DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: 07/01/2026 **BILL NUMBER:** AB 1383
POSITION: Oppose **AUTHOR:** McKinnor, Tina S

BILL SUMMARY: Public employees' retirement benefits.

This bill resets and raises the Public Employees' Pension Reform Act of 2013 (PEPRA) pensionable compensation cap through a two-step adjustment for all PEPRA members across CalPERS, 1937 Act County systems, and independent local systems, by doing the following:

- Increasing the base used to calculate the cap from the 2013 federal Social Security 430(b) limit to the 2027 430(b) base, which is $184,500 for non-safety members and $249,075 for safety members.
- Raising the percentage applied to the new base for members not covered by Social Security from 120 percent to 135 percent.

The bill also lowers the retirement age from 57 to 55 for the existing three retirement formulas for PEPRA Safety members (2 percent, 2.5 percent, and 2.7 percent) and creates a fourth formula (3 percent at age 55, capped at 90 percent of total compensation) that is subject to bargaining. The existing formula for PEPRA Safety members will only apply to services performed January 1, 2013, through December 31, 2026.

These provisions would apply on or after January 1, 2027.

FISCAL SUMMARY

For CalPERS members (state and contracted local agencies): Without considering the bargainable fourth-tier provision in this bill, CalPERS estimates an increase in the present value of future benefits (PVB) of $4.8 billion, a first-year annual normal cost contributions increase of $282 million, and an increase in the accrued liability of $233 million. Of these increases, $1.7 billion in PVB, $98 million in first-year normal cost contributions, and $68 million in accrued liability are attributable to state plans. The increase in employer contributions towards the normal cost is ongoing, versus the PVB and accrued liability changes in future years are dependent upon other factors, such as investment returns and market volatility.

If the fourth tier is implemented, it would add an additional $353 million in contributions to annual normal cost and $3.4 billion in PVB across CalPERS' system. An estimated increase in normal cost of 5.51 percent to the State Safety plan, 2.18 percent to State Peace Officer and Firefighters plan, 1.14 percent to California Highway Patrol, and a $2.1 billion increase in PVB across all three state plans ($1.1 billion, $846.7 million, $130 million respectively).

CalPERS also anticipates approximately $1.2 million in one-time costs for IT enhancements, updating publications and training material, increased call volume, and program support.

For PEPRA members: Increasing base and the percentage used to pensionable compensation

Analyst/Principal	Date	Program Budget Manager	Date
(832) Meng, Hanzhao		Nguyen, Rosanna	

Department Deputy Director			Date

Governor's Office:	By:	Date:	Position Approved________
			Position Disapproved

FISCAL SUMMARY (continued)
cap will result in an increase in the total normal costs for the affected plans, and it is likely that PEPRA employee contribution rates would need to increase to reach half of the new normal cost. This rate increase would only take place when the total normal cost rate increases by more than 1 percent of payroll since the last time the PEPRA member contribution rate was adjusted. The estimated increase to total normal cost for PEPRA members within the state plans is 0.22 percent for the State Safety plan, 0.45 percent for the State peace Officers and Firefighters, and 0.67 percent for the California Highway Patrol.

For the 20 county systems: Under the County Employees' Retirement Law of 1937, State Association of County Retirement Systems (SACRS) estimates that a single medium-sized county could see an increase in the PVB of over $700 million across 30 years or approximately $20 million in additional employer contributions annually towards the safety plan.

For CalSTRS members: This bill would not impact CalSTRS members by specifying that CalSTRS members are subject to the existing compensation limits.

COMMENTS

The Department of Finance is opposed to this bill because it partially unwinds the reform objectives, structural safeguards, and fiscal cost containment guardrails established by PEPRA. The bill will significantly increase state and local government contributions towards the safety plans, and create a potential equity issue between safety members and non-safety members.

PEPRA was enacted in 2013 to address rising unfunded pension liabilities across California's public retirement systems. The core changes for new members include a mandatory 50/50 employer employee normal cost sharing requirement, capped levels of pensionable compensation, and a delayed retirement age compared to the pre-PEPRA or classic members. PEPRA followed prior benefit enhancements and investment downturns that left public employers with sharply higher required contributions. Pension benefits are difficult to reduce once accrued, so an underestimate of costs is borne later by employers, employees, service recipients, and taxpayers.

This bill will:

- Reverse PEPRA's deliberate use of later retirement ages and lower benefits for new safety members. PEPRA safety member formulas are capped at 2 percent at 57, 2.5 percent at 57, or 2.7 percent at 57. This bill creates a richer safety formula centered at age 55, including a 3 percent at 55 option, and requires prospective formula adjustments for post-2013 safety members.
- Broaden the salary used to calculate lifetime defined benefits, reducing the effectiveness of PEPRA's cap. The PEPRA compensation cap is based on the 2013 Social Security base, annually adjusted by CPI—100 percent for Social Security-covered employees and 120 percent for those outside Social Security. This bill resets the baseline to the 2027 federal base and raises the non-Social-Security cap to 135 percent.
- Recreate a statewide upward benefit mandate rather than leaving the state and local systems to manage liabilities within PEPRA's ceilings, and determine the best strategy for addressing purported employee hiring or retention issues. PEPRA imposed statewide, prospective benefit restraint after prior enhancements produced substantial long-term liabilities. This bill requires changes across retirement systems, including local and county systems, which will result in significant ongoing cost increases to state and local employers.

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COMMENTS (continued)

Finance notes the Public Employee Retirement Fund (PERF) continues to be underfunded (79 percent funded as of June 30, 2025), and if this bill is adopted, it will worsen the funded status and increase required annual employer and employee contributions.

As detailed in the Fiscal Summary section, the bill increases the PVB by $4.8 billion and accrued liability by $233 million across the CalPERS System, with an additional $3.4 billion through the bargainable fourth tier.

Beyond the direct contribution increase, the increased accrued liability could potentially expose the state plans to higher risk relating to investment performance as a lower-than-expected return would increase the contribution rate volatility. Changes to members behavior such as members retiring earlier could further expand the cost exposure.

For the 20 county systems operating under the County Employees' Retirement Law of 1937, several counties have indicated that they cannot absorb cost increases if this bill is adopted.

Furthermore, enhancing benefits solely for safety members raises an equity concern across members' classifications and opens the door for parallel enhancement demands from other classification groups. A related equity concern arises within bargaining units themselves as the increased compensation cap and normal cost apply uniformly across a bargaining unit regardless of individual pay levels. If implemented, lower compensated individuals would subsidize the new benefits accruing to higher compensation members within the same unit.

Code/Department Agency or Revenue Type	SO LA CO RV	PROP 98	FC	(Fiscal Impact by Fiscal Year) (Dollars in Thousands) 2026-2027	FC	2027-2028	FC	2028-2029	Fund Code
7900/PERS	SO	No	C	99,000	C	99,000	C	99,000	0830

Fund Code	Title
0830	Public Employees Retirement Fund