THIRD READING

Bill No: AB 1054
Author: Gipson (D), et al.
Amended: 8/13/26 in Senate
Vote: 21

SENATE LABOR, PUB. EMP. & RET. COMMITTEE: 5-0, 6/24/26
AYES: Smallwood-Cuevas, Strickland, Cortese, Durazo, Laird

SENATE APPROPRIATIONS COMMITTEE: 7-0, 8/13/26
AYES: Cervantes, Seyarto, Cabaldon, Dahle, Grayson, Richardson, Wahab

ASSEMBLY FLOOR: 68-1, 1/26/26 - See last page for vote

SUBJECT: Public employees' retirement: deferred retirement option program: public employee health benefits

SOURCE: California Association of Highway Patrolmen
Cal Fire Local 2881

DIGEST: This bill establishes a Deferred Retirement Option Program (DROP) for participating State Bargaining Unit (BU) 5 patrol officers and State BU 8 state peace officer/ firefighters, and their associated supervisors and managers, as specified.

ANALYSIS:

Existing law:

1) Establishes the Department of the California Highway Patrol within the California State Transportation Agency, which is the successor to and is vested with the duties, powers, purposes, responsibilities, and jurisdiction of the former Division of Enforcement of the Department of Motor Vehicles, known as the California Highway Patrol, and of the officers and employees thereof. (Vehicle Code § 2100 et seq.)

2) Establishes the California Department of Forestry and Fire Protection (CAL FIRE) within the California Natural Resources Agency, which is responsible for the fire protection, fire prevention, maintenance, and enhancement of the state's forest, range, and brushland resources, contract fire protection, associated emergency services, and assistance in civil disasters and other non-fire emergencies. (Public Resources Code § 700 et seq).

3) Establishes the State Employer-Employee Relations Act ("Dills Act") authorizing collective bargaining between state employees and the Governor or the Governor's designated representatives. (Government Code § 3512 et seq)

4) Provides that the scope of representation in collective bargaining pursuant to the Dills Act shall be limited to wages, hours, and other terms and conditions of employment, except, however, that the scope of representation shall not include consideration of the merits, necessity, or organization of any service or activity provided by law or executive order. (Government Code § 3516)

5) Establishes the California Department of Human Resources (CalHR), the Governor's designated representative, and requires it to meet and confer in good faith regarding wages, hours, and other terms and conditions of employment with representatives of recognized employee organizations, and to consider fully such presentations as are made by the employee organization on behalf of its members prior to arriving at a determination of policy or course of action. (Government Code § 3517 and §19815 et seq.)

6) Requires the bargaining parties, if they reach an agreement, to jointly prepare a written memorandum of such understanding to be presented, when appropriate, to the Legislature for determination. (Government Code § 3517.5)

7) Requires CalHR to provide to the Joint Legislative Budget Committee (JLBC) any side letter to the MOU requiring the expenditure of $250,000 or more related to salary and benefits and requires JLBC to determine within 30 days whether the side letter requires legislative action, as specified. (Government Code § 3517.63)

8) Establishes the California Public Employees' Retirement System (CalPERS) governed by a board of administration under the Public Employees' Retirement Law (PERL) and constitutional provisions providing the board with plenary authority over CalPERS' investments and administration. (Government Code § 20000 et seq. and CA CONS art. 16, §17)

9) Provides that the purposes of the PERL is 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. (Government Code §20001)

10) Establishes the California Public Employee Pension Reform Act (PEPRA) of 2013, a comprehensive public employee retirement reform implemented in response to the 2002 Dot Com financial crash and the 2008 Financial Crisis, which together dramatically increased the costs of substantial pension benefit enhancements provided by SB 400 (Ortiz), Chapter 555, Statutes of 1999. (Government Code § 7522 et seq.) [1]

11) 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. (Government Code § 31450 et seq.)

12) Authorizes CERL retirement associations to offer a DROP for *county* retirement members, as specified, 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. (Government Code § Sections 31770 through 31779.3, Gov. Code)

13) Provides local cities and counties self-governing authority under local charters established pursuant to the constitution, including authority to regulate their employees and provide for their compensation. Under their charter authority, several local governments have established independent public retirement systems for their employes, including San Francisco, Los Angeles, and San Diego. (CA CONST art. 11, §1 et seq)

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[1] PEPRA 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 included other prescribed prudent pension policy measures.

This bill:

1) Establishes the DROP as a voluntary program within CalPERS for BU 5 patrol members, BU 8 state peace officer/ firefighter members, and their associated supervisory and managerial employees. DROP participants elect a deferred retirement date, continue working 1-5 years, freeze their defined benefit (DB) pension benefit accrual, divert their normal contributions to their DROP account, earn a guaranteed interest credited by CalPERS, as specified, and upon reaching the deferred retirement date, receive their pension and a one-time lump-sum payment of their DROP account balance upon termination of employment and subsequent retirement from CalPERS.

2) Prohibits a participant from accruing or purchasing any additional service credit or retirement benefit in any public employee retirement system for service performed during the DROP period.

3) Prohibits service during the DROP period from counting as “state service” for post-retirement health vesting.

4) Requires the applicable bargaining units and the state to reach agreement pursuant to the Ralph C. Dills Act, and for CalPERS to complete an actuarial analysis and determine the proposed program will be cost neutral, before the respective DROPs becomes effective and applicable.

5) Requires members who elect to participate in the program to meet certain requirements, including waiving any claims with respect to age and other discrimination in employment laws relative to the program.

6) Prohibits a BU 5 patrol member subject to mandatory retirement rules from participating in the DROP beyond their mandatory retirement age.

7) Clarifies that a surviving spouse’s eligibility for DROP benefits shall be based on the participant’s marital status and the marriage duration as of the deferred retirement date.

8) Requires CalPERS to distribute DROP benefits of a participant who dies during the DROP period pursuant to applicable death benefit provisions, as specified.

9) Requires CalPERS to commence paying the member’s pension allowance as of the first day of the month following their deferred retirement date; to calculate the member’s pension allowance as if they retired one day prior to their DROP election date; and to increase the member’s pension allowance commensurate

with the percentage increase of any appliable COLA increases from one day before their DROP election date.

10) Establishes a program account for each participant and would require CalPERS to, among other things and at least once annually, provide a statement to the participant that displays the value or balance of the participant's program account.

11) Authorizes the participant to designate a person or persons as beneficiaries of the participant's program account at any time during the program period from their election date to the deferred retirement calculation date.

12) Prohibits compensation earned during DROP participation from being applied to the participant's final compensation for service or disability retirement calculations.

13) Requires CalPERS to submit a report of an actuarial analysis to specified entities every five years commencing with July 1 of the fiscal year the program is implemented.

14) Requires CalPERS to credit, subject to the results of the required actuarial analysis and implementing and administrative regulations, the specified amounts the participant's account (i.e., all normal contributions and all interest credited semiannually).

15) Entitles participants who entered the program prior to the effective date of any modifications by the Legislature to elect whether to become subject to those modified provisions or to remain subject to the program as it existed on the participant's election date, except as specified.

16) Provides the participant a vested right to 100 percent of the balance of the participant's DROP account but subjects the interest accrued on the required normal contributions to forfeiture if the participant is found guilty of a felony, as specified.

17) Specifies that the Legislature reserves the right to suspend the program through legislative action ratified by the Governor under certain circumstances. If the Legislature and the Governor approve the program's suspension, the bill would terminate all participants' benefit accrual and would prohibit any participant, eligible spouse, or beneficiary from having any vested right to any prospective program benefit, as specified.

18) Adds to the definition of *annuitant* for purposes of eligibility for post-retirement health care coverage under the Public Employees' Medical and Hospital Care Act, a DROP participant whose deferred retirement date is within 120 days of separation from the DROP program, and receives a retirement allowance, as specified.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

According to the Senate Appropriations committee:

- 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.

SUPPORT: (Verified 8/13/26)

Cal Fire Local 2881
California Association of Highway Patrolmen

OPPOSITION: (Verified 8/13/26)

California Policy Center

ARGUMENTS IN SUPPORT:

According to Cal Fire Local 2881 and the California Association of Highway Patrolmen:

"The program allows an officer or firefighter who is already eligible to retire to continue working for up to five additional years in the same classification, accumulating retirement benefits in an interest-bearing account that is paid out as a lump sum to supplement their pension upon retirement.

Both the California Highway Patrol and CAL FIRE have taken on increasingly diverse, demanding, and dangerous missions as the state's law enforcement entity and California's fire department, respectively. Shortages of personnel driven by persistent recruitment and retention challenges have left both departments increasingly reliant on veteran officers and firefighters. They cannot afford to lose these seasoned employees."

ARGUMENTS IN OPPOSITION:

According to the California Policy Center:

"Deferred Retirement Option Programs (DROP) are, at their core, a form of double-dipping by allowing retirement-eligible employees to simultaneously collect a pension deposited into a separate account and continue drawing a full salary for the same work. This practice is out of line with what the private sector offers and is patently unfair to taxpayers who foot the bill. Rather than incentivizing experienced employees to transition out of government service at the appropriate time, DROP programs perversely reward them for staying on while collecting two streams of public compensation and increasing the government's unfunded liability.

The deeper fiscal danger of DROP programs lies in how they interact with California's already chronically underfunded pension systems. Pension costs that appear manageable under optimistic actuarial assumptions can deteriorate rapidly when market conditions shift. Layering a DROP benefit on top of an already stressed defined benefit system – as AB 1054 proposes for CalPERS – adds new actuarial complexity and cost exposure at precisely the moment when the state should be moving in the opposite direction. The bill's requirement of a cost neutral actuarial analysis before implementation offers cold comfort given California's well-documented history of pension actuaries producing optimistic assumptions that consistently understate long-term costs."

ASSEMBLY FLOOR: 68-1, 1/26/26
AYES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Castillo, Chen, Connolly, Davies, Elhawary, Ellis, Flora, Fong, Gabriel, Garcia, Gipson, Jeff Gonzalez, Mark González, Hadwick, Haney, Harabedian, Hart, Hoover, Irwin, Jackson, Kalra, Krell, Lee, Lowenthal, McKinnor, Muratsuchi, Nguyen, Ortega, Pacheco, Patel, Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Ransom, Michelle Rodriguez, Rogers, Blanca Rubio, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Valencia, Wallis, Ward, Wicks, Wilson, Zbur, Rivas
NOES: DeMaio
NO VOTE RECORDED: Arambula, Dixon, Gallagher, Johnson, Lackey, Macedo, Papan, Celeste Rodriguez, Sanchez, Ta, Tangipa

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