Date of Hearing: January 14, 2026

ASSEMBLY COMMITTEE ON PUBLIC EMPLOYMENT AND RETIREMENT
Tina S. McKinnor, Chair
AB 1054 (Gipson) – As Amended January 5, 2026

SUBJECT: Public employees' retirement: deferred retirement option program

SUMMARY: Creates the Deferred Retirement Option Program (DROP) – a voluntary program – for California Public Employee's Retirement System (CalPERS) safety plan members of State Bargaining Units 5 (Highway Patrol) and 8 (CAL FIRE), among other provisions. Specifically, **this bill**:

1) Establishes, among other things, that the DROP is created to add flexibility to the system and allow for the retention of experienced personnel, particularly for members of State Bargaining Units (BUs) 5 and 8, as specified.

2) Provides that the DROP becomes effective and applicable only after:
   a) The applicable BU has entered into a memorandum of understanding (MOU) with the employer to implement the program,
   b) The program has been certified via an actuarial analysis that it is cost neutral by the California Public Employees' Retirement System (CalPERS) Board of Administration, and
   c) CalPERS has adopted regulations to implement and administer the program.

3) Stipulates that the California Department of Human Resources (CalHR) and the BUs must not agree to implement the DROP prior to the completion of the requirements in "2) b)" and "2) c)," above.

4) Specifies that the DROP applies to:
   a) State BU 5 CalPERS safety members whose duties consist of active law enforcement highway patrol service and are peace officers, as respectively defined.
   b) State BU 8 CalPERS safety members who render active fire suppression, active fire search and rescue, or active fire investigatory service.

5) Authorizes eligible members to make a one-time, irrevocable election to participate for up to 60 consecutive months in the DROP if they have at least attained the required minimum age and years of service accrued to be eligible for a CalPERS service retirement.

6) Establishes that the election to participate in the DROP:
   a) Is an irrevocable and one-time only election.
   b) Must be made by a signed writing by the member on form prescribed by, and submitted to, CalPERS, as provided.
   c) If married, the member's spouse must execute a signed statement on a form prescribed by the board acknowledging their understanding of, and agreement with, the member's DROP election as well as an understanding and agreement that benefits payable to the spouse may be reduced because of such participation, as determined by the board.

7) Requires a member to make their DROP participation election prior to retirement for service and expressly provides that a member who has retired for service or disability must not be permitted to participate in the DROP.

8) Requires a member who elects DROP participation to be subject to the following requirements:
   a) Waive any claims with respect to age and other employment discrimination laws relative to the program required by the employer or system.
   b) Waive and forfeit any application, claim, or right to a disability retirement by any public employee retirement system of which they are a member, and where the application, claim or right to a disability retirement is based on a condition related to an industrial or nonindustrial injury.
   c) Terminate employment and DROP participation in accordance with their program election.
   d) Must not be authorized or permitted to participate in a reduced worktime schedule for partial service retirement.
   e) Must not be eligible or authorized to modify their DROP election after submittal to CalPERS, except to identify, modify, or change a beneficiary for the receipt of the program benefit.
   f) Must not be permitted or eligible to reinstate from retirement and again elect DROP participation.
   g) Must concurrently retire from any other public retirement system of which they are a member upon termination of employment and DROP participation consistent with their program election.

9) Requires CalPERS to:
   a) Notify the member in writing of its receipt of their DROP election and provide a final date in which the member may withdraw their election (not more than 30 calendar days from the system's receipt of the election and were the withdrawal must be a signed writing by the member and submitted on a form prescribed by the board.
   b) Maintain a record of the member's election, withdrawal, and executed spousal acknowledgement and understanding forms.
   c) Establish a separate DROP account for each participant. However, no system assets must be separately aggregated for any program account, and the participant must not have a claim, or right to claim, any specific assets of the system.
   d) At least once annually, provide a statement to the participant that displays the value or balance of their account that summarizes any credits or other transactions that occurred after the immediately preceding valuation date.
   e) Prior to the adoption regulations to implement the provisions of this bill, perform an actuarial analysis to determine whether the program will result in reduced costs or be cost neutral. Here, the program must be deemed to be cost neutral only if, based on the applicable actuarial assumptions, it will not have a significant financial impact on the employer or the retirement system, as specified, including certain cost elements anticipated the change due to program implementation, as provided. However, it must not be deemed to be cost neutral if certain measures are not satisfied, also as specified.
   f) Commencing July 1, 2027, perform an actuarial analysis on and after DROP implementation and on that date every five consecutive fiscal years thereafter regarding the cost impact or cost neutrality of the program, and submit a report of that analysis to

the CalHR, Department of Finance (DOF), and Legislature relating to the prior five-year period.

10) Authorizes the DOF, in consultation with the CalHR and the BUs, to make recommendations to the Legislature if the DOF determines that the program has resulted in significant increased costs, excluding costs related to negotiating employer DROP contributions pursuant to a MOU, to modify the program in a manner consistent with the actuarial analysis to make the program cost neutral. Further expressly reserves the right and authority of the Legislature to make changes to the program.

11) Stipulates that the rights of DROP participants or their spouses must be subject to any applicable provisions of law or court orders relating to dissolution of marriage, division of community property, and child or spousal support. Further stipulates that the right of a program participant to DROP benefits is not subject to execution or any other process nor is unassignable, except as provided.

12) Establishes that on and after the member's DROP election date, the participant must cease to accrue retirement benefits towards their pension and, instead, must begin to accrue deferred retirement benefits under the program, which must be credited to their DROP account.

13) Provides that while a member's DROP election is otherwise irrevocable by the member, CalPERS must revoke the member's participation if the member is injured during their DROP participation period and elects to retire for disability. Here, the member's DROP participation must immediately cease, and their accrued deferred benefits must be calculated and distributed as a lump-sum payment to them as of the date of the disability determination. Thereafter, the member must not again be permitted to elect DROP participation.

14) Provides that if the employment of a DROP participant is terminated for cause, their DROP participation must immediately cease as of the date of the termination. However, if a termination for cause is reversed after a final decision, determination, order, or judgment, their DROP participation must be reinstated effective after the date of the termination. Here, CalPERS must not disburse a lump-sum payment to a DROP participant until a final decision, determination, order, or judgment has been issued regarding the termination for cause. If such a termination is maintained, CalPERS must disburse a lump-sum payment of the participant's account, minus interest on the balance of their account that accrued from the date of such termination. Further, a DROP participant must not have a claim of right, or entitlement to, a DROP benefit on or after the date of for cause termination that is not reversed.

15) Requires DROP participants to continue to make their required normal retirement contributions during the program period where such contributions, instead, must be credited to their DROP account – not to their service retirement/pension account. Further, allows DROP participants to make additional monetary contributions to their program account above the required normal contribution, and to annually modify the amount of the additional contribution.

16) Authorizes the employer to make contributions to a participant's DROP account - only if agreed to by a MOU. During the member's DROP participation period, an employer is not required to continue to make its normal share of contributions that it otherwise would have

made to the system towards a member's service retirement/pension. Further, in the event that the employer and BU agree to an employer DROP contribution and the member subsequently elects a disability retirement during their DROP participation period, the participant must not be entitled to claim a right to receive, nor shall they receive, the employer's share of normal contributions that would have been required had the member not elected to participate in the DROP, towards the calculation of their program benefit.

17) Regarding the member's DROP account, prescribes the following amounts to be credited:
    a) Employee contributions.
    b) Negotiated employer contributions, if any.
    c) Interest (credited semiannually at a rate equal to the interest rate, if any, applicable to employee contributions to the system, or a rate semiannually determined by the board, but not less than five percent annually).
    d) The balance of all sick and unused vacation leave accrued during the program period, if the participant irrevocably selects this option prior to their deferred retirement date. (Sick leave is expressly prohibited from being credited among the participant's DROP and CalPERS retirement for service accounts.)

18) Expressly prohibits the amounts in "17)," above, from being applied to the calculation of the participant's final compensation for purposes of a service or disability retirement.

19) Provides that a participant has a vested right to 100 percent of the balance of their account when they become participant. However, if the participant is found guilty of a felony, as prescribed, they must forfeit all employer contributions and interest accrued on that portion of contributions to the extent that employer contributions have been negotiated pursuant to a MOU. Further, to the extent that employer contributions have been negotiated, and the participant is found guilty, all employer contributions must be returned to the credit of the employer.

20) Provides that if a member dies during their DROP participation period prior to their elected deferred retirement date, they must be deemed to be retired from the program as of their date of death, and no additional deferred retirement benefit shall accrue on and after that date, except for interest accrued on the balance of their account through the date of their death.

21) Establishes that the eligibility of a spouse for any benefit, including survivor benefit, must be based on the participant's marital status and the duration of the marriage as of the date of retirement or date or the date of the participant's death, as applicable, and the balance of the participant's program account must be accordingly distributed, as specified.

22) Authorizes a DROP participant to designate a beneficiary or beneficiaries at any time during the program period, i.e., from election date to deferred retirement calculation date, for the receipt of a lump-sum benefit payment, among other related provisions. However, if a DROP participant dies without a valid beneficiary designation on file with the system, or if their beneficiary or beneficiaries predecease the participant, the DROP account must be payable to the participant's estate.

23) States that a beneficiary is not permitted to elect a distribution that does not satisfy the requirements of this bill or any other state or federal law.

24) Authorizes a DROP participant to retire at any time during their participation period prior to their deferred retirement election date, which must be deemed as an "early program retirement." However, the participant must only receive a lump-sum payment of accumulated contributions and interest accrued on the account balance as of the date of that retirement. Thereafter, the participant must not have a right or entitlement to claim a program benefit after that date and must not again be permitted to elect program participation.

25) Establishes that upon disbursement of a lump-sum program retirement benefit by the system, the obligations of the system to the participant, their eligible spouse, or beneficiary must be construed and deemed to be fully discharged without further obligation. Further establishes that the board and its employees, agents, and contractors shall be held harmless by the participant, their survivor, or beneficiary after the disbursement of program benefits as directed by the program participant.

26) Expressly provides that DROP participation and DROP benefits, including amounts in a participant's DROP account, are not intended, nor shall be used in any manner, to enhance a member's retirement, as provided. Further expressly provides that, amounts in a participant's DROP account are not intended, nor shall be used in any manner, to calculate a member's retirement, nor to abridge or circumvent specified provisions within the Public Employee's Pension Reform Act (PEPRA of 2013) relating to supplemental defined benefit plans, replacement benefit plans, and the enhancement of a retirement benefit formula or retirement benefit.

27) Provides that a program participant must have all rights, privileges, and benefits of employment, but is subject to all terms and conditions of that employment, including, but not limited to, eligibility for other benefit programs not related to retirement benefits, and that are subject to the requirements of other laws or the terms of a MOU.

28) Entitles program participants who entered the program prior to the effective date of a modification discussed in item "10)," above, to elect whether to become subject to the modified program or to remain subject to the program as it existed on their election date.

29) Defines various terms for these purposes, including:
   a) "Deferred retirement date" to mean: i) the date that a member's employment must be terminated; ii) the date the member must be retired from CalPERS, except as provided; iii) the date that a member's program participation must conclude and be terminated; and, iv) the period of time where the present value of DROP benefits, including contributions and interest in the participant's account are payable to the participant.
   b) "Deferred retirement calculation date" to mean the date prior to the member's actual program retirement at which time benefits under the program must be calculated for distribution, as provided.
   c) "Department" to mean the CalHR.
   d) "Election date" to mean the date the member's elects and begins active program participation.
   e) "Participant" or "member" to mean an eligible peace officer of State BU 5 or a firefighter member who is an active CalPERS member and elects program participation.
   f) "Program account" to mean an account established by CalPERS for each program participant.

g) "Program period" to mean the period of time from the program participation election to the deferred retirement date, which must not exceed 60 consecutive months from the member's election date.

30) Requires the design and administration of the DROP to conform to applicable provisions of federal and state laws.

31) Includes uncodified legislative findings and declarations for these purposes.

EXISTING LAW:

1) Establishes the Public Employees' Retirement Law (PERL) to effect economy and efficiency in the public service by providing a means whereby employees who become superannuated or otherwise incapacitated may, without hardship or prejudice, be replaced by more capable employees, and to that end provide a retirement system consisting of retirement compensation and death benefits. (Sections 20000 *et seq.*, Gov. Code.)

2) Establishes the Public Employee Pension Reform Act (PEPRA) of 2013 – A comprehensive reform of public employee retirement that, among other things, increased contribution rates towards retirement, decreased retirement benefit formulas, and increased the age of retirement that apply to new members of the system first hired on or after January 1, 2013, and made changes that apply to all members towards resolving unfunded liabilities, manipulation of compensation for purposes of calculating a retirement allowance (e.g., pensions spiking and double-dipping), and includes other prescribed best practice measures as a matter of prudent public policy. (Sections 7522.02 *et seq.*, Gov. Code.)

3) Establishes the County Employees Retirement Law of 1937 ("CERL," "1937 Act," or "'37 Act"), which governs 20 independent county retirement associations and provides for retirement systems for county and district employees in those counties adopting its provisions. Currently, 20 counties operate retirement systems under the CERL, including Orange County.

   Further establishes that the purpose of the CERL is to recognize a public obligation to county and district employees who become incapacitated by age or long service in public employment and its accompanying physical disabilities by making provision for retirement compensation and death benefits as additional elements of compensation for future services, and to provide a means by which public employees who become incapacitated may be replaced by more capable employees to the betterment of public service without prejudice and without inflicting a hardship upon the employees removed. (Sections 31450 *et seq.*, Gov. Code.)

4) Authorizes a DROP, pursuant to the CERL, to provide eligible members who elect to participate in the program, access to a lump sum, or in some cases, additional monthly payments for a specified period in addition to a monthly retirement allowance. (Sections 31770 through 31779.3, Gov. Code)

5) Governs collective bargaining in the private sector under the federal National Labor Relations Act (NLRA), but leaves it to the states to regulate collective bargaining in their respective public sectors. (Sections 151 *et seq.*, Title 29, United States Code.)

   While the NLRA and the decisions of its National Labor Relations Board (NLRB) often provide persuasive precedent in interpreting state collective bargaining law, public employees have no collective bargaining rights absent specific statutory authority establishing those rights.

6) Provides several statutory frameworks under California law to provide public employees collective bargaining rights, govern public employer-employee relations, and limit labor strife and economic disruption in the public sector through a reasonable method of resolving disputes regarding wages, hours and other terms and conditions of employment between public employers and recognized public employee organizations or their exclusive representatives. Among these, the State Employer-Employee Relations Act, commonly referred to as the "Ralph C. Dills Act" or "Dills Act" governs employer-employee relations between the state, as an employer, and certain of its employees. (Sections 3512 *et seq.*, Gov. Code.)

7) Establishes the Public Employment Relations Board (PERB), a quasi-judicial administrative agency charged with administering certain statutory frameworks governing employer-employee relations, resolving disputes, and enforcing the statutory obligations and rights of public agencies, their employees, and employee organizations, but provides the City and County of Los Angeles a local alternative to PERB oversight. (Sections 3541 *et seq.*, Gov. Code.)

8) Establishes the CalHR, which succeeds to and is vested with the duties and powers of the former Department of Personnel Administration. Among those duties and powers, the CalHR is responsible for salaries, benefits, job classifications, training, and serves as the representative of the Governor as the employer in all matters pertaining to California state personnel, as well as employer-employee relations matters governed by the Dills Act. (Sections 19815 *et seq.*, Gov. Code.)

FISCAL EFFECT: Unknown. This bill is flagged as fiscal by Legislative Counsel.

COMMENTS:

Background

Information provided by the author states that, "[we] are currently unable to retain many of the best and brightest of our firefighters and highway patrol officers. Unfortunately, while DROP exists in other localities and in other states, there is currently no system in place to allow for a deferred retirement for BUs 5 and 8. This bill would establish the [DROP] as a voluntary program within [CalPERS] for [those BU employees…,)" and "…would require these [BUs] to bargain with the [CalHR] to collaboratively implement specifics of the program and would require the program to be cost neutral.

"We are in an age of a new normal. The catastrophic disasters that we have seen in the past decade require experienced strategists to keep our communities safe. Concomitantly, the CHP) has taken on an increasingly diverse and dangerous mission as it is now called upon to serve as the statewide law enforcement entity. The [CAL FIRE] is California's fire department. The new normal [also] has significantly increased the complexity of its mission. The challenges now being confronted by the CHP and CAL FIRE are dangerously protracted and require experience and expertise to confront. Recruitment and retention of CHP officers and CAL FIRE firefighters has resulted in a chronic shortage of needed personnel. Other public safety agencies in California have successfully employed DROP and it has been beneficial in allowing them to keep highly trained and experienced sworn personnel actively employed."

What is a DROP and How Does it Work?

"A DROP offers eligible employees an alternative path to retirement. In a DROP, a member who reaches retirement eligibility can elect to continue working while "freezing" their pension calculation. During participation in a DROP, rather than continuing to accrue increased retirement benefits based on additional years of service and salary adjustments, the employee's monthly retirement allowance is calculated as of their DROP entry date and those payments are deposited into a separate interest-bearing account. Upon the employee's ultimate retirement date, the accumulated value of the DROP account is distributed to them in a lump sum payment."[1]

As a rudimentary example: Patrol Officer Pixie Offbeat has 32 years of dedicated service for the California Highway Patrol (CHP). Pixie has achieved a combination of minimum years of service and age such that she is eligible to retire. Although Pixie thoroughly enjoys serving the public, thoughts of retirement and being able to travel while receiving a pension are enticing her to do so. But, the CHP values Pixie's years of knowledge and skill and wants (or needs) her to stay several more years to train Newton Coplin – a new highway patrol officer, who will be responsible for patrolling Pixie's patrol area if/when Pixie retires. The CHP informs Pixie about its DROP. Pixie then decides to file for retirement and participate in the DROP where Pixie will be able to continue to work, earn income, contribute earnings to her DROP account, but defer receiving her lifetime pension until a later date when she ultimately decides to retire for good and travel. When Pixie ultimately retires for good, she will receive money saved and interest accrued in her DROP account via a lump-sum payment and start receiving her lifetime pension.[2]

DROP Controversy at the Local Level

After media investigation, negative coverage, and negative public policy experience stemming from reports of employment manipulation and pension abuse by certain segments among

---

[1] *"Deferred Retirement Option Plans (DROP): An Actuarial Perspective."* California Actuarial Advisory Panel in response to a request from the Legislative Committee of the State Association of County Retirement Systems regarding DROP under the CERL. March 11, 2024.

[2] As stated, the example is rudimentary. Therefore, it is only intended to generally provide a basic description and understanding of a DROP and how it works. It is not intended to solely be factually relied upon. It is highly advised that an individual interested in DROP participation consult with their DROP sponsor/administrator, a professional financial planner, and/or licensed tax counsel.

employees of the City of Los Angeles relating to its DROP, the former city Mayor spearheaded a reform of the program to address these issues, among others.[3]

This Bill Proposes to Address Challenges, Provide Potential Benefits, and Includes Public Policy Guardrails

This bill proposes to help address the state's challenges regarding recruitment and retention in the CHP and CAL FIRE by allowing certain highly skilled, trained, and experienced public safety personnel to remain employed for up to 60 consecutive months after they reach the age and years of service that would make them eligible to retire. In so doing, it supports the state's efforts to maintain and enhance critical public safety needs while new recruits/hires are brought online by allowing the employer and public to continue to rely on critical human capital and their expertise for a limited period of time, and in a manner that addresses considerations regarding tangible and intangible taxpayer costs (e.g., public safety needs/concerns and ongoing/future employer pension-related obligations).

Because the DROP is intended and designed to be separate from, and independent of, pension-related matters, the employer's pension-related costs could be reduced as such costs would be "frozen" for each DROP participant at the time of their DROP election. For example, salary increases granted during the DROP period would not count towards the calculation of the employee's lifetime pension earned as they otherwise would; thereby, saving employer costs on increased pension costs in future years for contributions resulting from that salary increase. Instead, such increases would be paid to the employee who may elect to use the salary increase to increase their own required minimum DROP contribution. In addition, sick leave accrued during the DROP participation period, which could otherwise be calculated towards a lifetime pension, could be credited to the participant's DROP account.[4]

Considering the challenges that plagued the City of Los Angeles' DROP that warranted its reform as well as in-depth guidance from a monograph published by the Society of Actuaries,[5] up-front, this bill addresses potential concerns by including numerous public policy guardrails that help serve the public interest. Among others, they include:

- Making voluntary participation a one-time only, irrevocable election.

- Limiting DROP participation to a period of up to 60 consecutive months.

- Maintaining the applicability and effect of existing public employee retirement laws (e.g., the PEPRA) to guard against pension manipulation and abuse as the DROP is intended and designed to be separate from, and independent of, the earning of service credit towards the

---

[3] *"LA police, firefighters rush to join controversial DROP program. The program that pays veteran responders nearly double for the last five years of their careers received a flood of new enrollees in February."* Police1, April 16, 2018. *"Controversial retirement program for L.A. police and firefighters would be reformed under new proposal."* The Los Angeles Times, August 24, 2018.
[4] Potential cost-savings are not exhaustive, and this committee defers to the Assembly Committee on Appropriations to determine such matters. As such, this discussion is only intended to provide examples of potential cost savings.
[5] *"Design and Actuarial Aspects of Deferred Retirement Option Programs."* Society of Actuaries, 2003. https://www.soa.org/ globalassets/assets/library/monographs/retirement-systems/design-and-actuarial-aspects-of-deferred-retirement-option-programs/2003/january/m-rs03-2.pdf

calculation of a lifetime pension (which includes the creation of a separate account for DROP purposes).

- Limiting participation to those who are currently employed, i.e., not already retired.

- Requiring certain employee waivers to participate (e.g., disability retirement application/claim at the time of DROP election to help ensure that the employee is actually ready, willing, and able to report to, and perform, assigned duties.

- Spousal protections by preventing the potential for marital fraud where a signed spousal acknowledgement of DROP participation is required (esp. when considering potential tax consequences, marital dissolution, and child support obligations).

- Requiring employees to continue to make minimum contributions towards their DROP and simultaneously not requiring the employer to make contributions, unless agreed to by a MOU (potentially generating savings).

- Requiring implementing and periodic actuarial analyses to be performed regarding costs or cost-neutrality of the program for transparency purposes (which includes the ability to make changes to the program, if appropriate or necessary).

- Addressing DROP participation in instances of employment termination for cause.

- Ensuring adherence to other state and federal laws, among others.

Potential Drop Participation in the Future by the Numbers

The tables on the following page display a preliminary and potential number of BU 5 and 8 members who may be eligible for DROP participation and to whom this bill could apply in the future (assuming that all who may be eligible to participate elect to do so). For example, the table for those who are at least 50 years of age with at least five years of service credit represent those who are currently closest to retirement eligibility. The remaining tables represent those who could become eligible to participate in the not-too-distant future (provided they have reached the requisite combination of age and years of service where they could be eligible to retire).

In sum, the first table, i.e., at least 50 years of age with at least 5 years of service shows that approximately 1,635 members among both BUs 5 and 8 could be eligible for DROP participation soon based on attaining the required combination of age and years of service that would make them eligible for a service retirement. In the remaining tables, approximately 831 members among both BUs 5 and 8 could be eligible for DROP participation in the future once they have attained the required combination of age and years of service that would make them eligible for a service retirement. [6]

---

[6] Preliminary CalPERS data as of June 30, 2025.

50+ Years Old w/ 5+ Years of Service Credit

Formula	Classic	PEPRA	Total
BU 5	**931**	**2**	**933**
3 @ 50	914		914
3 @ 55	17		17
2.7 @ 57		2	2
BU 8	**621**	**81**	**702**
3 @ 50	596		596
3 @ 55	16		16
2.7 @ 57	9	81	90
Total	**1,552**	**83**	**1,635**

49 Years Old w/ 4+ Years of Service Credit

Formula	Classic	PEPRA	Total
BU 5	**245**	**0**	**245**
3 @ 50	234		234
3 @ 55	11		11
2.7 @ 57			0
BU 8	**156**	**13**	**169**
3 @ 50	150		150
3 @ 55	5		5
2.7 @ 57	1	13	14
Total	**401**	**13**	**414**

48 Years Old w/ 3+ Years of Service Credit

Formula	Classic	PEPRA	Total
BU 5	**256**	**3**	**259**
3 @ 50	244		244
3 @ 55	12		12
2.7 @ 57		3	3
BU 8	**138**	**20**	**158**
3 @ 50	133		133
3 @ 55	4		4
2.7 @ 57	1	20	21
Total	**394**	**23**	**417**

Potential Income Tax Consequences Borne by DROP Participants

It is important to note that the reason(s) why an employee might participate in a DROP are unique to every individual (e.g., continued public service, saving money to pay college tuition for a child(ren), purchase of a home, paying down/off debt obligations, etc.), and such decisions are personal. Nevertheless, depending on what an employee ultimately does with the lump-sum amount of their DROP distribution when they retire, there may be income tax consequences borne by them (ref. fn. 2). For those who redeposit the funds in another separate retirement savings account for withdrawal, including via an annuity, during their later years, this may help to reduce the financial impact of such matters.

Statement by the Author

"This bill is smartly written as it will allow enhanced public safety and at the same time will not strain state coffers. We have learned from others how to develop a DROP… that makes sense to the employees and displays fidelity to the taxpayer."

Comments by Supporters

Jointly, the California Association of Highway Patrol (CAHP) and CAL FIRE Local 2881 express that, "[…] we strongly believe in a DROP program that relies on transparency of cost, provides employees with options, the state benefits with maintaining experienced personnel, and it will in statute be cost neutral.

The CAL FIRE is California's fire department, and the new normal of catastrophic disasters has significantly increased the complexity of its mission. The California Highway Patrol (CHP) has taken on an increasingly diverse and dangerous mission as it is now called upon to serve as the statewide law enforcement entity.

The challenges now being confronted by CAL FIRE and the CHP are dangerously protracted and require experience and expertise to confront. Lack of retention of seasoned vets has resulted in a chronic shortage of personnel needed. This must be bargained with HR.

[This bill] will allow an firefighter/officer who is eligible for retirement to continue working for up to five additional years while accumulating retirement benefits in an interest-bearing account. Upon retirement, the firefighter/officer will receive their accumulated funds, supplementing their pension.

DROP serves as a voluntary program allowing eligible officers and firefighters to extend their careers while securing enhanced retirement benefits at no cost to the state. [This bill] not only addresses the critical staffing shortage but retains the knowledge and experience of veteran officers and firefighters which will greatly enhance public safety."

Comments by Opponents

None on file.

Prior or Related Legislation

Assembly Bill 704 (Calderon, 2009) proposed to create a voluntary DROP for excluded and exempt employees of state BUs 5, 6 (Corrections), 7 (Protective Services and Public Safety), and 8. This bill was held in the Assembly Committee on Appropriations.

Assembly Bill 268 (Calderon, 2007), as amended in Senate June 19, 2008, proposed to create a voluntary DROP for excluded and exempt employees of state BUs 5, 6, 7, and 8. This bill was subsequently amended and chaptered to address an unrelated matter.

Assembly Bill 991 (Calderon, 2007) proposed to create a voluntary DROP for excluded and exempt employees of state BUs 5, 6, 7, and 8. This bill was held in the Assembly Committee on Appropriations.

Chapter 897, Statutes of 2003 (Assembly Bill 274, Soto) authorizes a DROP, pursuant to the CERL, to provide eligible members who elect to participate in the program, access to a lump sum, or in some cases, additional monthly payments for a specified period in addition to a monthly retirement allowance, among other provisions.

Senate Bill 1409 (Soto, 2002) proposed to establish a DROP for local safety members whose employers contracted for the option and allowed eligible employees to back-date their effective date of retirement up to 5 years to participate. The Governor vetoed this stating in part:

> *"The DROP created by this bill has significant costs to local government retirement programs. It also has significant administrative costs to CalPERS which would reduce investment earnings that are credited to employer retirement accounts."*

Senate Bill 1024 (Soto, 2001) proposed to establish the DROP as an optional benefit program for law enforcement and specified firefighter members of a CERL system that choose to offer the program, among other provisions. This bill was vetoed by the Governor who stated:

> *"I vetoed a similar measure last year, SB 193, on the basis that it would create significant costs to local government. Although this bill indicates that the programs offered must be cost neutral, I remain unconvinced that this will occur with either the Forward DROP or the Backward DROP. Safety retirement provides a more generous allowance at an earlier age than for non-safety employees. I believe this to be justified public policy because it encourages a younger, more physically capable safety workforce that will provide protection to the public in times of emergencies."*

Senate Bill 193 (Soto, 2001) proposed to establish a DROP for local safety member of the California Public Employees' Retirement System, as well as CERL systems. This bill was vetoed by the Governor who stated in part:

> *"This bill would create a DROP having significant costs to local government retirement programs. I would be open to considering a truly cost neutral program for local government."*

Assembly Bill 293 (Shelley, 2001) proposed to establish a DROP for BUs 5, 6, and 8, among other provisions. This bill was vetoed by the Governor who stated:

> "The bill includes provisions that should be subjects of bargaining and would inhibit the State's ability to develop a program that is cost-neutral, should the State choose to do so. If a cost neutral program is successfully bargained with the Department of Personnel Administration, the negotiated items can be included in a [MOU] and ratified by the Legislature."

Assembly Bill 2030 (Correa, 2000) proposed to create a DROP for school members and local contracting agency members whose employer contracts for the DROP. This bill was held in the Senate Committee on Appropriations.

Senate Bill 1312 (Ortiz, 1999) proposed to establish a DROP for state and local members whose employing agency elects to be subject to the program, among other provisions. This bill was vetoed by the Governor who stated:

> *"This bill would result in increased retirement costs to the State and school employers, and for contracting local agency employers opting for the DROP. This bill is overly broad. These benefits, if at all, should accrue only to Safety personnel."*

Senate Bill 396 (Ortiz, 1999) proposed to authorize the CalPERS to establish a DROP. This bill was held in the Senate Committee on Public Employment and Retirement.

REGISTERED SUPPORT / OPPOSITION:

Support

California Association of Highway Patrolmen *(Co-sponsor)*
CAL FIRE Local 2881, IAFF, AFL-CIO *(Co-sponsor)*

Opposition

None on file.

Analysis Prepared by: Michael Bolden / P. E. & R. / (916) 319-3957