

BENEFIT CHANGES

Group A Actives

- Members hired before January 1, 2026
- 0% Nonvested Termination Refund Interest Rate
- Discretionary ad hoc COLAs subject to financial stability testing; annual maximum of 1.5%
- COLA eligibility at later of age 67 or 5 years after retirement (age 69 for early retirement)
- Military Service Purchase Option Added
- All Post-Retirement Beneficiary Designations limited by actuarial benefit reduction and age reduction regardless of marital status

Group B Actives

- Members hired on or after January 1, 2026
- 3.00% Multiplier
- Single Life Annuity
- No Early Retirement Eligibility
- Highest Average Salary calculated with highest 60-month average of pensionable income
- Forward DROP only, up to 7 years
- DROP Accumulation Period includes annuity payments and 50% of member contributions with a guaranteed 4% interest rate
- Post-Retirement DROP interest defaults to 4% with a risk-sharing reduction to 2% following negative return years for AFRF
- 0% Nonvested Termination Refund Interest Rate
- Performance-based ad hoc COLAs, within range of 0% minimum to 2% maximum
- COLA eligibility at later of age 67 or 5 years after retirement; ineligible while DROP balance exists
- Military Service Purchase Option

Retired Members

- Discretionary ad hoc COLAs subject to financial stability testing; annual maximum of 1.5%
- COLA eligibility at later of age 67 or 5 years after retirement (age 69 for early retirement)
- All Post-Retirement Beneficiary Designations limited by actuarial benefit reduction and age reduction regardless of marital status



HB 2802 & SB 2345

Voluntary Funding Soundness Restoration Plan for Austin Firefighters Retirement Fund (AFRF)

by Representative Bucy & Senator Schwertner

BILL SUMMARY

House Bill 2802 and Senate Bill 2345 are products of over 18 months of negotiations between the Austin Firefighters Retirement Fund and the City of Austin and are supported by the Austin Firefighters Association. They are identical compromise bills that reflect a proactive and fiscally responsible effort to ensure that the Fund does not breach the PRB parameters for funding soundness, which would require future intervention by the Texas Legislature.



BILL BACKGROUND

The AFRF has been on the PRB funding soundness watch list for two consecutive years. Later this year, the Fund is expected to trigger the PRB requirement to develop a mandatory funding soundness restoration plan in collaboration with the City of Austin. The AFRF board and the City of Austin agree that without changes to the benefit structure and funding model, the unfunded liability will continue to grow. SB 2345 and HB 2802 would improve the actuarial health of the Fund through several major changes: implement an ADEC funding model for the City'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 COLAs and add two additional seats to the AFRF board.

ADEC FUNDING MODEL

An ADEC model replaces the fixed rate funding model, currently at 22.05% for the City of Austin. This model will increase the City contribution rate to approximately 32%. The City will have a 3-year phase-in period to reach the full ADEC rate.

Legacy Liability

The ADEC model pays off the AFRF legacy liability of \$327 million along with an additional \$31 million from 2024 asset losses over 30 years through increased contributions from the City.

Upper Corridor Structure

There would be a 5% corridor for the City and a 2% increase in member contributions if the upper limit for the City is reached. However, a COLA freeze would be implemented, where the ability to grant any COLAs will be paused, when the City contribution rate is equal to or greater than 4% above the midpoint.

GOVERNANCE STRUCTURE

- Board officers will be elected by the Board
- The Mayor of Austin may appoint a designee
- The City Treasurer position is converted to Chief Financial Officer, may appoint a designee
- Position added for elected Fund member; term lengths extended to 4 years for all electees
- Position added for a qualified citizen appointed by City Council; experience in financial, investment, or pension matters will be required

COLAS

For Group A and current retirees, ad-hoc COLAs will remain possible. However, the bill mandates financial stability tests to grant any COLAs. Mandated tests will include a funded ratio test, an amortization period test and investment performance tests. Further guardrails will include a COLA freeze and a COLA cap. In addition, the City will pay an additional \$15 million for a 0.25% COLA assumption to recognize the ad-hoc COLA as a potential future liability.