

SENATE THIRD READING
SB 939 (Laird)
As Amended March 16, 2026
Majority vote

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.

Major Provisions

- 1) Require 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) Require: (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) Require, 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) Require, 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) Provide, 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) Clarify 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.

COMMENTS

The Public Employees' Retirement Law, administered by CalPERS, 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. Further, the AER introduces significant risk and uncertainty to CalPERS. 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). 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.

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

According to the Author

"In 2020, CalPERS introduced 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."

Arguments in Support

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."

Arguments in Opposition

None on file.

FISCAL COMMENTS

According to the Assembly Committee on Appropriations, this bill would result in no new state costs and likely administrative savings to CalPERS through reduced workload.

VOTES**SENATE FLOOR: 37-0-3**

YES: Allen, Alvarado-Gil, Archuleta, Arreguín, Ashby, Becker, Blakespear, Cabaldon, Caballero, Cervantes, Choi, Cortese, Dahle, Durazo, Gonzalez, Grayson, Grove, Hurtado, Jones, Laird, Limón, McGuire, McNerney, Menjivar, Niello, Padilla, Pérez, Richardson, Rubio, Seyarto, Smallwood-Cuevas, Stern, Strickland, Umberg, Valladares, Weber Pierson, Wiener
ABS, ABST OR NV: Ochoa Bogh, Reyes, Wahab

ASM PUBLIC EMPLOYMENT AND RETIREMENT: 6-0-1

YES: McKinnor, Lackey, Alanis, Boerner, Nguyen, Michelle Rodriguez
ABS, ABST OR NV: Garcia

ASM APPROPRIATIONS: 15-0-0

YES: Wicks, Hoover, Aguiar-Curry, Calderon, Caloza, Dixon, Fong, Mark González, Krell, Pacheco, Pellerin, Sharp-Collins, Solache, Ta, Tangipa

UPDATED

VERSION: March 16, 2026

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