
CONSENT

Bill No: SB 939
Author: Laird (D)
Amended: 3/16/26
Vote: 21

SENATE LABOR, PUB. EMP. & RET. COMMITTEE: 4-0, 4/8/26
AYES: Smallwood-Cuevas, Strickland, Cortese, Durazo
NO VOTE RECORDED: Laird

SENATE APPROPRIATIONS COMMITTEE: Senate Rule 28.8

SUBJECT: Public employees' retirement: service credit: payments

SOURCE: California Public Employees' Retirement System

DIGEST: This bill repeals a payment option for a member of the California Public Employees' Retirement System (CalPERS) to finance the balance due on a purchase of additional service credit through a permanent actuarial equivalent reduction (AER) to their pension allowance effective January 1, 2028. Thereafter, any outstanding balance on the service credit purchase must be paid in full at the time of retirement (or death of the member). Otherwise, CalPERS must reduce the service credit in proportion to the outstanding balance.

ANALYSIS:

Existing law:

- 1) Provides a CalPERS member a defined benefit retirement allowance upon the member's retirement (or a lifetime allowance to the member's survivor upon the member's death) based upon the following factors: age, final compensation, and years of service (i.e., service credit). (Government Code § 21350 et seq.)
- 2) Provides a member with the option to purchase or convert additional service credit under specified provisions in order to increase the member's pension allowance upon retirement. (Government Code § 20890 et seq.)

- 3) Requires that the member pay for the service credit purchase in one of three ways: a lump sum payment, installment payments prior to retirement, or at retirement through a lifetime reduction to their pension benefit that is the actuarial equivalent of the outstanding balance of the service credit purchase (AER). (Government Code § 20776 and § 21050 et seq.)
- 4) Permits a member who elects to receive credit for service, but who retires for disability reasons, including a safety member who retires for industrial disability, to elect to prospectively cancel installments, as specified. (Government Code § 21037 et seq)
- 5) Authorizes a member who pays for credit for service in after-tax installments to suspend these payments for up to 12 months, with the payments automatically resuming at the end of that period, or earlier, at the request of the member. (Government Code § 21050)
- 6) Specifies that a member who retires during the period of payment suspension may, prior to retirement, either make a lump-sum payment for the recalculated balance due or cancel the installment payments, as specified. (Government Code § 21050)

This bill:

- 1) Provides that all contributions or service credit adjustments required by law or agreement with an effective date on or after January 1, 2028, shall become due and payable at the time of retirement or preretirement death. The member, survivor, or beneficiary shall have their allowance reduced by the actuarial equivalent of any balance remaining unpaid by the member, as specified.
- 2) Requires that all elections with an effective date on or after January 1, 2028, including elections for normal contributions, arrears contributions, absences, or public service, shall become due and payable at the time of retirement or preretirement death.
- 3) Requires the member's payment to be received by CalPERS no later than 90 days after the member's retirement effective date.
- 4) Requires the survivor or beneficiary's payment to be received by CalPERS no later than 90 days after CalPERS mails the date the notification of balance due.

- 5) Requires, if the member or survivor does not pay the balance as specified, that CalPERS reduce the member's service credit election in proportion to the outstanding balance and, for purposes of computing the allowance, eliminate any service credit dependent on completion of payments.
- 6) Provides that this bill's requirements, as specified, do not apply to optional purchases related to retired members of the armed forces and the merchant marine, in conformance with federal law.
- 7) Applies the bill's requirements to member elections of specified installment payments for elections effective January 1, 2028.

Comments

According to the author:

“In 2020, the state added Actuarial Equivalent Reduction (AER) as a service credit payment option. Now, if a member retires with an unpaid balance on their purchase of additional service credit, they must pay off the balance in full or elect an AER, which permanently reduces their monthly retirement allowance to cover the remaining balance and allows them to receive a benefit that includes all the newly purchased service credit.

However, this change in law has introduced undue cost pressures and uncertainties to CalPERS' system and retirees. If a member elected in AER outlives their assumed life expectancy, they will be overpaying for their service credit because AER is a permanent reduction. On the other hand, if the member passes away before their assumed life expectancy, the value of their increased benefit will remain unpaid, and the AER will then be passed onto the beneficiary. Administratively, complexities arise in the transfer of the AER to a beneficiary, particularly if there are multiple. Additionally, AER allows members to receive benefits for contributions that they have not yet paid into the system, which is contrary to the goal to fully fund benefits at retirement.”

Related/Prior Legislation

AB 2196 (Cooper, Chapter 168, Statutes of 2018) required that any remaining balance due for a CalPERS optional service credit purchase be paid at the

member's retirement date or pre-retirement death, or the member must elect an actuarial equivalent reduction (AER) to their retirement allowance.

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

SUPPORT: (Verified 4/20/2026)

California Public Employees' Retirement System

OPPOSITION: (Verified 4/20/2026)

None received

ARGUMENTS IN SUPPORT:

According to CalPERS:

“This change aligns CalPERS service credit purchase payment options with all other public retirement systems and strengthens our financial policies by:

- Encouraging members to purchase service credit as early as possible to pay the lowest possible cost.
- Ensuring service credit is paid in full and pre-funded at the time of retirement, reducing cost pressures on the system.
- Reducing system complexity and cost.”

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