

Date of Hearing: January 22, 2026

ASSEMBLY COMMITTEE ON APPROPRIATIONS

Buffy Wicks, Chair

AB 1054 (Gipson) – As Amended January 5, 2026

Policy Committee: Public Employment and Retirement Vote: 7 - 0

Urgency: No State Mandated Local Program: No Reimbursable: No

SUMMARY:

This bill creates the Deferred Retirement Option Program (DROP) specifically for state employers and eligible employees of State Bargaining Unit 5 and Unit 8, respectively, who are a peace officer or firefighter member of the California Public Employees' Retirement System (CalPERS). The bill also allows participating employees to receive a one-time lump-sum payment of deferred retirement benefit payments deposited into their DROP account upon termination of employment and subsequent retirement from CalPERS.

The bill is operative only upon certification by the CalPERS Board of Administration that the program would be cost-neutral, the applicable bargaining unit enters a memorandum of understanding with the employer, and CalPERS adopts regulations to implement and administer the program.

FISCAL EFFECT:

- 1) One-time costs to CALPERS of an unknown but likely significant amount, potentially in the hundreds of thousands of dollars, to perform the required actuarial analysis to determine whether the DROP would be cost-neutral and to oversee implementation.
- 2) Unknown but potentially significant net impact on state and local employers, possibly in the hundreds of thousands of dollars to tens of millions of dollars statewide. These entities would experience savings to the extent they no longer make retirement contributions on behalf of an employee participating in the DROP program. However, such savings would be offset, to some degree, by wages the employer would continue to pay to the long-term employee that are higher than the wages the employer would have instead paid a newly hired replacement.
- 3) Potential cost pressures to the CalPERS retirement fund of an unknown but potentially significant amount, possibly in the millions of dollars to tens of millions of dollars annually. Previous CalPERS actuarial cost analyses of proposed DROPs have found that, if employees act in their own best interest, DROPs by design are unlikely to be cost neutral to the retirement fund. Approximately 75% of peace officers already work beyond the maximum retirement age. For many of these employees, participation in the DROP would result in additional years of retirement benefits from the fund, since under existing law they would not be collecting benefits for the period in which they are working. Over time, the DROP may result in increased state contributions to the CalPERS retirement fund.

COMMENTS:1) **Purpose.** According to the author's office:

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.

- 2) **Background.** A DROP allows eligible employees to freeze their pension calculation upon reaching retirement eligibility, foregoing increased retirement benefits resulting from additional years of service and salary adjustments, and deposit the monthly retirement allowance they would have otherwise received into a separate interest-earning DROP account while they continue working. The employee then receives a lump sum payment for the value of the DROP account upon their ultimate retirement date. This bill requires that an employee's election to participate in DROP is one-time only and irrevocable, not to last more than 60 consecutive months, and limits participation only to current employees of State Bargaining Units 5 and 8 and not those already retired.
- 3) **Prior Legislation.** AB 704 (Calderon), of the 2009-10 Legislative Session, would have created a DROP for excluded and exempt employees of state BUs 5, 6 (Corrections), 7 (Protective Services and Public Safety), and 8. The bill was held in this committee.

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