SENATE COMMITTEE ON APPROPRIATIONS
Senator Sabrina Cervantes, Chair
2025 - 2026 Regular Session

AB 1054 (Gipson) - Public employees' retirement: deferred retirement option program

Version: June 25, 2026
Urgency: No
Hearing Date: August 13, 2026

Policy Vote: L., P.E. & R. 5 - 0
Mandate: No
Consultant: Robert Ingenito

Bill Summary: AB 1054 would establish a Deferred Retirement Option Program (DROP) for participating State Bargaining Unit (BU) 5 peace officers (CAHP) and State BU 8 firefighters (CalFire Local 2881), as specified.

*********** ANALYSIS ADDENDUM – SUSPENSE FILE ***********
The following information is revised to reflect amendments adopted by the committee on August 13, 2026

Fiscal Impact:

- The California Public Employees Retirement System (CalPERS) estimates one-time implementation costs of $1.8 million to establish DROP. The majority of these costs would be associated with information technology system enhancements. Additional one-time costs would include conducting the initial actuarial analysis, adopting regulations, developing educational and training materials, updating internal procedures, and responding to increased call center activity during implementation.

  CalPERS would incur ongoing administrative costs potentially reaching $800,000 annually, depending on the number of members who elect to participate in the program. These costs would support member enrollment and elections, payroll processing, account balance tracking and distributions, member education and customer service, and actuarial and legal support (Public Employment Retirement Fund).

- The California Department of Forestry and Fire Protection (CAL FIRE) anticipates that this bill would have an unknown fiscal impact (General Fund). The Department notes that while the bill stipulates that CalPERS must certify the DROP as cost neutral before it can be implemented, this bill would allow for continued employer contributions to the employee's DROP account to be collectively bargained, and exempt this increase from the bill's cost-neutral requirements.

- The California Highway Patrol (CHP) estimates that this bill could result in significant ongoing personnel costs by allowing retirement-eligible officers to remain in their positions rather than retire and be replaced by lower-cost newly appointed officers. Based on participation rates observed in similar DROP programs, CHP assumes that approximately 87 percent of eligible retiring officers would participate, resulting in an estimated 331 new DROP participants annually.

After accounting for some employees leaving the program before the maximum five-year participation period, CHP estimates participation could grow to approximately 1,500 officers by the fifth year.

CHP estimates that each participating officer could increase department costs by approximately $7,800 per month compared to replacing the employee with a newly appointed officer. This includes both higher salary costs and increased CalPERS employer contributions associated with retaining more senior employees. Based on projected participation levels, CHP estimates additional personnel costs could increase from $31 million in the first year to $140 million annually by the fifth year (Motor Vehicle Account).

CHP notes that its estimates are limited to salary and pension contribution differences and do not include other potential costs, such as overtime, backfill staffing, workers' compensation, industrial disability leave, administrative workload, academy planning impacts, salary increases, or other compensation affecting retirement calculations. Actual costs could be significantly higher and continue beyond the five-year period depending on employee participation, retention duration, and the number of officers who otherwise would have retired and been replaced.

- The bill could result in potential long-term cost pressures on the CalPERS retirement fund of an unknown but potentially significant amount, potentially in the millions to tens of millions of dollars annually. Prior CalPERS actuarial analyses of proposed DROP programs have found that, when employees act in their own financial interest, DROP programs are unlikely to be cost-neutral because they may provide benefits beyond those employees would otherwise receive under the existing retirement system. For example, approximately 75 percent of peace officers already work beyond the maximum retirement age. For these employees, participation in the DROP program could result in additional retirement benefits that would not have otherwise been paid during their continued employment. Over time, these additional liabilities could increase CalPERS' unfunded liability and require higher state and local employer contributions.

- The bill could result in increased health care provider costs to the State as a direct employer. The magnitude is unknown.

Author Amendments:

- Clarify eligibility for certain supervisory or managerial employees of CAL FIRE and CHP.

- Require CalPERS to commence paying the member their monthly retirement allowance as of the first day of the month following the deferred retirement date.

- Clarify the timeline of when the required actuarial analysis is required.

- Expand the definition of annuitant, thereby permitting a person (or surviving family, as specified) whose deferred retirement date is 120 days of separation from DROP and who receives a retirement allowance under any state retirement system to which the State was a contributing party to enroll in a health benefit plan under the Public Employees' Medical and Hospital Care Act.

-- END --