ASSEMBLY THIRD READING
AB 1054 (Gipson)
As Amended January 5, 2026
Majority vote

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.

Major Provisions

1) Establish, 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) five and eight.

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

4) Authorize 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.

5) Establish that the election to participate in the DROP must be made by a signed writing by the member on form prescribed by, and submitted to, CalPERS, and 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.

6) Require a member to make their DROP participation election prior to retirement for service; expressly provide that a member who has already retired for service or disability must not be permitted to participate in the DROP; and, DROP participants must be subject to certain prescribed requirements.

7) Require CalPERS to provide certain written notices to the DROP participants; maintain records; establish a DROP account for each individual who elects participation; provide a DROP account statement at least once annually to participants; perform an actuarial analysis to determine if the DROP will be cost-neutral; adopt regulations to implement the provisions of this bill; and, perform a periodic actuarial analysis every five fiscal years regarding program cost impact or cost-neutrality and provide a report to the Department of Finance (DOF), California Department of Human Resources (CalHR), and the Legislature.

8) Authorize 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.

9) Explicitly provide 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. Further, require 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, and allow 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.

10) Require termination of DROP participation in the event of disability retirement during the DROP participation period, termination for cause, and early retirement, as provided, respectively.

11) Authorize 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.

12) Expressly prescribe what must be credited to a DROP account, i.e., employee contributions, employer contributions (if any), interest, and balance of unused sick and vacation leave (if irrevocably elected).

13) Expressly prohibit DROP contributions and interest credited to a DROP account and leave balances remaining at the termination of DROP participation from being applied to the calculation of the participant′s final compensation for purposes of a service or disability retirement.

14) Stipulate that a DROP 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. Further, provide for vesting and forfeiture (if convicted of a felony, as prescribed).

15) Include provisions relating to beneficiary designation and the distribution of DROP account proceeds and fully discharge the obligations of CalPERS upon disbursement of lump-sum DROP benefits, and holds harmless, the system, its employees, agents, and contractors.

16) Expressly provide 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 provide 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.

17) Stipulate that a DROP 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.

COMMENTS

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 of how this bill would work*:* 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, which ″freezes″ her pension at that time, 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.

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[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 County Employees Retirement Law. March 11, 2024.

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 Plans are Not New in California

Since 2004, the County Employees Retirement Law of 1937 (CERL) has authorized county employee retirement systems 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.[3]

Following a multi-year effort by certain employee groups, the County of San Diego recently implemented a DROP plan that allows some staff to simultaneously collect their salaries and pensions.[4] An independent actuarial analysis submitted to the San Diego County Employees Retirement Association (SDCERA) of the proposed DROP benefits was based on a draft implementation Ordinance that was tentatively agreed to by the county and various safety employee bargaining parties. This independent actuarial analysis concluded that the proposed DROP under the terms of the draft implementation Ordinance is cost neutral, among other important information.[5]

In another example, after media investigation, negative coverage, and negative public policy experience stemming from reports of employment manipulation and pension abuse by certain segments among 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.[6]

This Bill Proposes to Address Statewide Challenges, Provide Potential Benefits, and Includes Various 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).

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[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 this bill would work. 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, licensed tax advisor, and/or or legal counsel.
[3] Chapter 897, Statutes of 2003 (Senate Bill 274, Soto).
[4] "*Keeping experienced staff, or 'double dipping?' San Diego County Oks controversial DROP pension plan."* San Diego Union-Tribune, January 14, 2026.
[5] *"Deferred Retirement Option Plan (DROP) Cost Neutrality Study* (based on June 30, 2024, valuation)." The Segal Group presented to SDCERA, December 9, 2025. https://content.sdcera.org/wp-content/uploads/2025/12/2025_Deferred_Retirement_Option_Program_DROP_Cost_Neutrality_Study.pdf
[6] *"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.

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,[7] up-front, this bill addresses potential concerns by including numerous public policy guardrails that help serve the public interest.

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.

Please see the policy committee analysis for a full discussion of this bill.

According to 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.″

Arguments in Support
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 a 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.″

Arguments in Opposition
None on file.

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[7] *"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

FISCAL COMMENTS

According to the Assembly Appropriations Committee, this bill would result in the following:

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.

VOTES

ASM PUBLIC EMPLOYMENT AND RETIREMENT: 7-0-0
YES: McKinnor, Alanis, Boerner, Elhawary, Garcia, Chen, Nguyen

ASM APPROPRIATIONS: 14-1-0
YES: Wicks, Hoover, Stefani, Calderon, Caloza, Fong, Mark González, Krell, Bauer-Kahan, Pacheco, Pellerin, Solache, Ta, Tangipa
NO: Dixon

UPDATED

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