estimated municipal
27 contribution rate for the calendar year that begins on January 1,

1 2026, and the rate of pensionable payroll equal to the municipal
2 legacy contribution amount for January 1, 2026, determined as if
3 there was no phase-in of the increase to the municipal legacy
4 contribution amount. The phase-in must reflect approximately
5 one-third of the increase each year over the three-year phase-in
6 period.

7 (d) The municipality's contribution under Section 10.01 of
8 this Act for:

9 (1) the calendar years that begin on January 1, 2026,
10 January 1, 2027, and January 1, 2028, must be adjusted to reflect
11 the impact of the phase-in prescribed by this section; and

12 (2) each calendar year that begins on January 1, 2029,
13 through January 1, 2055, must reflect a municipal legacy
14 contribution amount that is 2.5 percent greater than the municipal
15 legacy contribution amount for the preceding calendar year.

16 (e) The estimated municipal contribution rate for the
17 calendar year that begins on January 1, 2026, must be based on the
18 projected pensionable payroll, as determined under the initial risk
19 sharing valuation study required by this section, assuming a
20 payroll growth rate of 2.5 percent.

21 Sec. 10.06. SUBSEQUENT RISK SHARING VALUATION STUDIES. (a)
22 The fund shall cause the board's actuary to prepare a risk sharing
23 valuation study that is dated as of December 31 of each calendar
24 year beginning with the 2025 calendar year in accordance with this
25 section and actuarial standards of practice.

26 (b) Each risk sharing valuation study must:

27 (1) be dated as of the last day of the calendar year

1 for which the study is required to be prepared;

2 (2) calculate the unfunded actuarial accrued
3 liability of the fund as of the last day of the applicable calendar
4 year, including the liability layer, if any, associated with the
5 most recently completed calendar year;

6 (3) calculate the estimated municipal contribution
7 rate for the following calendar year;

8 (4) determine the municipal contribution rate and the
9 firefighter contribution rate for the following calendar year,
10 taking into account any adjustments required under Section 10.07,
11 10.08, or 10.09 of this Act, as applicable; and

12 (5) except as provided by Subsection (e) of this
13 section, be based on the assumptions and methods adopted by the
14 board in accordance with Section 2.14 of this Act, if applicable,
15 and that are consistent with actuarial standards of practice and
16 the following principles:

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

21 (B) each liability layer is assigned an
22 amortization period;

23 (C) each liability loss layer will be amortized
24 over a period of 20 years from the first day of the calendar year
25 beginning 12 months after the date of the risk sharing valuation
26 study in which the liability loss layer is first recognized, except
27 that the legacy liability must be amortized over a 30-year period

1 beginning January 1, 2026;
2 (D) each liability gain layer will be amortized
3 over:
4 (i) a period equal to the remaining
5 amortization period on the largest remaining liability loss layer;
6 or
7 (ii) if there is no liability loss layer, a
8 period of 20 years from the first day of the calendar year beginning
9 12 months after the date of the risk sharing valuation study in
10 which the liability gain layer is first recognized;
11 (E) liability layers will be funded according to
12 the level percent of payroll method;
13 (F) payroll for purposes of determining the
14 corridor midpoint, municipal contribution rate, and municipal
15 legacy contribution amount must be projected using the annual
16 payroll growth rate assumption adopted by the board of trustees;
17 and
18 (G) the municipal contribution rate will be
19 calculated each calendar year without inclusion of the legacy
20 liability.
21 (c) The municipality may contribute an amount in addition to
22 the scheduled municipal legacy contribution amounts to reduce the
23 number or amount of scheduled future municipal legacy contribution
24 payments. If the municipality contributes an additional amount
25 under this subsection, the board's actuary shall create a new
26 schedule of municipal legacy contribution amounts that reflects
27 payment of the additional contribution.

1 (d) The municipality and the board of trustees may agree on
2 a written transition plan for resetting the corridor midpoint,
3 firefighter contribution rate, and municipal contribution rate:

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

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

8 (e) Subject to Section 2.14 of this Act, the board may by
9 rule adopt actuarial principles other than those required under
10 Subsection (b)(5) of this section, provided the actuarial
11 principles:

12 (1) are consistent with actuarial standards of
13 practice;

14 (2) are approved by the board's actuary; and

15 (3) do not operate to change the municipal legacy
16 contribution amount.

17 Sec. 10.07. ADJUSTMENT TO MUNICIPAL CONTRIBUTION RATE IF
18 ESTIMATED MUNICIPAL CONTRIBUTION RATE LOWER THAN CORRIDOR
19 MIDPOINT. (a) Subject to Subsection (b) of this section, for the
20 calendar year beginning January 1, 2026, and for each subsequent
21 calendar year, if the estimated municipal contribution rate is
22 lower than the corridor midpoint, the municipal contribution rate
23 for the applicable year is:

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

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

1 (b) The municipal contribution rate may not be lower than
2 the minimum municipal contribution rate.

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

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

7 (2) the municipal legacy contribution amount may no
8 longer be included in the municipal contribution under Section
9 10.01 of this Act.

10 Sec. 10.08. ADJUSTMENT TO MUNICIPAL CONTRIBUTION RATE IF
11 ESTIMATED MUNICIPAL CONTRIBUTION RATE EQUAL TO OR GREATER THAN
12 CORRIDOR MIDPOINT. For the calendar year beginning January 1,
13 2026, and for each subsequent calendar year, if the estimated
14 municipal contribution rate is equal to or greater than the
15 corridor midpoint and:

16 (1) less than or equal to the maximum municipal
17 contribution rate for the corresponding calendar year, the
18 municipal contribution rate is the estimated municipal
19 contribution rate; or

20 (2) greater than the maximum municipal contribution
21 rate for the corresponding calendar year, the municipal
22 contribution rate is the maximum municipal contribution rate.

23 Sec. 10.09. INCREASED FIREFIGHTER CONTRIBUTION RATE IF
24 ESTIMATED MUNICIPAL CONTRIBUTION RATE GREATER THAN MAXIMUM
25 MUNICIPAL CONTRIBUTION RATE. (a) This section governs the
26 determination of the firefighter contribution rate applicable in a
27 calendar year under Section 10.011 of this Act if the estimated

1 municipal contribution rate determined under Section 10.06(b)(3)
2 of this Act is greater than the maximum municipal contribution
3 rate.

4 (b) Except as provided by Subsection (c) of this section, if
5 the estimated municipal contribution rate is greater than the
6 corridor maximum, the firefighter contribution rate will increase
7 by an amount equal to the difference between the following:

8 (1) the estimated municipal contribution rate; and

9 (2) the maximum municipal contribution rate.

10 (c) The firefighter contribution rate may not be increased
11 by more than two percentage points under this section.

12 (d) If the estimated municipal contribution rate is more
13 than two percentage points greater than the maximum municipal
14 contribution rate, the municipality and the board of trustees shall
15 enter into discussions to determine additional funding solutions.

16 SECTION 53. Section 11.03(b), Chapter 183 (S.B. 598), 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 (b) The board of trustees may not adopt an amendment to the
20 investment policy adopted under this section unless the proposed
21 amendment is approved by the affirmative vote [~~of a majority of the~~
22 ~~members~~] of the board [~~at not fewer than three regular meetings of~~
23 ~~the board~~].

24 SECTION 54. Section 12.01, Chapter 183 (S.B. 598), Acts of
25 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
26 Vernon's Texas Civil Statutes), is amended to read as follows:

27 Sec. 12.01. EXECUTIVE DIRECTOR [ADMINISTRATOR] AND

1 EMPLOYEES. The board of trustees shall appoint an executive
2 director [~~administrator~~] who shall administer the fund under the
3 supervision and direction of the board of trustees. The board of
4 trustees shall employ such other employees as are required for the
5 efficient administration of the fund.

6 SECTION 55. Sections 12.03(a) and (e), Chapter 183 (S.B.
7 598), Acts of the 64th Legislature, Regular Session, 1975 (Article
8 6243e.1, Vernon's Texas Civil Statutes), are amended to read as
9 follows:

10 (a) The board of trustees shall engage [~~employ~~] an actuary
11 who may be the consultant and technical advisor to the board of
12 trustees regarding the operation of the fund and may perform such
13 duties as may be required by the board.

14 (e) An actuary engaged [~~employed~~] under this section must be
15 a fellow of the Society of Actuaries, a member of the American
16 Academy of Actuaries, or an enrolled actuary under the federal
17 Employee Retirement Income Security Act of 1974 (29 U.S.C. Section
18 1001 et seq.).

19 SECTION 56. Section 12.07, Chapter 183 (S.B. 598), Acts of
20 the 64th Legislature, Regular Session, 1975 (Article 6243e.1,
21 Vernon's Texas Civil Statutes), is amended to read as follows:

22 Sec. 12.07. AUDITS; ENGAGEMENT [~~EMPLOYMENT~~] OF CERTIFIED
23 PUBLIC ACCOUNTANTS. The board of trustees shall engage [~~employ~~] a
24 certified public accountant or firm of certified public accountants
25 to perform an audit of the fund at least annually. The municipality
26 may pay the entire cost of an audit. If not paid by the
27 municipality, the cost may be paid from the assets of the fund.

1 SECTION 57. The following provisions of Chapter 183 (S.B.
2 598), Acts of the 64th Legislature, Regular Session, 1975 (Article
3 6243e.1, Vernon's Texas Civil Statutes), are repealed:

4 (1) Sections 5.04(b), (b-1), and (c);

5 (2) Section 7.07;

6 (3) Section 8.05(b); and

7 (4) Sections 9.04(a-4), (b), and (b-1).

8 SECTION 58. (a) In this section, "board of trustees" has
9 the meaning assigned by Section 1.02(3), Chapter 183 (S.B. 598),
10 Acts of the 64th Legislature, Regular Session, 1975 (Article
11 6243e.1, Vernon's Texas Civil Statutes).

12 (b) Section 2.02, Chapter 183 (S.B. 598), Acts of the 64th
13 Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's
14 Texas Civil Statutes), as amended by this Act, does not affect the
15 term of a member of the board of trustees elected under that
16 section, as that section existed immediately before the effective
17 date of this Act, and serving on the board of trustees on the
18 effective date of this Act.

19 (c) When the term of the member of the board of trustees
20 elected under Section 2.02(3), Chapter 183 (S.B. 598), Acts of the
21 64th Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's
22 Texas Civil Statutes), as that section existed immediately before
23 the effective date of this Act, who has a term that expires in
24 December 2025, expires:

25 (1) the resulting vacancy on the board of trustees and
26 the new position on the board of trustees created by the amendment
27 of Section 2.02(3), Chapter 183 (S.B. 598), Acts of the 64th

1 Legislature, Regular Session, 1975 (Article 6243e.1, Vernon's
2 Texas Civil Statutes), shall be filled by election of the members of
3 the fund in accordance with Section 2.03, Chapter 183 (S.B. 598),
4 Acts of the 64th Legislature, Regular Session, 1975 (Article
5 6243e.1, Vernon's Texas Civil Statutes), as amended by this Act, by
6 an election held in November 2025;

7 (2) the candidate who receives the highest number of
8 votes in the election shall serve a four-year term, ending in
9 December 2029; and

10 (3) notwithstanding Section 2.03(e), Chapter 183
11 (S.B. 598), Acts of the 64th Legislature, Regular Session, 1975
12 (Article 6243e.1, Vernon's Texas Civil Statutes), as amended by
13 this Act, the candidate who receives the second highest number of
14 votes in the election shall serve an initial three-year term,
15 ending in December 2028.

16 (d) As soon as practicable after September 1, 2025, the
17 governing body of a municipality subject to Chapter 183 (S.B. 598),
18 Acts of the 64th Legislature, Regular Session, 1975 (Article
19 6243e.1, Vernon's Texas Civil Statutes), shall appoint a member to
20 the board of trustees under Section 2.02(a)(4), Chapter 183 (S.B.
21 598), Acts of the 64th Legislature, Regular Session, 1975 (Article
22 6243e.1, Vernon's Texas Civil Statutes), as added by this Act, to
23 serve a term beginning January 1, 2026.

24 SECTION 59. This Act takes effect September 1, 2025.

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 89TH LEGISLATIVE REGULAR SESSION

May 19, 2025

TO: Honorable Dustin Burrows, Speaker of the House, House of Representatives

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB2802 by Bucy (Relating to the administration of, contributions to, and benefits under retirement systems for firefighters in certain municipalities.), **As Passed 2nd House**

No significant fiscal implication to the State is anticipated.

The bill would amend Vernon's Texas Civil Statutes as they relate to the administration of, contributions to, and benefits under the Austin Firefighters Retirement Fund. No significant impact to the state is anticipated from implementing the provisions of the bill.

Local Government Impact

According to the Austin Firefighters Retirement Fund (AFRF), the bill would have a positive actuarial impact on the fund by establishing a closed, 30-year amortization schedule for the unfunded actuarial accrued liabilities of the fund reported as of December 31, 2024. According to AFRF, the bill would make several other major changes that would improve the actuarial health of the fund including the following:

- Implement an Actuarially Determined Employer Contribution (ADEC) funding model for the City of Austin's contributions phased in over a three-year period;
- Reduce benefits for firefighters hired on or after January 1, 2026;
- Implement stronger financial guardrails for any future cost-of-living adjustments; and
- Add two additional seats to the AFRF board.

Source Agencies: 338 Pension Review Board

LBB Staff: JMc, SD, KK, JPO, FV

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 89TH LEGISLATIVE REGULAR SESSION

May 14, 2025

TO: Honorable Joan Huffman, Chair, Senate Committee on Finance

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB2802 by Bucy (relating to the administration of, contributions to, and benefits under retirement systems for firefighters in certain municipalities.), **Committee Report 2nd House, Substituted**

No significant fiscal implication to the State is anticipated.

The bill would amend Vernon's Texas Civil Statutes as they relate to the administration of, contributions to, and benefits under the Austin Firefighters Retirement Fund. No significant impact to the state is anticipated from implementing the provisions of the bill.

Local Government Impact

According to the Austin Firefighters Retirement Fund (AFRF), the bill would have a positive actuarial impact on the fund by establishing a closed, 30-year amortization schedule for the unfunded actuarial accrued liabilities of the fund reported as of December 31, 2024. According to AFRF, the bill would make several other major changes that would improve the actuarial health of the fund including the following:

- Implement an Actuarially Determined Employer Contribution (ADEC) funding model for the City of Austin's contributions phased in over a three-year period;
- Reduce benefits for firefighters hired on or after January 1, 2026;
- Implement stronger financial guardrails for any future cost-of-living adjustments; and
- Add two additional seats to the AFRF board.

Source Agencies: 338 Pension Review Board

LBB Staff: JMc, KK, JPO, FV

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 89TH LEGISLATIVE REGULAR SESSION

May 14, 2025

TO: Honorable Joan Huffman, Chair, Senate Committee on Finance

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB2802 by Bucy (Relating to the administration of, contributions to, and benefits under retirement systems for firefighters in certain municipalities.), **As Engrossed**

No significant fiscal implication to the State is anticipated.

The bill would amend Vernon's Texas Civil Statutes as they relate to the administration of, contributions to, and benefits under the Austin Firefighters Retirement Fund. No significant impact to the state is anticipated from implementing the provisions of the bill.

Local Government Impact

According to the Austin Firefighters Retirement Fund (AFRF), the bill would have a positive actuarial impact on the fund by establishing a closed, 30-year amortization schedule for the unfunded actuarial accrued liabilities of the fund reported as of December 31, 2024. According to AFRF, the bill would make several other major changes that would improve the actuarial health of the fund including the following:

- Implement an Actuarially Determined Employer Contribution (ADEC) funding model for the City of Austin's contributions phased in over a three-year period;
- Reduce benefits for firefighters hired on or after January 1, 2026;
- Implement stronger financial guardrails for any future cost-of-living adjustments; and
- Add two additional seats to the AFRF board.

Source Agencies: 338 Pension Review Board

LBB Staff: JMc, KK, FV, JPO

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 89TH LEGISLATIVE REGULAR SESSION

April 30, 2025

TO: Honorable Stan Lambert, Chair, House Committee on Pensions, Investments & Financial Services

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB2802 by Bucy (relating to the administration of, contributions to, and benefits under retirement systems for firefighters in certain municipalities.), **Committee Report 1st House, Substituted**

No significant fiscal implication to the State is anticipated.

The bill would amend Vernon's Texas Civil Statutes as they relate to the administration of, contributions to, and benefits under the Austin Firefighters Retirement Fund. No significant impact to the state is anticipated from implementing the provisions of the bill.

Local Government Impact

According to the Austin Firefighters Retirement Fund (AFRF), the bill would have a positive actuarial impact on the fund by establishing a closed, 30-year amortization schedule for the unfunded actuarial accrued liabilities of the fund reported as of December 31, 2024. According to AFRF, the bill would make several other major changes that would improve the actuarial health of the fund including the following:

- Implement an Actuarially Determined Employer Contribution (ADEC) funding model for the City of Austin's contributions phased in over a three-year period;
- Reduce benefits for firefighters hired on or after January 1, 2026;
- Implement stronger financial guardrails for any future cost-of-living adjustments; and
- Add two additional seats to the AFRF board.

Source Agencies: 338 Pension Review Board

LBB Staff: JMc, FV, JPO

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 89TH LEGISLATIVE REGULAR SESSION

April 22, 2025

TO: Honorable Stan Lambert, Chair, House Committee on Pensions, Investments & Financial Services

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB2802 by Bucy (Relating to the public retirement systems for employees of certain municipalities.), **As Introduced**

No significant fiscal implication to the State is anticipated.

The bill would amend Vernon's Texas Civil Statutes as they relate to the Austin Firefighters Retirement Fund. No significant impact to the state is anticipated from implementing the provisions of the bill.

Local Government Impact

According to the Austin Firefighters Retirement Fund, the bill would have a positive actuarial impact on the fund by establishing a closed, 30-year amortization schedule for the unfunded actuarial accrued liabilities of the fund reported as of December 31, 2024. The bill would also establish a new reduced benefit tier and introduce additional contribution policy changes which would improve the actuarial health of the fund.

Source Agencies: 338 Pension Review Board

LBB Staff: JMc, FV, JPO

LEGISLATIVE BUDGET BOARD
Austin, Texas

ACTUARIAL IMPACT STATEMENT

89TH LEGISLATIVE REGULAR SESSION

May 14, 2025

TO: Honorable Joan Huffman, Chair, Senate Committee on Finance

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: **HB2802** by Bucy (relating to the administration of, contributions to, and benefits under retirement systems for firefighters in certain municipalities.), **Committee Report 2nd House, Substituted**

COST ESTIMATE

Actuarial Analysis Based on the December 31, 2023 Actuarial Valuation Projected to December 31, 2024.

Austin Firefighters Retirement Fund (AFRF)	Current	Proposed	Difference
Employer Contribution	22.05%	30.00%	7.95%
Employee Contribution	18.70%	18.70%	0.00%
Total Contribution	40.75%	48.70%	7.95%
Unfunded Actuarial Accrued Liability (millions)	\$308.30	\$323.20	\$14.90
Normal Cost (% of payroll)	31.20%	24.60%	(6.6%)
Amortization Period (years)	Infinite	30	N/A

ACTUARIAL EFFECTS

The bill would change the employer portion of the Austin Firefighters Retirement Fund (AFRF) financing from a fixed rate to an actuarially determined contribution (ADC) subject to a corridor. According to the actuarial analysis, the funding period would decrease from infinite to 30 years. The actuarial review states under the current Pension Review Board (PRB) Pension Funding Guidelines, funding should be adequate to amortize the unfunded actuarial accrued liability (UAAL) over a period which should not exceed 30 years as of September 1, 2025, and not to exceed 15 years after September 1, 2040. Under state law, systems with funding periods over 30 years for too long are required to prepare a Funding Soundness Restoration Plan (FSRP) to make changes to the pension plan to put the system on a path to eventually achieve full funding.

Because 2022 and 2023 actuarial valuation reports showed funding periods above 30 years, AFRF will become subject to FSRP if the December 31, 2024, funding period is also above 30 years. It is projected to be infinite if the current statute relating to AFRF is not changed. If the bill is passed, the funding period would be projected to decrease to 30 years, meeting the PRB Pension Funding Guidelines as well as statutory funding requirements under Section 802.2015 of the Texas Government Code.

SYNOPSIS OF PROVISIONS

The bill would make significant changes to Article 6243e.1 of Vernon's Texas Civil Statutes updating the board, administration, and governance aspects of AFRF. The bill would make changes so that AFRF would no longer be able to increase the benefit multiplier without approval from the City of Austin. AFRF could only provide ad hoc cost-of-living adjustments (COLAs) over the next 30 years if funding is ahead of schedule at the time the COLA is issued. After 30 years, ad hoc COLAs would be permitted only if the system would remain 100 percent funded.

The bill would create a second benefit tier (Group B) for new hires beginning January 1, 2026. Group B proposed by the bill would have reduced benefits compared to Group A, such as a lower benefit multiplier, no retroactive deferred retirement option plan (DROP), and a lower DROP interest rate. The bill would establish a statutory funding policy for AFRF consisting of fixed contributions for employees and a variable contribution rate for the City of Austin. The city contribution rate would consist of a payment designed to amortize the UAAL as of December 31, 2024, the legacy liability, over a period of 30 years beginning January 1, 2026, and establish a minimum and maximum contribution rate (corridor) to fund future benefit accruals while preventing large swings in the city contribution associated with unanticipated gains and losses. The bill would also add statutory guidelines for updating actuarial assumptions including reconciliation steps for any potential assumption disagreements between AFRF and the city.

Additionally, the bill would make updates to the board composition. The mayor would be able to designate a city council member to serve in place of the mayor position. The city treasurer would no longer be a board member, replaced instead by the chief financial officer or a person designated by the chief financial officer. There would be two additional board member positions appointed by the city council, both 5-year city residents with financial or pension experience. Board member terms would increase from three years to four years, and the board would elect the board chair rather than the mayor serving as ex-officio chair.

FINDINGS AND CONCLUSIONS

The actuarial analysis notes the bill would make AFRF more actuarially sound by strengthening the funding policy from a fixed City of Austin contribution rate of 22.05 percent to an ADC. The bill would also mitigate the risks to AFRF associated with the current statutory COLA structure by strengthening the financial stability tests, delaying the eligibility for the COLA to the later of age 67 and five years after retirement, limiting the COLA to 1.5 percent per year, and reflecting a COLA assumption that incorporates the cost of the COLA in the liability and the ADC. The actuarial review states that the employer contributions would be projected to increase by 7.95 percent under the bill.

METHODOLOGY AND STANDARDS

The AFRF analysis relies on the participant data, financial information, benefit structure and actuarial assumptions and methods used in the AFRF actuarial valuation for December 31, 2023, projected to December 31, 2024, with the exception of one assumption and one method, both prescribed in the proposed bill. The new assumption would be a 0.25 percent COLA assumption, and the new method would be using market value of assets rather than a smoothed actuarial value of assets. The actuary also selected one percent as the assumed COLA for the new Group B members. According to the PRB actuary, the assumptions and methods are reasonable for the purpose of this analysis.

All actuarial projections have a degree of uncertainty because they are based on the probability of occurrence of future contingent events. Accordingly, actual results will be different from the results contained in the analysis to the extent actual future experience varies from the experience implied by the assumptions. This analysis is based on the assumption that no other legislative changes affecting the funding or benefits of AFRF will be adopted. It should be noted that when several proposals are adopted, the effect of each may be compounded, resulting in a cost that is greater (or less) than the sum of each proposal considered independently.

SOURCES

Actuarial Analysis by Elizabeth Wiley, FSA, EA, MAAA, FCA and Heath Merlak, FSA, EA, MAAA, FCA, Cheiron, April 25, 2025.

Actuarial Review by David Fee, ASA, EA, Staff Actuary, Pension Review Board, April 26, 2025.

GLOSSARY

Actuarial Accrued Liability (AAL) - The current value of benefits attributed to past years.

Actuarial Value of Assets (AVA) - The value of assets used for the actuarial valuation. The AVA can be either the market value (MVA) or a smoothed value of assets.

Amortization Payments - The portion of the total contribution used to reduce the unfunded actuarial accrued liability (UAAL).

Amortization Period - The specified length of time used when calculating the amortization payment portion of an actuarially determined contribution, or as the time it would theoretically take to fully fund the UAAL or fully recognize a surplus. The State Pension Review Board recommends that funding be adequate to amortize the

UAAL over a period which should not exceed 30 years as of September 1, 2025, and not to exceed 15 years after September 1, 2040.

Actuarial Cost Method -An actuarial cost method is a way to allocate pieces of a participant's total expected benefit to each year of their working career. In other words, it is a technique to determine how much of the present value of future benefits (PVFB) to assign to past service (AAL) vs. future service (present value of future normal costs, or PVFNC).

Funded Ratio (FR) - The ratio of actuarial assets to the actuarial accrued liabilities.

Market Value of Assets (MVA) - The fair market value of the system's assets.

Normal Cost (NC) - Computed differently under different actuarial cost methods, the normal cost generally represents the current value of benefits attributed to the present year. The employer normal cost equals the total normal cost of the plan reduced by employee contributions.

Present Value of Future Benefits (PVFB) - The current value of all benefits expected to be paid from the plan to current plan participants.

Present Value of Future Normal Costs (PVFNC) - The current value of benefits attributed to the present year and all future years (includes the normal cost as the first year).

Unfunded Actuarial Accrued Liability (UAAL) - The difference between the actuarial accrued liability and the actuarial value of assets; therefore, the UAAL is the amount that is still owed to the fund for past obligations.

Source
Agencies: 338 Pension Review Board

LBB Staff: JMc, JPO

LEGISLATIVE BUDGET BOARD
Austin, Texas

ACTUARIAL IMPACT STATEMENT

89TH LEGISLATIVE REGULAR SESSION

May 14, 2025

TO: Honorable Joan Huffman, Chair, Senate Committee on Finance

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB2802 by Bucy (Relating to the administration of, contributions to, and benefits under retirement systems for firefighters in certain municipalities.), **As Engrossed**

COST ESTIMATE

Actuarial Analysis Based on the December 31, 2023 Actuarial Valuation Projected to December 31, 2024.

Austin Firefighters Retirement Fund (AFRF)	Current	Proposed	Difference
Employer Contribution	22.05%	30.00%	7.95%
Employee Contribution	18.70%	18.70%	0.00%
Total Contribution	40.75%	48.70%	7.95%
Unfunded Actuarial Accrued Liability (millions)	\$308.30	\$323.20	\$14.90
Normal Cost (% of payroll)	31.20%	24.60%	(6.6%)
Amortization Period (years)	Infinite	30	N/A

ACTUARIAL EFFECTS

The bill would change the employer portion of the Austin Firefighters Retirement Fund (AFRF) financing from a fixed rate to an actuarially determined contribution (ADC) subject to a corridor. According to the actuarial analysis, the funding period would decrease from infinite to 30 years. The actuarial review states under the current Pension Review Board (PRB) Pension Funding Guidelines, funding should be adequate to amortize the unfunded actuarial accrued liability (UAAL) over a period which should not exceed 30 years as of September 1, 2025, and not to exceed 15 years after September 1, 2040. Under state law, systems with funding periods over 30 years for too long are required to prepare a Funding Soundness Restoration Plan (FSRP) to make changes to the pension plan to put the system on a path to eventually achieve full funding.

Because 2022 and 2023 actuarial valuation reports showed funding periods above 30 years, AFRF will become subject to FSRP if the December 31, 2024, funding period is also above 30 years. It is projected to be infinite if the current statute relating to AFRF is not changed. If the bill is passed, the funding period would be projected to decrease to 30 years, meeting the PRB Pension Funding Guidelines as well as statutory funding requirements under Section 802.2015 of the Texas Government Code.

SYNOPSIS OF PROVISIONS

The bill would make significant changes to Article 6243e.1 of Vernon's Texas Civil Statutes updating the board, administration, and governance aspects of AFRF. The bill would make changes so that AFRF would no longer be able to increase the benefit multiplier without approval from the City of Austin. AFRF could only provide ad hoc cost-of-living adjustments (COLAs) over the next 30 years if funding is ahead of schedule at the time the COLA is issued. After 30 years, ad hoc COLAs would be permitted only if the system would remain 100 percent funded.

The bill would create a second benefit tier (Group B) for new hires beginning January 1, 2026. Group B proposed by the bill would have reduced benefits compared to Group A, such as a lower benefit multiplier, no retroactive deferred retirement option plan (DROP), and a lower DROP interest rate. The bill would establish a statutory funding policy for AFRF consisting of fixed contributions for employees and a variable contribution rate for the City of Austin. The city contribution rate would consist of a payment designed to amortize the UAAL as of December 31, 2024, the legacy liability, over a period of 30 years beginning January 1, 2026, and establish a minimum and maximum contribution rate (corridor) to fund future benefit accruals while preventing large swings in the city contribution associated with unanticipated gains and losses. The bill would also add statutory guidelines for updating actuarial assumptions including reconciliation steps for any potential assumption disagreements between AFRF and the city.

Additionally, the bill would make updates to the board composition. The mayor would be able to designate a city council member to serve in place of the mayor position. The city treasurer would no longer be a board member, replaced instead by the chief financial officer or a person designated by the chief financial officer. There would be two additional board member positions appointed by the city council, both 5-year city residents with financial or pension experience. Board member terms would increase from three years to four years, and the board would elect the board chair rather than the mayor serving as ex-officio chair.

FINDINGS AND CONCLUSIONS

The actuarial analysis notes the bill would make AFRF more actuarially sound by strengthening the funding policy from a fixed City of Austin contribution rate of 22.05 percent to an ADC. The bill would also mitigate the risks to AFRF associated with the current statutory COLA structure by strengthening the financial stability tests, delaying the eligibility for the COLA to the later of age 67 and five years after retirement, limiting the COLA to 1.5 percent per year, and reflecting a COLA assumption that incorporates the cost of the COLA in the liability and the ADC. The actuarial review states that the employer contributions would be projected to increase by 7.95 percent under the bill.

METHODOLOGY AND STANDARDS

The AFRF analysis relies on the participant data, financial information, benefit structure and actuarial assumptions and methods used in the AFRF actuarial valuation for December 31, 2023, projected to December 31, 2024, with the exception of one assumption and one method, both prescribed in the proposed bill. The new assumption would be a 0.25 percent COLA assumption, and the new method would be using market value of assets rather than a smoothed actuarial value of assets. The actuary also selected one percent as the assumed COLA for the new Group B members. According to the PRB actuary, the assumptions and methods are reasonable for the purpose of this analysis.

All actuarial projections have a degree of uncertainty because they are based on the probability of occurrence of future contingent events. Accordingly, actual results will be different from the results contained in the analysis to the extent actual future experience varies from the experience implied by the assumptions. This analysis is based on the assumption that no other legislative changes affecting the funding or benefits of AFRF will be adopted. It should be noted that when several proposals are adopted, the effect of each may be compounded, resulting in a cost that is greater (or less) than the sum of each proposal considered independently.

SOURCES

Actuarial Analysis by Elizabeth Wiley, FSA, EA, MAAA, FCA and Heath Merlak, FSA, EA, MAAA, FCA, Cheiron, April 25, 2025.

Actuarial Review by David Fee, ASA, EA, Staff Actuary, Pension Review Board, April 26, 2025.

GLOSSARY

Actuarial Accrued Liability (AAL) - The current value of benefits attributed to past years.

Actuarial Value of Assets (AVA) - The value of assets used for the actuarial valuation. The AVA can be either the market value (MVA) or a smoothed value of assets.

Amortization Payments - The portion of the total contribution used to reduce the unfunded actuarial accrued liability (UAAL).

Amortization Period - The specified length of time used when calculating the amortization payment portion of an actuarially determined contribution, or as the time it would theoretically take to fully fund the UAAL or fully recognize a surplus. The State Pension Review Board recommends that funding be adequate to amortize the

UAAL over a period which should not exceed 30 years as of September 1, 2025, and not to exceed 15 years after September 1, 2040.

Actuarial Cost Method -An actuarial cost method is a way to allocate pieces of a participant's total expected benefit to each year of their working career. In other words, it is a technique to determine how much of the present value of future benefits (PVFB) to assign to past service (AAL) vs. future service (present value of future normal costs, or PVFNC).

Funded Ratio (FR) - The ratio of actuarial assets to the actuarial accrued liabilities.

Market Value of Assets (MVA) - The fair market value of the system's assets.

Normal Cost (NC) - Computed differently under different actuarial cost methods, the normal cost generally represents the current value of benefits attributed to the present year. The employer normal cost equals the total normal cost of the plan reduced by employee contributions.

Present Value of Future Benefits (PVFB) - The current value of all benefits expected to be paid from the plan to current plan participants.

Present Value of Future Normal Costs (PVFNC) - The current value of benefits attributed to the present year and all future years (includes the normal cost as the first year).

Unfunded Actuarial Accrued Liability (UAAL) - The difference between the actuarial accrued liability and the actuarial value of assets; therefore, the UAAL is the amount that is still owed to the fund for past obligations.

Source
Agencies: 338 Pension Review Board

LBB Staff: JMc, JPO

LEGISLATIVE BUDGET BOARD
Austin, Texas

ACTUARIAL IMPACT STATEMENT
89TH LEGISLATIVE REGULAR SESSION

April 30, 2025

TO: Honorable Stan Lambert, Chair, House Committee on Pensions, Investments & Financial Services

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: **HB2802** by Bucy (relating to the administration of, contributions to, and benefits under retirement systems for firefighters in certain municipalities.), **Committee Report 1st House, Substituted**

COST ESTIMATE

Actuarial Analysis Based on the December 31, 2023 Actuarial Valuation Projected to December 31, 2024.

Austin Firefighters Retirement Fund (AFRF)	Current	Proposed	Difference
Employer Contribution	22.05%	30.00%	7.95%
Employee Contribution	18.70%	18.70%	0.00%
Total Contribution	40.75%	48.70%	7.95%
Unfunded Actuarial Accrued Liability (millions)	\$308.30	\$323.20	\$14.90
Normal Cost (% of payroll)	31.20%	24.60%	(6.6%)
Amortization Period (years)	Infinite	30	N/A

ACTUARIAL EFFECTS

The bill would change the employer portion of the Austin Firefighters Retirement Fund (AFRF) financing from a fixed rate to an actuarially determined contribution (ADC) subject to a corridor. According to the actuarial analysis, the funding period would decrease from infinite to 30 years. The actuarial review states under the current Pension Review Board (PRB) Pension Funding Guidelines, funding should be adequate to amortize the unfunded actuarial accrued liability (UAAL) over a period which should not exceed 30 years as of September 1, 2025, and not to exceed 15 years after September 1, 2040. Under state law, systems with funding periods over 30 years for too long are required to prepare a Funding Soundness Restoration Plan (FSRP) to make changes to the pension plan to put the system on a path to eventually achieve full funding.

Because 2022 and 2023 actuarial valuation reports showed funding periods above 30 years, AFRF will become subject to FSRP if the December 31, 2024, funding period is also above 30 years. It is projected to be infinite if the current statute relating to AFRF is not changed. If the bill is passed, the funding period would be projected to decrease to 30 years, meeting the PRB Pension Funding Guidelines as well as statutory funding requirements under Section 802.2015 of the Texas Government Code.

SYNOPSIS OF PROVISIONS

The bill would make significant changes to Article 6243e.1 of Vernon's Texas Civil Statutes updating the board, administration, and governance aspects of AFRF. The bill would make changes so that AFRF would no longer be able to increase the benefit multiplier without approval from the City of Austin. AFRF could only provide ad hoc cost-of-living adjustments (COLAs) over the next 30 years if funding is ahead of schedule at the time the COLA is issued. After 30 years, ad hoc COLAs would be permitted only if the system would remain 100 percent funded.

The bill would create a second benefit tier (Group B) for new hires beginning January 1, 2026. Group B proposed by the bill would have reduced benefits compared to Group A, such as a lower benefit multiplier, no retroactive deferred retirement option plan (DROP), and a lower DROP interest rate. The bill would establish a statutory funding policy for AFRF consisting of fixed contributions for employees and a variable contribution rate for the City of Austin. The city contribution rate would consist of a payment designed to amortize the UAAL as of December 31, 2024, the legacy liability, over a period of 30 years beginning January 1, 2026, and establish a minimum and maximum contribution rate (corridor) to fund future benefit accruals while preventing large swings in the city contribution associated with unanticipated gains and losses. The bill would also add statutory guidelines for updating actuarial assumptions including reconciliation steps for any potential assumption disagreements between AFRF and the city.

Additionally, the bill would make updates to the board composition. The mayor would be able to designate a city council member to serve in place of the mayor position. The city treasurer would no longer be a board member, replaced instead by the chief financial officer or a person designated by the chief financial officer. There would be two additional board member positions appointed by the city council, both 5-year city residents with financial or pension experience. Board member terms would increase from three years to four years, and the board would elect the board chair rather than the mayor serving as ex-officio chair.

FINDINGS AND CONCLUSIONS

The actuarial analysis notes the bill would make AFRF more actuarially sound by strengthening the funding policy from a fixed City of Austin contribution rate of 22.05 percent to an ADC. The bill would also mitigate the risks to AFRF associated with the current statutory COLA structure by strengthening the financial stability tests, delaying the eligibility for the COLA to the later of age 67 and five years after retirement, limiting the COLA to 1.5 percent per year, and reflecting a COLA assumption that incorporates the cost of the COLA in the liability and the ADC. The actuarial review states that the employer contributions would be projected to increase by 7.95 percent under the bill.

METHODOLOGY AND STANDARDS

The AFRF analysis relies on the participant data, financial information, benefit structure and actuarial assumptions and methods used in the AFRF actuarial valuation for December 31, 2023, projected to December 31, 2024, with the exception of one assumption and one method, both prescribed in the proposed bill. The new assumption would be a 0.25 percent COLA assumption, and the new method would be using market value of assets rather than a smoothed actuarial value of assets. The actuary also selected one percent as the assumed COLA for the new Group B members. According to the PRB actuary, the assumptions and methods are reasonable for the purpose of this analysis.

All actuarial projections have a degree of uncertainty because they are based on the probability of occurrence of future contingent events. Accordingly, actual results will be different from the results contained in the analysis to the extent actual future experience varies from the experience implied by the assumptions. This analysis is based on the assumption that no other legislative changes affecting the funding or benefits of AFRF will be adopted. It should be noted that when several proposals are adopted, the effect of each may be compounded, resulting in a cost that is greater (or less) than the sum of each proposal considered independently.

SOURCES

Actuarial Analysis by Elizabeth Wiley, FSA, EA, MAAA, FCA and Heath Merlak, FSA, EA, MAAA, FCA, Cheiron, April 25, 2025.

Actuarial Review by David Fee, ASA, EA, Staff Actuary, Pension Review Board, April 26, 2025.

GLOSSARY

Actuarial Accrued Liability (AAL) - The current value of benefits attributed to past years.

Actuarial Value of Assets (AVA) - The value of assets used for the actuarial valuation. The AVA can be either the market value (MVA) or a smoothed value of assets.

Amortization Payments - The portion of the total contribution used to reduce the unfunded actuarial accrued liability (UAAL).

Amortization Period - The specified length of time used when calculating the amortization payment portion of an actuarially determined contribution, or as the time it would theoretically take to fully fund the UAAL or fully recognize a surplus. The State Pension Review Board recommends that funding be adequate to amortize the

UAAL over a period which should not exceed 30 years as of September 1, 2025, and not to exceed 15 years after September 1, 2040.

Actuarial Cost Method -An actuarial cost method is a way to allocate pieces of a participant's total expected benefit to each year of their working career. In other words, it is a technique to determine how much of the present value of future benefits (PVFB) to assign to past service (AAL) vs. future service (present value of future normal costs, or PVFNC).

Funded Ratio (FR) - The ratio of actuarial assets to the actuarial accrued liabilities.

Market Value of Assets (MVA) - The fair market value of the system's assets.

Normal Cost (NC) - Computed differently under different actuarial cost methods, the normal cost generally represents the current value of benefits attributed to the present year. The employer normal cost equals the total normal cost of the plan reduced by employee contributions.

Present Value of Future Benefits (PVFB) - The current value of all benefits expected to be paid from the plan to current plan participants.

Present Value of Future Normal Costs (PVFNC) - The current value of benefits attributed to the present year and all future years (includes the normal cost as the first year).

Unfunded Actuarial Accrued Liability (UAAL) - The difference between the actuarial accrued liability and the actuarial value of assets; therefore, the UAAL is the amount that is still owed to the fund for past obligations.

Source 338 Pension Review Board

Agencies:

LBB Staff: JMc, JPO

LEGISLATIVE BUDGET BOARD
Austin, Texas

ACTUARIAL IMPACT STATEMENT
89TH LEGISLATIVE REGULAR SESSION

April 22, 2025

TO: Honorable Stan Lambert, Chair, House Committee on Pensions, Investments & Financial Services

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: **HB2802** by Bucy (Relating to the public retirement systems for employees of certain municipalities.), **As Introduced**

COST ESTIMATE

System Actuarial Analysis Based on the December 31, 2023 Actuarial Valuation.

Austin Firefighters Retirement Fund (AFRF)	Current	Proposed	Difference
2028 Employer Contribution	22.05%	31.00% - 36.14%	8.95% - 14.09%
Employee Contribution	18.70%	18.70%	0.00%
Total Contribution	40.75%	49.70% - 54.84%	8.95% - 14.09%
Normal Cost (% of payroll)	31.2% - 32.3%	24.0% - 25.0%	(6.2%) - (8.3%)
Amortization Period (years)	Infinite	26	N/A

City of Austin Actuarial Analysis Based on the December 31, 2023 Actuarial Valuation.

Austin Firefighters Retirement Fund (AFRF)	Current	Proposed	Difference
Employer Contribution	22.05%	29.24%	7.19%
Employee Contribution	18.70%	18.70%	0.00%
Total Contribution	40.75%	47.94%	7.19%
Normal Cost (% of payroll)	31.20%	25.00%	-6.20%
Unfunded Actuarial Accrued Liability (millions)	\$210.50	\$210.50	\$0.00
Amortization Period (years)	Infinite	26	N/A

ACTUARIAL EFFECTS

The bill would change the employer portion of the Austin Firefighters Retirement Fund (AFRF) financing from a fixed rate to an actuarially determined contribution (ADC) subject to a corridor calculated annually. Both AFRF and the City of Austin provided actuarial analyses, and according to those analyses, the funding period would decrease from infinite to 26 years. According to the actuarial review, the normal cost under the current plan is presented by AFRF as a range, since the AFRF actuary presented results assuming both a zero percent cost of living (COLA) assumption and a 0.5 percent COLA assumption. The zero percent assumption is consistent with a system with insufficient funding to pay ad hoc COLAs, while the 0.5 percent assumption is consistent with a system with projected sufficient funding to pay ad hoc COLAs. The city did not provide any scenarios with a COLA assumption for which to compare.

The actuarial review states under the current Pension Review Board (PRB) Pension Funding Guidelines, funding should be adequate to amortize the unfunded actuarial accrued liability (UAAL) over a period which should not exceed 30 years as of September 1, 2025, and not to exceed 15 years after September 1, 2040. Under state law, systems with funding periods over 30 years for too long are required to prepare a Funding Soundness Restoration Plan (FSRP) to make changes to the pension plan to put the system on a path to

eventually achieve full funding.

Because 2022 and 2023 actuarial valuation reports showed funding periods above 30 years, AFRF will become subject to an FSRP if the December 31, 2024, funding period is also above 30 years. It is projected to be infinite if the current statute relating to AFRF is not changed. Under the provisions of the bill, the funding period would be projected to decrease to 26 years as of December 31, 2024, meeting the PRB Pension Funding Guidelines as well as statutory funding requirements under Section 802.2015 of the Texas Government Code.

SYNOPSIS OF PROVISIONS

The bill would make significant changes to Article 6243e.1 of Vernon's Texas Civil Statutes updating the board, administration, and governance aspects of AFRF. The bill would make changes so that AFRF would no longer be able to increase the benefit multiplier without approval from the city. AFRF could only provide ad hoc COLAs over the next 30 years if funding is ahead of schedule at the time the COLA is issued. After 30 years, ad hoc COLAs would be permitted only if the system remained 100 percent funded.

The bill would create a second benefit tier (Group B) for new hires beginning January 1, 2026. Group B proposed by the bill would have reduced benefits compared to Group A, such as a lower benefit multiplier, no option for a retroactive deferred retirement option plan (DROP), and a lower DROP interest rate. The bill would establish a statutory funding policy for AFRF, consisting of fixed contributions for employees and a variable contribution rate for the city.

The city contribution rate would consist of a payment designed to amortize the UAAL as of December 31, 2024, the legacy liability, over a period of 25 years beginning January 1, 2026 and establish a minimum and maximum contribution rate corridor to fund future benefit accruals while preventing large swings in the city contribution associated with unanticipated gains and losses. The bill would also add statutory guidelines for updating actuarial assumptions including reconciliation steps for any potential assumption disagreements between AFRF and the city.

Additionally, the bill would make updates to the board composition. The mayor would no longer be a board member, replaced instead by a city council member designated by the mayor. The city treasurer would no longer be a board member, replaced instead by the chief financial officer or a person designated by the chief financial officer. There would be two additional board member positions appointed by the city council, both 5-year city residents with financial or pension experience, with one potentially having governmental finance experience.

FINDINGS AND CONCLUSIONS

The actuarial analysis notes AFRF's financial stability tests currently require that actuarial valuation results and projections for each of the next 10 years, reflecting any COLA to be granted, result in funded ratios exceeding 80 percent and no more than 25-year funding periods. Under current statutes and policies, the valuations use a zero percent future COLA assumption and would not expect a COLA payable in the next 20 years as it would not meet the financial stability test. AFRF's actuarial liability under that zero percent COLA assumption may be understated if conditions change such that COLAs could be granted.

The actuarial review states that the employer contributions would be projected to increase by 7.19 percent under the bill according to the city and by 8.95 percent to 14.09 percent according to the system, depending on the COLA assumption used to calculate results under the current and proposed plans. In essence, the required contributions would increase due to becoming better funded to pay ad hoc COLAs allowed under the current plan when funding allows, and would decrease due to the proposed benefit changes.

METHODOLOGY AND STANDARDS

The AFRF analysis relies on the participant data, financial information, benefit structure and actuarial assumptions and methods used in the AFRF actuarial valuation for December 31, 2023.

According to the PRB actuary, the assumptions and methods are reasonable for the purpose of this analysis, except the mandatory use of a zero percent COLA assumption in the initial actuarial valuation. As the system's actuary points out, the PRB encouraged this system to include a COLA assumption when it was better funded. Now that the system is projected to become better funded again, it would make sense to assume a COLA will be

paid at some point to better ensure accuracy of the liabilities.

The system's actuary made some reasonable additional assumptions related to retirement rates and DROP participation rates by age for new Group B participants. All actuarial projections have a degree of uncertainty because they are based on the probability of occurrence of future contingent events. Accordingly, actual results will be different from the results contained in the analysis to the extent actual future experience varies from the experience implied by the assumptions. This analysis is based on the assumption that no other legislative changes affecting the funding or benefits of AFRF will be adopted. It should be noted that when several proposals are adopted, the effect of each may be compounded, resulting in a cost that is greater (or less) than the sum of each proposal considered independently.

SOURCES

AFRF Actuarial Analysis by Elizabeth Wiley, FSA, EA, MAAA, FCA and Heath Merlak, FSA, EA, MAAA, FCA, Cheiron, March 31, 2025.

City of Austin Actuarial Analysis by Adam Reese, FSA, EA, MAAA, FCA, PRM, March 31, 2025.

Actuarial Review by David Fee, ASA, EA, Staff Actuary, Pension Review Board, April 17, 2025.

GLOSSARY

Actuarial Accrued Liability (AAL) - The current value of benefits attributed to past years.

Actuarial Value of Assets (AVA) - The value of assets used for the actuarial valuation. The AVA can be either the market value (MVA) or a smoothed value of assets.

Amortization Payments - The portion of the total contribution used to reduce the unfunded actuarial accrued liability (UAAL).

Amortization Period - The specified length of time used when calculating the amortization payment portion of an actuarially determined contribution, or as the time it would theoretically take to fully fund the UAAL or fully recognize a surplus. The State Pension Review Board recommends that funding be adequate to amortize the UAAL over a period which should not exceed 30 years as of September 1, 2025, and not to exceed 15 years after September 1, 2040.

Actuarial Cost Method - An actuarial cost method is a way to allocate pieces of a participant's total expected benefit to each year of their working career. In other words, it is a technique to determine how much of the present value of future benefits (PVFB) to assign to past service (AAL) vs. future service (present value of future normal costs, or PVFNC).

Funded Ratio (FR) - The ratio of actuarial assets to the actuarial accrued liabilities.

Market Value of Assets (MVA) - The fair market value of the system's assets.

Normal Cost (NC) - Computed differently under different actuarial cost methods, the normal cost generally represents the current value of benefits attributed to the present year. The employer normal cost equals the total normal cost of the plan reduced by employee contributions.

Present Value of Future Benefits (PVFB) - The current value of all benefits expected to be paid from the plan to current plan participants.

Present Value of Future Normal Costs (PVFNC) - The current value of benefits attributed to the present year and all future years (includes the normal cost as the first year).

Unfunded Actuarial Accrued Liability (UAAL) - The difference between the actuarial accrued liability and the actuarial value of assets; therefore, the UAAL is the amount that is still owed to the fund for past obligations.

Source 338 Pension Review Board
Agencies:

LBB Staff: JMc, JPO