SB 2345

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

by Senator Schwertner

RECENT HISTORY

2021

AFRF experienced strong returns and was close to 100% (MVA) funded. Austin firefighters **do not participate in social security**; therefore, the Fund's governing statute includes a provision for an ad hoc COLA in years of strong financial health. The AFRF actuary performed a financial stability test that determined a 5.4% (CPI-U) COLA could be granted in accordance with statute.

2022

AFRF started experiencing financial stress following the market dip. The COLA granted in 2021 created a wider funding gap because the gains that should have been reserved for future investment losses had been depleted.

2023

AFRF proactively established a working group to seek changes to the AFRF funding structure to ensure long-term sustainability. This action was taken on a voluntary basis, prior to those changes being required under the existing law. Upon thorough review, the working group identified the primary cause of the financial stress to be the structural issue of using investment gains to pay ad hoc COLAs.

CITY OF AUSTIN PEER SYSTEMS

AFRF is **better funded** at 79.6% (MVA) and will continue to have a significantly **lower unfunded liability** post-reform. Firefighters are also the only COA employees who **do not receive social security benefits** and have the **second highest member contribution rate in Texas** at 18.7%. *(Data 12/31/23)*

AFRF	COAERS	APRS
~$380 Million	$2.3 Billion	$763 Million
Post-Reform Projection	Current Unfunded Liability	Current Unfunded Liability
✗ Social Security	✓ Social Security	✓ Social Security

BILL BACKGROUND

- AFRF has a long history of being well-funded with strong investment returns and a better funding status and lower unfunded liability than its COA peers.
- SB 2345 proposes a long-term solution by addressing the structural issues with ad hoc COLAs, lowering the overall cost of the Fund by reducing benefits for new hires, moving to a more appropriate ADEC funding model, and improving the governance structure.
- SB 2345 provides pension reform using a similar funding structure as the City of Austin peer systems.

BILL SUMMARY

Reduced Benefits for New Hires and Current Actives

(New Hires - hired on or after 1/1/2026)

- Smaller retirement annuity benefit for new hires
- Stronger early retirement penalty for current actives; no early retirement option for new hires
- Modified DROP lump-sum program (lower cost)

More Appropriate Funding Model

- ADEC replaces the fixed rate, currently at 22.05%
- Determined annually with COA review and input
- ADEC includes a portion to pay off the existing liability
- Corridor included as a guardrail for increase/decrease; member contribution increase and COLA freeze also offered to limit potential funding burden on COA

Improved Governance Structure

- AFRF Board increase from 5 to 7 trustees, adding one firefighter and one citizen appointed by the City of Austin
- Mayor may appoint a designee to ensure participation

Modified COLA Structure

- Financially sustainable COLA option design

COLA SUMMARY

COLAs are necessary benefit adjustments for some Austin firefighters to retain purchasing power in retirement without social security protection.

Current Ad Hoc COLA

- Only paid when AFRF is financially sound
- **Unpredictable** and **not fiscally responsible**; PRB discourages the use of ad hoc COLAs
- **Significant contributor to the current funding deficit**; ad hoc COLAs spend investment gains instead of maintaining reserves to withstand challenging market periods

Fixed Prefunded COLA

- SB 2345 provides a **modest 1% COLA** that would **not begin until age 62 or later**, like social security
- It is more responsible to **prefund** COLAs through contributions; prefunded COLAs are not subject to inflation volatility
- Prefunded COLAs provide **predictability** for both retired firefighters and COA budget planning
- The 1% COLA would be a **reduction** from the historic annual average of 2% granted by AFRF over the last 40 years
- For current active members and new hires, a **member choice provision** restricts members from both receiving COLAs and participating in the lump sum DROP program; they will be required to select **one option** upon retirement
- **One-time cost** of $89 million for retiree COLA; no future cost expected due to member preference for DROP under the member choice provision

VERSUS SB 2162 (COA)

- SB 2162 **does not fix the broken structure**; it aims to minimize short-term costs for COA by **perpetuating existing challenges** that **increase funding risks** and **long-term costs**
- Maintaining the broken ad hoc structure will make it **harder to grant COLAs** to retirees
- The ad hoc structure will increase the likelihood of an ADEC **corridor breach** – resulting in increased COA and firefighter contribution rates due to depletion of AFRF investment gains

ADEC: Actuarially Determined Employer Contribution | **COA:** City of Austin | **COLA:** Cost-of-Living Adjustment | **DROP:** Deferred Retirement Option Plan | **MVA:** Market Value of Assets | **PRB:** Pension Review Board