CONCURRENCE IN SENATE AMENDMENTS
AB 1383 (McKinnor)
As Amended August 27, 2026
Majority vote

## SUMMARY

Makes changes to the Public Employees' Pension Reform Act (PEPRA) of 2013 that apply prospectively to: (1) increase the pensionable compensation limit used to calculate a Defined Benefit (DB) retirement for all public employees, as provided; (2) provide options for various DB retirement formulas applicable only to safety retirement plan members; and, (3) authorize employers and recognize employee organizations to negotiate a lower or higher DB safety retirement plan formula, as prescribed.

**Senate Amendments**

1) Reduce the pensionable compensation limit used to calculate the DB paid to a member who retires from a public employee retirement system from 135% to 120% of the federal social security limit for members whose service is not included in the federal system.

2) Make technical and clarifying changes.

## COMMENTS

*What is the PEPRA and Why Does it Exist?*

The enactment of the PEPRA resulted from several substantial negative legislative and public experiences that required a statutory response through prudent reforms to public employee retirement.

Generally, Chapter 555, Statutes of 1999 (Senate Bill 400, Ortiz) increased pension benefit formulas and granted pension contribution holidays, i.e.., reduced or eliminated employer and employee contributions, under a belief that the super-funded (more than 100% funded) status of particular retirement systems would maintain that status for some time following a period of substantial economic and market growth and pension system positive investment returns. Relatively shortly thereafter, this belief was met by economic and financial crises due to the dot-com downturn in the early- to mid-2000s followed by the 2008 economic crisis that caused financial market instability. The combination of both events negatively affected California's public employee pension systems' investment returns that took nearly a decade for them to recover.

With the enactment of SB 400 followed by those economic crises affecting pension fund investment returns, this resulted in increased unfunded or underfunded actuarial liabilities (UAL) or obligations (UAO). The public outcry against that public policy coupled with those economic crises and increased UAL/UAO was then followed by regular and increased attention by the media and the public, as well as pension abuse schemes and manipulation by public employers and employees such as pension spiking and double-dipping, among other questionable and concerning pension activities, which amplified the public outcry. This included regular attention by various media outlets as to public employees whose pensions annually exceeded $100,000, i.e., "The $100,000 Club," among others.

Following those events, the ever-present threat of statewide ballot measures by attentive and well-resourced public employee pension critic interests proposed drastic austerity measures up to and including, the elimination of public employee DB plans in favor of defined contribution (DC) plans (e.g., 401(k)-style plans) or draconian reductions to pension benefit formulas.

In response, as a long-term solution to address these concerns and others, the Governor and Legislature enacted the PEPRA as a means to address questionable pension-related activities, restore public confidence in public employee retirement, and long-terms costs relating to the UAL/UAO. After enactment of the PEPRA, another crisis in the form of the global COVID-19 health pandemic and its ensuing uncertainty negatively affected the financial markets that, again, resulted in well over $100 billion in losses to California's pensions systems, followed by ongoing federal inflationary measures that also affected the markets, investment returns, and pension systems' short- and long-term assumptions.

During the current period of economic or financial uncertainty and what some may view as unnecessary, self-inflicted economic and budgetary policy tumult by the federal government, these systems continue to rigorously assess risks and seek opportunities to continue financial recovery to maintain their ability to meet their statutory and constitutionally mandated fiduciary obligations.

Since its enactment thirteen years ago, two decisions by the California Supreme Court regarding the PEPRA have affirmed the Legislature's intent and enactment of this policy and today, the PEPRA continues to exist – largely unmodified – despite litigation,[1] and numerous prior legislative proposals to do otherwise, as a prudent measure and means to maintain public confidence in public employee retirement, achieve its multiple objectives, and not repeat the policy mistakes of the past.

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

**According to the Author**
"[Thirteen] years ago and in order to stabilize the state's retirement system, the Legislature made significant modifications to public employee retirement benefits including the retirement formulas, the age of retirement and requiring public employees to contribute more to their own retirement benefits. While many of the changes to PEPRA are still necessary for the long term health of the retirement fund, retirement formula reductions are a contributing factor to vacancies throughout the public sector in this state, especially with our first responders. "[This bill] does not grant retroactive retirement benefit increases or pension holidays and it does not change other necessary and appropriate PEPRA guardrails," and "… only applies prospectively, recognizing the ongoing challenges and dedication of our firefighters, police and the unique challenges and risks associated with a career as a first responder. "[This bill] represents our need to recruit and retain the next generation of first responders needed to protect the lives and property of residents across California."

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[1] *Alameda County Deputy Sheriff's Assn. v. Alameda County Employees' Retirement Assn.* (2020) 9 Cal.5th 1032, and *CAL FIRE Local 2881 v. CalPERS* (2019) 6 Cal. 5th 965. It is noted that while the specific subject matter of the litigation in each of these cases involve specific changes resulting from the PEPRA's enactment, the commentary regarding these two judicial decisions is only offered for historical context.

**Arguments in Support**
According to the California Professional Firefighters, "[f]irefighting is one of the most difficult and dangerous jobs imaginable. Those who answer the call to serve their communities put their mental and physical health on the line every time they respond to an incident, risking a known range of injuries and illnesses to serve the public. Firefighters carry a 14% higher risk of dying of cancer than the general population. This risk is so great that the International Agency for Research on Cancer (IARC) has classified occupational exposure as a firefighter as a Group 1 known human carcinogen. These cancer risks come from innumerable sources, including circadian rhythm disruption, smoke inhalation, exposure to toxic chemicals and substances, and many more. Every day on the job represents a new set of exposures to these known risks. Asking firefighters to work for a significantly longer period in a deadly profession for a reduced pension does not make economic sense. While changes to the pension systems that disadvantage workers are nearly always framed in financial terms such as increasing the health of the fund and reducing taxpayer costs, these costs are not fully eliminated but transferred."

A coalition of law enforcement associations and others express, "[d]epartments throughout the state are struggling to fill academy classes and keep experienced officers on the job. A major driver of this problem is PEPRA. Enacted in 2012, PEPRA significantly reduced retirement benefits, raised the retirement age, and restricted collective bargaining over retirement issues. While these changes were intended to generate cost savings, and they have, with CalPERS estimating over $4 billion saved in the first 10 years, they have also had real, lasting consequences for our ability to staff public safety positions."

**Arguments in Opposition**
A coalition of local government interests, i.e., cities, counties, special districts, etc.) state, "[this bill] increases mandated costs without a way for public agencies to absorb them. The potential cost of this bill comes at a time of fiscal uncertainty. Much like the state, local agencies are facing budget challenges, as revenues are not keeping pace with the costs of delivering services or new mandates and are facing significant loss of resources and heightened responsibilities due to passage of H.R. 1. Some local agencies are currently considering significant budget cuts across all departments. [This bill] would cause increased benefit costs and new cost pressures, leading to serious cost increases for local government. According to the California Public Employees' Retirement System (CalPERS), given the current discount rate of 6.8%, [this bill] is expected to increase the required contributions of employers and PEPRA members and increase the present value of future benefits (PVB) by $4.8 billion across State, Schools, and Local Agency plans. In addition to the change in PVB, CalPERS estimates that the change to the accrued liability to be $233 million across State, Schools, and Local Agency plans.

Additionally, [this bill] further proposes that employers may increase their PEPRA formula to 3% at age 55 through individual agency collective bargaining. The benefit for this formula will be limited to 90% of final compensation. The increase in the normal cost due to this change could lead to increased annual normal cost contributions of $353 million in the first year and increase the present value of future benefits by $3.4 billion. The CalPERS analysis does not include estimates for non-CalPERS pension systems, including for the twenty county-operated pension systems. Additionally, these costs are based on a snapshot of current compensation for public employees and could be heightened significantly if compensation increases rise and exceed the current compensation cap.

## FISCAL COMMENTS

According to the Senate Committee on Appropriations, the current CalPERS actuarial analysis estimates that the bill would increase pension costs for state, school, and local agency plans by approximately $4.8 billion in the present value of future benefits (PVB) and increase annual normal cost contributions by approximately $233 million. The estimated impact varies depending on which provisions of the bill are implemented, as follows:

1) Increasing the pensionable compensation limit for all PEPRA members: This provision would increase annual normal cost contributions by approximately $241 million in the first year and increase the PVB by approximately $4.2 billion. The higher costs would apply to all affected employee groups with members whose benefits are impacted by the increased compensation limit.

2) Increase the benefit age factor for PEPRA safety members: This provision would increase annual normal cost contributions by approximately $38 million in the first year and increase the PVB by approximately $560 million. These costs could be partially offset by an unknown amount if earlier retirement reduces workplace injuries or disability-related costs among safety members.

3) Allowing PEPRA and new safety members to receive a 3% at age 55 retirement formula: This provision would increase annual normal cost contributions by approximately $353 million in the first year and increase the PVB by approximately $3.4 billion. However, these costs would only occur if an employer and employees negotiate adoption of the enhanced formula through a memorandum of understanding.

Under current law, PEPRA member and employer contributions generally share the normal cost of benefits equally. Therefore, for the first two scenarios – which would take effect without collective bargaining – the employer share of the estimated increase in normal cost contributions is approximately $141 million annually across state, school, and local employers (General Fund, special funds, and local funds). Employer costs could be higher if an employer elects, as authorized by the bill, to pay a greater share of the employee contribution through collective bargaining. Additionally, these estimates reflect costs for current PEPRA members only; employer costs would increase over time as additional employees are hired under the bill's expanded benefit provisions.

CalPERS would incur approximately $1.2 million in one-time administrative costs for information technology updates, revised publications and training materials, increased member call volume, and program support (Public Employees' Retirement Fund).

## VOTES:

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

**ASM APPROPRIATIONS: 12-0-3**
**YES:** Wicks, Hoover, Stefani, Calderon, Caloza, Fong, Mark González, Krell, Bauer-Kahan, Pacheco, Pellerin, Solache
**ABS, ABST OR NV:** Dixon, Ta, Tangipa

**ASSEMBLY FLOOR: 70-2-8**
**YES:** Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Castillo, Chen, Connolly, Davies, Dixon, Elhawary, Flora, Fong, Gabriel, Gallagher, Garcia, Jeff Gonzalez, Mark González, Hadwick, Haney, Harabedian, Hart, Hoover, Irwin, Jackson, Kalra, Krell, Lackey, Lee, Lowenthal, McKinnor, Muratsuchi, Nguyen, Ortega, Pacheco, Papan, Patel, Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Michelle Rodriguez, Rogers, Blanca Rubio, Sanchez, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Ta, Wallis, Ward, Wicks, Wilson, Zbur, Rivas
**NO:** DeMaio, Tangipa
**ABS, ABST OR NV:** Arambula, Ellis, Gipson, Johnson, Macedo, Ransom, Celeste Rodriguez, Valencia

## UPDATED

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