

Date of Hearing: June 10, 2026

ASSEMBLY COMMITTEE ON PUBLIC EMPLOYMENT AND RETIREMENT

Tina S. McKinnor, Chair

SB 939 (Laird) – As Amended March 16, 2026

SENATE VOTE: 37-0

SUBJECT: Public employees' retirement: service credit: payments

SUMMARY: Limits the alternative payment options for members 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 their 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. Specifically, **this bill:**

- 1) Requires all contributions or service credit adjustments required by law or agreement with an effective date on or after January 1, 2028, to become due and payable at the time of retirement or preretirement death, and the member, survivor, or beneficiary to have their allowance reduced by the actuarial equivalent of any balance remaining unpaid by the member, as specified.
- 2) Requires: (i) all elections with an effective date on or after January 1, 2028, including elections for normal contributions, arrears contributions, absences, or public service, to become due and payable at the time of retirement or preretirement death; and, (ii) the member's payment to be received by CalPERS no later than 90 days after the member's retirement effective date, or the survivor or beneficiary's payment to be received by CalPERS no later than 90 days after the date the notification of balance due is mailed. Otherwise, the service credit included in the election must be reduced in proportion to the balance of the total amount remaining unpaid and any service credit dependent on completion of payment eliminated for purposes of computing the allowance, except as provided.
- 3) Requires, relating to the cancellation of an election upon disability retirement, special death, or industrial disability retirement, any election with an effective date on or after January 1, 2028, to be subject to the provisions in "2)," above.
- 4) Requires, relating to service credit election and payment required, if the member or survivor does not pay the balance as specified, CalPERS to reduce the 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.
- 5) Provides, and in conformance with federal law, that this proposed statute's requirements do not apply to optional purchases for retired members who also actively served in the Armed Forces or Merchant Marines.
- 6) Clarifies that for elections prior to January 1, 2028, the member, survivor, or beneficiary must have their allowance reduced by the actuarial equivalent of any balance remaining

unpaid by the member, and applies this proposed statute's requirements to elections of specified installment payments on or after January 1, 2028.

EXISTING LAW:

- 1) Establishes the Public Employees' Retirement Law (PERL), administered by CalPERS, 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. (Sections 20000 et seq., Gov. Code.)
- 2) Establishes, among other things, that the retirement board has sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries. (Section 17, art. XVI, Cal. Const.)
- 3) 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. (Sections 21350 et seq., Gov. Code.)
- 4) 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. (Sections 20890 et seq., Gov. Code.)
- 5) Requires that the member pay for the service credit purchase in one of three ways: (i) a lump sum payment; (ii) installment payments prior to retirement, or (iii) at retirement through a lifetime reduction to their pension benefit that is the outstanding balance of the service credit purchase AER. (Sections 20776, and 21050 et seq., Gov. Code.)
- 6) 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. (Sections 21037 et seq., Gov. Code.)
- 7) 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, and a member who retires during the period of payment suspension to, prior to retirement, either make a lump-sum payment for the recalculated balance due or cancel the installment payments, as specified. (Section 21050, Gov. Code.)

FISCAL EFFECT: This bill was passed by the Senate Committee on Appropriations pursuant to Senate Rule 28.8.

COMMENTS:

Information provided by the author states, “[the PERL] allows eligible CalPERS members to purchase additional service credit, which increases their retirement benefits. Members can pay for this credit by lump sum, rollover from another retirement plan, or installments (up to 180 months). Since January 1, 2020, pursuant to Assembly Bill 2196 (Cooper, Statutes of 2018), if a member retires with an unpaid balance, they must pay it in full or elect an [AER], which permanently reduces their monthly retirement allowance to cover the remaining balance. However, administering the AER payment option has led to unintended results and administrative complexities that have increased administrative and member costs while adding cost pressures to the system. Specifically, the AER allows members to receive benefits for contributions that they have not yet paid into the system, which is contrary to CalPERS’ operations since they were not able to invest and compound the respective contributions.

“Furthermore, the AER introduces significant risk and uncertainty to the pension system. If the member 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. Due to this structure, CalPERS could have over \$100 million at risk at any one time from AERs for just the redeposits and tier conversions. By discontinuing the AER, this bill reduces financial risk and system complications, ensuring that monthly benefits are fully funded at the time of retirement or soon after and reducing administrative load (CalPERS estimates [that it spends] approximately 800-900 staff hours annually processing the AER option). Furthermore, by eliminating the AER, CalPERS hopes to encourage members to purchase additional service credit earlier, as it benefits the system by enabling asset investment and compounding interest and will be less costly for members.

“This bill simplifies the service credit payment options by discontinuing the AER option for any service credit purchases, tier conversions, or redeposits elected on or after January 1, 2028, instead requiring members to pay the remaining balance in full within 90 days of the member’s retirement date. If unable to pay, the service credit is prorated based on the amount paid, meaning they would only receive benefits for what they have already paid into the system. For CalPERS members currently enrolled in AER, their payment plan will remain the same and the AER will continue. Additionally, due to the delayed implementation, members will still have the opportunity to elect an AER until January 1, 2028. By implementing these changes, the bill would align CalPERS service credit purchase payment options with all other public retirement systems.”

Author’s Statement

“In 2020, the California Public Employees’ Retirement System (CalPERS) introduced Actuarial Equivalent Reduction (AER), a new way for members to pay for service credits through permanent monthly benefit reductions. The AER option has led to adverse effects, including increased costs to the state and incentivizing retirees to purchase service credit later in life, at which point it is far more expensive. [This bill] discontinues the AER option for new service credit purchases, tier conversions, and redeposits elected on or after January 1, 2028, instead requiring it to be paid as a lump sum within 90 days of retirement [and] represents a measure of good governance, easing cost and administrative load for the state and encouraging retirees to purchase eligible service credit earlier.”

Comments by Supporters

Among other things, CalPERS states, “[t]his change aligns CalPERS service credit purchase payment options with all other public retirement systems and strengthens our financial policies by: (i) encouraging members to purchase service credit as early as possible to pay the lowest possible cost; (ii) ensuring service credit is paid in full and pre-funded at the time of retirement, reducing cost pressures on the system; and, (iii) reducing system complexity and cost.”

Comments by Opponents

None on file.

Prior or Related Legislation

Chapter 168, Statute of 2018 (Assembly Bill 2196, Cooper) required 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 AER to their retirement allowance.

REGISTERED SUPPORT / OPPOSITION:**Support**

California Public Employees’ Retirement System (*Sponsor*)

Opposition

None to file.

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