January 16, 2026

The Honorable Buffy Wicks
Chair, Assembly Committee on Appropriations
1021 O Street, Suite 8220
Sacramento, CA 95814

RE: **AB 1383 (McKinnor) Public Employees' Retirement Benefits.**
OPPOSE *(As Amended April 11, 2025)*
To be heard in the Assembly Committee on Appropriations January 22, 2026

Dear Assembly Member Wicks,

The League of California Cities (Cal Cities), California State Association of Counties (CSAC), California Special Districts Association (CSDA), Rural County Representatives of California (RCRC), Association of California School Administrators (ACSA), and Urban Counties of California (UCC) write to inform you of our respectful opposition to Assembly Bill (AB) 1383. This bill would make several significant changes to public employees' retirement benefits, which would ultimately lead to increased pension liability for state and local agencies.

The Public Employees' Pension Reform Act (PEPRA) was passed in 2012, and most of its provisions went into effect Jan. 1, 2013. PEPRA was designed to address a wide range of issues involving public employee pensions and was a major step in helping local agencies better manage future pension costs and prevent the California Public Employees Retirement System from sliding into insolvency. AB 1383 would upend many of the reforms put in place in 2013 by PEPRA.

Specifically, this bill would:

- Increase the pensionable compensation cap;
- Reduce the retirement age for public safety from 57 to 55 prospectively;
- Add a 4th safety tier that is 3% @ 55, prospective and subject to bargaining;
- Allow local agencies to adjust their local formula in a prospective manner; and
- Permit authorized employee representatives to bargain with the employer over the employee share of payment for the normal cost.

While we recognize and appreciate the intent of the bill to support recruitment and retention of essential public safety professionals, the bill would impose increased state and local pension obligations and undo critical pension reform.

PEPRA has been in place since 2013, and we have had the opportunity to see its impact on pension funds and local agencies. For the state, schools, and public agencies in CalPERS, PEPRA has already led to $5.8 billion in savings. As years go by and the public sector force skews towards more new members, those savings will increase dramatically. Over the next ten years, PEPRA is expected to result in $26.5 billion in cost savings for CalPERS members[1]. This data does not include the public agencies that maintain their own pension system. PEPRA helps support budgetary stability which supports operational and workforce stability.

AB 1383 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 counties are currently considering significant budget cuts across all departments. AB 1383 would cause increased benefit costs and new cost pressures over the provisions that can be bargained, leading to serious cost increases for local government.

According to CalPERS, given the current discount rate of 6.8%, **AB 1383 is expected to increase the required contributions of employers and PEPRA members and increase the present value of future benefits (PVB) by $5.3 billion for all State, Schools, and Local Agency plans.** In addition to the change in PVB, CalPERS estimates that the **change to the accrued liability to be $370 million** for all State, Schools, and Local Agency plans. However, if the discount rate is reduced this year by the CalPERS Board, the impacts could be even more significant for local agencies. Additionally, CalPERS' analysis does not include any estimated costs for the provisions in AB 1383 that can be bargained, including a 3% at 55 benefit tier and adjustments to the share of normal costs between employers and employees—nor does it include an estimate of costs for the twenty county-operated pension systems.

As of June 30, 2025, the Public Employees Retirement Fund (PERF) was approximately 79% funded. If CalPERS misses its investment return mark of 6.8% on June 30th, local agencies in CalPERS and the State have to pay the difference. Again, this bill would compound costs for local governments and the State and do nothing to offset the costs.

California State Teachers' Retirement System (CalSTRS) has also conducted a fiscal analysis of AB 1383, and they have found that, "An estimated total of one-time and ongoing additional administrative costs in the range of **$1.7 million to $2.7 million** associated with the prospective increase in the PEPRA compensation cap…"

[1] CalPERS 2024 Annual Review of Funding Levels and Risk (published November 2024)

They go on to say, "To implement this bill, CalSTRS must either make significant technology changes to the pension administration system or manually perform complex multiple benefit calculations for the affected population." They estimate this would have a one-time cost in the range of **$1.5 million to $2.5 million** and to take about one year to complete. If they were to manually calculate benefits for the affected members, CalSTRS estimates that two additional analyst positions at a combined annual cost of approximately **$250,000** would be required.

In addition to the administrative costs, CalSTRS estimates that this bill would result in an increased risk of raising the employer normal cost in the future and it would increase the normal cost for certain PEPRA members. Finally, CalSTRS projects that AB 1383 may also increase the risk over time that CalSTRS may not be able to reach full funding by 2046 in line with the CalSTRS Funding Plan.

While this bill may be prospective, agencies have already been authorizing salary increases since the passage of PEPRA under the assumption that the cost of benefits would remain in line with current PEPRA law. The prospective costs would likely cause an immediate financial strain on any agency, especially those with a large number of PEPRA safety employees.

Local government decision makers and public agency department heads have been implementing innovative ways to try to boost recruitment and retention and would welcome additional state support and resources for these efforts. However, adding another unfunded mandate on public agencies will not solve the problem of retention and recruitment. It is critical that our pension policy offers sustainable retirement benefits to public agency employees while at the same time ensuring that public agencies have solid retirement benefits to attract and retain highly talented employees.

By increasing the cost of these benefits, AB 1383 would result in less money for salary increases, which could therefore harm future recruitment efforts. Additionally, the changes in this bill could result in labor unrest by furthering the equity issues between safety and non-safety employees. Additionally, according to CalPERS AB 1383 would increase the total normal cost for the affected plans and as a result PEPRA employee contribution rates increases would likely need to increase as well to reach half of the new normal cost.

Unfortunately, pension costs for many California public agencies continue to be a challenge, threatening the delivery of basic public services, compromising general fund budgets and, indeed, posing a long-term fiscal challenge to the State itself. That is why it is increasingly important that any change to the system be sustainable, fair to taxpayers and employees, and provide long-term financial stability. Any change to PEPRA must protect the fiscal integrity of public agencies and retirement for public employees.

Our organizations are committed to ensuring competitive benefits for public servants while maintaining the fiscal integrity of critical local services. However, as drafted, this

bill would not protect the fiscal integrity of public agencies and would send public agencies and our pension funds in the wrong direction.

For the reasons discussed above, the organizations listed below are respectfully opposed to AB 1383. The CalPERS and CalSTRS full fiscal analyses can be found attached. We look forward to continued conversations and collaboration with stakeholders on addressing pension sustainability and employee retention and recruitment. If you have any questions, please do not hesitate to contact our organizations' representatives directly.

Sincerely,

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CC:

The Honorable Tina McKinnor, California State Assembly
Members and Consultants, Assembly Appropriations Committee

ACTUARIAL COST ANALYSIS
Assembly Bill 1383

I. Executive Summary

This is an actuarial cost analysis of Assembly Bill 1383.

This cost analysis was prepared by CalPERS as part of its assessment of AB 1383 in its current version as of April 11, 2025. If an amended version of AB1383 is passed, this cost analysis is subject to change. Further, this cost analysis does not attempt to address design, implementation, administration or legal issues that may exist. It only attempts to estimate the financial impact for employers whose pension plans are currently administered by CalPERS i.e. the State of California plans, the Schools Pool for non-teaching school employees and the more than 3,000 local agency plans.

The proposed changes lower the maximum retirement benefit factor age from age 57 to age 55 for all Safety PEPRA retirement formulas, and also redefines the compensation cap established under PEPRA for Miscellaneous and Safety PEPRA members. The new proposed PEPRA cap is increased to the Section 415(b)(1)(A) dollar limit (i.e. $280,000 in 2025). Per Section 7522.44 Prohibition of Retroactive Benefit Increases, these changes can only be applied prospectively. AB 1383 specifies that these changes would apply to service earned on or after January 1, 2026. All PEPRA benefits earned from January 1, 2013 through December 31, 2025 would be based on current benefit provisions.

As these changes will increase the total normal cost for the affected plans, it is likely that PEPRA employee contribution rates would need to increase to reach half of the new normal cost. However, this cost analysis only provides an estimate of the change in the total normal cost and does not split the cost between the employer and employee portions.

Overall, AB 1383 is expected to increase the required contributions of employers and PEPRA members and increase the present value of future benefits (PVB) by $5.3 billion for all State, Schools, and Local Agency plans. This disclosure models prospective only benefit enhancements. However, due to the nature of the amendment involved and CalPERS actuarial cost methods, there is also an impact to the portion of the PVB allocated to past service or accrued liability. We estimate the change to the accrued liability to be $370 million for all State, Schools, and Local Agency plans.

II. Valuation Basis

Valuation Date: 06/30/2023

Valuation Group:

State			Public Agencies	
[X]	Miscellaneous Tier 1	[X] Schools	[X]	Miscellaneous
[X]	Miscellaneous Tier 2	[ ] JRS I	[X]	Safety
[X]	Industrial	[ ] JRS II	[X]	Fire
[X]	Safety	[ ] LRS	[X]	Police
[X]	POFF		[X]	County Peace Officers
[X]	CHP		[X]	Lifeguards
[ ]	Other (Specify)		[ ]	Other (Specify)

Data used: This cost analysis was based on the June 30, 2023 valuation.

Methods and Assumption: This cost analysis was based on the methods described in Appendix A of the June 30, 2023 actuarial valuation. Please see calpers.ca.gov for more details.

III. Results and Analysis

The proposed changes in AB 1383 are intended to improve retirement benefits for current active and future PEPRA members. It is expected that these improvements will increase costs to CalPERS employers and likely PEPRA employees in order to fund the improved benefits.

We have performed individual costings for the four following scenarios:

1. Increase to the PEPRA compensation limit for all plans to the Section 415(b)(1)(A) benefit
2. Improve benefit formula for PEPRA Safety members
    a. 2% at age 57 to 2% at age 55
    b. 2.5% at age 57 to 2.5% at age 55
    c. 2.7% at age 57 to 2.7% at age 55
3. Scenarios 1 and 2 combined, i.e. increase the compensation cap for all PEPRA members and improve benefit formula for PEPRA Safety members
4. In addition to scenario 3, improve benefit formula for PEPRA Safety members to 3% at age 55

As specified in AB 1383, the 3% at age 55 formula is a further improvement that can only be achieved through collective bargaining and would not become automatically effective January 1, 2026.

AB 1383 Cost Analysis
May 6, 2025

Scenario 1

AB 1383 proposes in Section 7522.10(c)(2) that the pensionable compensation limit will be increased to the dollar limit established by Section 415(b)(1)(A) of Title 26 of the United States Code which is currently $280,000 for calendar year 2025. For reference, the 2025 compensation cap for PEPRA members is $155,081 for members who participate in Social Security and $186,096 for members who do not participate in Social Security. Increasing the compensation cap ultimately increases the future retirement benefit for PEPRA members who earn more than the existing cap. An estimate of the impact of this change to the normal cost, the present value of benefits and accrued liability is in the tables below.

State & Schools Plans

Plan	Estimated Increase to Total Normal Cost for PEPRA Members Only	Estimated Increase to Total Normal Cost for Entire Plan	Increase to Present Value of Future Benefits (millions)	Increase to Accrued Liabilities (millions)
State Miscellaneous	0.64%	0.33%	$1,157.1	$93.6
State Industrial	0.44%	0.22%	43.7	1.9
State Safety	0.16%	0.05%	91.6	9.9
State Peace Officers & Firefighters	0.04%	0.02%	16.0	2.3
California Highway Patrol	3.51%	1.08%	215.7	11.7
Schools	0.19%	0.10%	368.7	51.4

Local Agency Pooled Plans

Plan	Estimated Increase to Total Normal Cost	Increase to Present Value of Future Benefits (millions)	Increase to Accrued Liabilities (millions)
Miscellaneous Pool – 2% at age 62	0.43%	$174.5	$9.9
Safety Pool – 2% at age 57	0.63%	4.4	0.1
Safety Pool – 2.5% at age 57	1.40%	2.2	0.1
Safety Pool – 2.7% at age 57	1.82%	323.4	12.4

Scenario 1 (con't)

Local Agency Non-Pooled Plans (>100 active members)

Plan		Estimated Increase to Total Normal Cost for PEPRA Members Only	Estimated Increase to Total Normal Cost for Entire Plan	Increase to Present Value of Future Benefits (millions)	Increase to Accrued Liabilities (millions)
Miscellaneous	Low	0.00%	0.00%	$0.0	$0.0
	Median	0.25%	0.11%	0.6	0.0
	High	2.15%	0.99%	621.4	48.4
Safety – 2% at age 57	Low	0.07%	0.00%	0.0	0.0
	Median	0.17%	0.04%	0.1	0.0
	High	0.75%	0.33%	3.9	0.3
Safety – 2.5% at age 57	Low				
	Median	2.77%	1.39%	9.1	0.5
	High				
Safety – 2.7% at age 57	Low	0.00%	0.00%	0.0	0.0
	Median	2.28%	0.86%	4.4	0.2
	High	5.38%	2.24%	90.4	4.9

The increase in the normal cost due to increasing the compensation limit would result in an increase to annual normal cost contributions of $303 million in the first year and increase the present value of future benefits by $4.8 billion.

There are plans where the estimated impact to the normal cost is zero. The reason for this is that there are plans which currently do not have any active members near or above the current PEPRA compensation limit and increasing the limit would not impact their future benefit.

Scenario 2

AB 1383 proposes in Section 7522.26 that on or after January 1, 2026 Safety Plans will offer new formulas which lower their current maximum benefit factor age from age 57 to age 55. Lowering the maximum benefit factor age means that employees will be able to retire with the same benefit factor two years earlier than they are currently able. The tables below provide an estimate of the increase to normal cost, present value of benefits and accrued liabilities associated with the formula change only.

State Plans

Plan	Estimated Increase to Total Normal Cost for PEPRA Members Only	Estimated Increase to Total Normal Cost for Entire Plan	Increase to Present Value of Future Benefits (millions)	Increase to Accrued Liabilities (millions)
State Safety	0.23%	0.12%	$37.3	$1.7
State Peace Officers & Firefighters	0.48%	0.21%	134.9	9.8
California Highway Patrol	0.80%	0.25%	39.6	2.3

Local Agency Pooled Plans

Plan	Estimated Increase to Total Normal Cost	Increase to Present Value of Future Normal Cost (millions)	Increase to Accrued Liabilities (millions)
Safety Pool – 2% at age 57	0.32%	$1.8	$0.1
Safety Pool – 2.5% at age 57	0.46%	0.5	0.0
Safety Pool – 2.7% at age 57	0.65%	85.5	4.8

Local Agency Non-Pooled Plans (>100 active members)

Plan		Estimated Increase to Total Normal Cost for PEPRA Members Only	Estimated Increase to Total Normal Cost for Entire Plan	Increase to Present Value of Future Normal Cost (millions)	Increase to Accrued Liabilities (millions)
Safety – 2% at age 57	Low	0.29%	0.00%	$0.0	$0.0
	Median	0.45%	0.20%	0.9	0.1
	High	0.51%	0.26%	1.8	0.2
Safety – 2.5% at age 57	Low				
	Median	0.54%	0.27%	1.5	0.1
	High				
Safety – 2.7% at age 57	Low	0.58%	0.15%	0.4	0.0
	Median	0.69%	0.28%	1.1	0.1
	High	0.79%	0.40%	12.6	1.0

The increase in the normal cost due to the formula change would result in an increase to annual normal cost contributions of $40 million in the first year and increase the present value of future benefits by $492 million.

Scenario 3

The tables below provide an estimate of the increased normal cost, present value of benefits and accrued liabilities associated with the formula change and increase in compensation cap.

State Plans

Plan	Estimated Increase to Total Normal Cost for PEPRA Members Only	Estimated Increase to Total Normal Cost for Entire Plan	Increase to Present Value of Future Benefits (millions)	Increase to Accrued Liabilities (millions)
State Safety	0.39%	0.18%	$128.9	$11.6
State Peace Officers & Firefighters	0.52%	0.23%	150.9	12.1
California Highway Patrol	4.31%	1.33%	255.3	14.0

Local Agency Pooled Plans

Plan	Estimated Increase to Total Normal Cost	Increase to Present Value of Future Benefits (millions)	Increase to Accrued Liabilities (millions)
Safety Pool – 2% at age 57	0.94%	$6.2	$0.2
Safety Pool – 2.5% at age 57	1.86%	2.8	0.1
Safety Pool – 2.7% at age 57	2.48%	408.9	17.2

Local Agency Non-Pooled Plans (>100 active members)

Plan		Estimated Increase to Total Normal Cost for PEPRA Members Only	Estimated Increase to Total Normal Cost for Entire Plan	Increase to Present Value of Future Benefits (millions)	Increase to Accrued Liabilities (millions)
Safety – 2% at age 57	Low	0.46%	0.00%	$0.0	$0.0
	Median	0.58%	0.30%	1.0	0.0
	High	1.20%	0.53%	5.7	0.4
Safety – 2.5% at age 57	Low				
	Median	3.31%	1.66%	10.6	0.7
	High				
Safety – 2.7% at age 57	Low	0.66%	0.17%	0.4	0.0
	Median	3.03%	1.13%	5.8	0.3
	High	6.04%	2.54%	100.2	5.8

The increase in the normal cost due to the increasing the compensation limit and improved benefit formula would result in an increase to annual normal cost contributions of $343 million in the first year and increase the present value of future benefits by $5.3 billion.

Scenario 4

AB 1383 further proposes that employers may increase their PEPRA formula to 3% at age 55 through individual agency collective bargaining. The tables below provide an estimate of the increased normal cost, present value of benefits and accrued liabilities associated with further increasing the retirement formula to 3% at age 55 for Safety Plans.

State Plans

Plan	Estimated Increase to Total Normal Cost for PEPRA Members Only	Estimated Increase to Total Normal Cost for Entire Plan	Increase to Present Value of Future Benefits (millions)	Increase to Accrued Liabilities (millions)
State Safety	9.75%	5.11%	$998	$108.8
State Peace Officers & Firefighters	4.62%	2.06%	1,020	96.5
California Highway Patrol	4.22%	1.30%	148	9.2

Local Agency Pooled Plans

Plan	Estimated Increase to Total Normal Cost	Increase to Present Value of Future Benefits (millions)	Increase to Accrued Liabilities (millions)
Safety Pool – 2% at age 57	9.50%	$43.8	$2.3
Safety Pool – 2.5% at age 57	5.35%	5.6	0.4
Safety Pool – 2.7% at age 57	3.58%	437.2	31.0

Local Agency Non-Pooled Plans (>100 active members)

Plan		Estimated Increase to Total Normal Cost for PEPRA Members Only	Estimated Increase to Total Normal Cost for Entire Plan	Increase to Present Value of Future Benefits (millions)	Increase to Accrued Liabilities (millions)
Safety – 2% at age 57	Low	7.21%	0.07%	$0.5	$0.0
	Median	7.45%	3.28%	11.2	1.0
	High	7.93%	3.75%	27.4	3.1
Safety – 2.5% at age 57	Low				
	Median	4.46%	2.26%	12.0	0.9
	High				
Safety – 2.7% at age 57	Low	3.09%	0.81%	1.9	0.2
	Median	3.56%	1.49%	5.6	0.4
	High	3.99%	2.03%	65.7	7.0

The increase in the normal cost due to the formula change to 3% at age 55 would result in an increase to annual normal cost contributions of $338 million in the first year and increase the present value of future benefits by $3.6 billion.

Notes:

- **All estimated costs were calculated using CalPERS existing actuarial assumptions and methods which are currently under review. Assumption modifications that are likely to occur would result in somewhat higher costs than those disclosed in this analysis in most cases.**
- In cases where the estimated impact to the normal cost is zero, this is due to the fact that these plans currently do not have any active members near or above the current PEPRA compensation limit and increasing the limit would not impact their future benefit. Actual costs could occur in these cases should compensation for future active members exceed the current compensation limit.
- Retirement assumptions do not exist for the new formulas. Retirement assumptions remained unchanged. To the extent these proposed changes alter retirement patterns, actual costs would vary from those provided.
- Altering the compensation limit only benefits employees who are currently above the cap or will potentially be above the cap in the future. However, all employees will share the cost of increasing the compensation limit through higher member contributions.
- Increasing the compensation limit will increase the pensionable payroll for employers and employees who are earning more than the current compensation limit. For employers, not only is the normal cost increasing, but so is the total payroll to which the normal cost rate will be applied. For members earning above the current compensation limit this means that a larger portion of their wages will be subject to member contributions. Additionally, the PEPRA member contribution rate will likely increase to reach half of the new normal cost.
- The impact to plans that have blended normal cost rates (a blend of normal cost rates for Classic and PEPRA members) will depend on the plan's composition of active Classic and PEPRA members. Plans with larger PEPRA populations may see a larger impact to their normal cost compared to plans with lower PEPRA populations.
- Future actuarial measurements may differ significantly from the current measurements presented in this document due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; changes in actuarial policies; changes in plan provisions or applicable law; and differences between the required contributions determined by the valuation and the actual contributions made by the agency.
- This document is intended to provide preliminary cost estimates of Assembly Bill 1383. In addition, the scope of this analysis did not include examination of the impact of possible alternate future scenarios on results, such as variations in future investment returns, demographic experience, or changes in actuarial assumptions. Such information can be provided if requested and would likely provide a more complete assessment of the possible financial implications of this Bill.

Certification

The actuarial cost analysis of the impact of AB 1383 was based on data extracted from the my|CalPERS database as of June 30, 2023. The analysis has been performed in accordance with standards of practice prescribed by the Actuarial Standards Board, and the assumptions and methods are internally consistent and reasonable for this analysis. The undersigned include actuaries who satisfy the Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States with regard to pensions.

Attachments

Attachment 1 – Sensitivity Analysis

NINA RAMSEY, ASA, MAAA
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CalPERS Actuarial Office

DAVID CLEMENT, ASA, MAAA
Supervising Actuary
CalPERS Actuarial Office

SCOTT TERANDO, ASA, EA, MAAA, FCA, CFA
Chief Actuary
CalPERS Actuarial Office

GLOSSARY OF ACTUARIAL TERMS

Accrued Liability *(Actuarial Accrued Liability)***:** The portion of the Present Value of Benefits allocated to prior years. Based on CalPERS funding policies, the accrued liability is the target level of assets on any valuation date.

Actuarial Assumptions: Assumptions made about certain events that will affect pension costs. Assumptions generally can be broken down into two categories: demographic and economic. Demographic assumptions include such things as mortality, disability, and retirement rates. Economic assumptions include discount rate, salary growth and inflation.

Actuarial Methods: Procedures employed by actuaries to achieve certain funding goals of a pension plan. Actuarial methods include cost method, amortization policy and asset valuation method.

Actuarial Valuation: The determination as of a valuation date of the Normal Cost, Accrued Liability, and related actuarial present values for a pension plan. These valuations are performed annually or when an employer is contemplating a change to their plan provisions.

Amortization Bases: Separate payment schedules for different portions of the Unfunded Accrued Liability. The total Unfunded Accrued Liability of a rate plan can be segregated by cause. The impact of such individual causes on the UAL are quantified at the time of their occurrence, resulting in new amortization bases. Each base is separately amortized and paid for over a specific period of time. Generally, in an actuarial valuation, the separate bases consist of changes in UAL due to contract amendments, actuarial assumption changes, method changes, and/or gains and losses.

Amortization Period: The number of years required to pay off an Amortization Base.

Classic Member (under PEPRA): A classic member is a member who joined CalPERS prior to January 1, 2013, and who is not defined as a new member under PEPRA. (See definition of new member below.)

Discount Rate: This is the rate used to discount the expected future benefit payments to the valuation date to determine the Projected Value of Benefits. The discount rate is based on the assumed long-term rate of return on plan assets, net of investment and administrative expenses. This rate is called the "actuarial interest rate" in Section 20014 of the California Public Employees' Retirement Law.

Entry Age: The earliest age at which a plan member begins to accrue benefits under a defined benefit pension plan. In most cases, this is the age of the member on their date of hire.

Entry Age Actuarial Cost Method: An actuarial cost method designed to fund a member's total plan benefit in a level manner over the course of his or her career. This method yields a total normal cost rate, expressed as a percentage of payroll, which is designed to remain level throughout the member's career.

Fresh Start: A Fresh Start is when multiple Amortization Bases are combined into a single base and amortized over a new Amortization Period.

Funded Ratio: Defined as Market Value of Assets divided by Accrued Liability. It is a measure of how well funded a rate plan is. A ratio greater than 100% means the rate plan has more assets than the target established by CalPERS funding policies on the valuation date and the employer need only contribute the Normal Cost. A ratio less than 100% means assets are less than the funding target and contributions in addition to Normal Cost are required.

GASB 68: Statement No. 68 of the Governmental Accounting Standards Board, the accounting standard governing a state or local governmental employer's accounting and financial reporting for pensions.

New Member (under PEPRA): A new member is an individual who becomes a member of a public retirement system in the State of California for the first time on or after January 1, 2013, was not a member of another public retirement system prior to that date and is not subject to reciprocity with another public retirement system.

Normal Cost: The portion of the Present Value of Benefits allocated to the upcoming fiscal year for active employees. The normal cost plus the required amortization of the UAL, if any, make up the required contributions.

Pension Actuary: A business professional proficient in mathematics and statistics who performs the calculations necessary to properly fund a pension plan and allow the plan sponsor to disclose its liabilities. A pension actuary must satisfy the Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States regarding pensions.

PEPRA: The California Public Employees' Pension Reform Act of 2013.

Present Value of Benefits (PVB): The total dollars needed as of the valuation date to fund all benefits earned in the past and expected to be earned in the future for *current* members.

Unfunded Accrued Liability (UAL): The Accrued Liability minus the Market Value of Assets. If the UAL for a rate plan is positive, the employer is required to make contributions in excess of the Normal Cost. A UAL that is negative is also called the surplus.

Sensitivity Analysis

Discount Rate Sensitivity

The discount rate assumption is calculated as the sum of the assumed real rate of return and the assumed annual price inflation, currently 4.50% and 2.30%, respectively. Changing either the price inflation assumption or the real rate of return assumption will change the discount rate. The sensitivity of the valuation results to the discount rate assumption depends on which component of the discount rate is changed. Shown below are various valuation results as of June 30, 2023 modified to reflect the estimated impact of AB 1383, and provided under alternate discount rates.. Results are shown using the current discount rate of 6.8% as well as alternate discount rates of 5.8% and 7.8%. The rates of 5.8% and 7.8% were selected since they illustrate the impact of a 1.0% increase or decrease to the 6.8% assumption.

The following tables indicate the sensitivity of key valuation results to changes in the discount rate.

	Estimated Valuation Results Reflecting AB 1383		
As of June 30, 2023	**1% Lower Real Return Rate (millions)**	**Current Assumptions (millions)**	**1% Higher Real Return Rate (millions)**
Discount Rate	**5.8%**	**6.8%**	**7.8%**
Price Inflation	2.3%	2.3%	2.3%
Real Rate of Return	**3.5%**	**4.5%**	**5.5%**
State Miscellaneous			
a) Total Normal Cost	21.5%	17.8%	14.1%
b) PVB	189,642.8	167,902.3	146,161.8
c) AL	156,905.9	142,107.6	127,309.3
State Industrial			
a) Total Normal Cost	22.6%	18.9%	15.2%
b) PVB	8,818.2	7,717.4	6,616.6
c) AL	6,633.0	6,221.3	5,509.6
State Safety			
a) Total Normal Cost	27.5%	23.3%	19.1%
b) PVB	26,415.0	23,252.3	20,089.6
c) AL	20,581.0	18,535.6	16,490.2
State Peace Officers & Firefighters			
a) Total Normal Cost	37.4%	30.9%	24.4%
b) PVB	85,845.8	75,505.9	65,166.0
c) AL	71,202.5	63,928.1	56,653.7
California Highway Patrol			
a) Total Normal Cost	40.9%	33.4%	25.9%
b) PVB	23,240.7	20,426.4	17,612.1
c) AL	19,470.2	17,469.9	15,469.6
Schools			
a) Total Normal Cost	20.6%	17.2%	13.8%
b) PVB	171,960.4	151,251.1	130,541.8
c) AL	138,956.2	124,975.4	110,994.6

As of June 30, 2023	1% Lower Real Return Rate (millions)	Current Assumptions (millions)	1% Higher Real Return Rate (millions)
Discount Rate	**5.8%**	**6.8%**	**7.8%**
Price Inflation	2.3%	2.3%	2.3%
Real Rate of Return	**3.5%**	**4.5%**	**5.5%**
Miscellaneous Pool – 2% at age 62			
a) Total Normal Cost	19.7%	16.5%	13.3%
b) PVB	5,767.5	4,680.5	3,593.5
c) AL	1,874.0	1,593.8	1,313.6
Safety Pool – 2% at age 57			
a) Total Normal Cost	31.1%	26.4%	21.7%
b) PVB	191.3	153.8	116.3
c) AL	44.4	37.5	30.6
Safety Pool – 2.5% at age 57			
a) Total Normal Cost	32.2%	26.5%	20.8%
b) PVB	46.9	36.8	26.7
c) AL	9.8	8.1	6.4
Safety Pool – 2.7% at age 57			
a) Total Normal Cost	37.3%	31.1%	24.9%
b) PVB	5,894.8	4,709.6	3,524.4
c) AL	1,370.4	1,155.4	940.4
Miscellaneous Non-Pooled Plans			
a) Total Normal Cost	22.1%	18.4%	14.7%
b) PVB	197,817.4	174,629.2	151,441.0
c) AL	163,534.2	147,427.8	131,321.4
Safety Non-Pooled Plans 2% at age 57			
a) Total Normal Cost	35.8%	29.8%	23.8%
b) PVB	3,584.7	3,184.0	2,783.3
c) AL	3,107.0	2,801.9	2,496.8
Safety Non-Pooled Plans 2.5% at age 57			
a) Total Normal Cost	40.8%	33.7%	26.6%
b) PVB	1,221.1	1,084.0	946.9
c) AL	1,072.5	967.1	861.7
Safety Non-Pooled Plans 2.7% at age 57			
a) Total Normal Cost	39.8%	33.0%	26.2%
b) PVB	97,578.5	85,830.9	74,083.3
c) AL	80,443.3	72,306.4	64,169.5

Mortality Rate Sensitivity

The following tables look at the change in the June 30, 2023 plan costs under two different longevity scenarios, namely assuming post-retirement rates of mortality are 10% lower or 10% higher than our current mortality assumption adopted in 2023. This type of analysis highlights the impact on the plan of a change in the mortality assumption.

The following tables indicate the sensitivity of key valuation results to changes in the post-retirement mortality rates.

	Estimated Valuation Results Reflecting AB 1383		
As of June 30, 2023	**10% Lower Mortality Rates (millions)**	**Current Assumptions**	**10% Higher Mortality Rates (millions)**
State Miscellaneous			
a) Total Normal Cost	18.1%	17.8%	17.5%
b) PVB	171,355.5	167,902.3	164,449.1
c) AL	145,172.5	142,107.6	139,042.7
State Industrial			
a) Total Normal Cost	19.2%	18.9%	18.6%
b) PVB	7,857.4	7,717.4	7,577.4
c) AL	6,339.9	6,221.3	6,102.7
State Safety			
a) Total Normal Cost	23.6%	23.3%	23.0%
b) PVB	23,659.3	23,252.3	22,845.2
c) AL	18,882.3	18,535.6	18,188.9
State Peace Officers & Firefighters			
a) Total Normal Cost	31.3%	30.9%	30.5%
b) PVB	76,598.0	75,505.9	74,413.8
c) AL	64,901.6	63,928.1	62,954.6
California Highway Patrol			
a) Total Normal Cost	33.7%	33.4%	33.1%
b) PVB	20,720.1	20,426.4	20,132.7
c) AL	17,733.1	17,469.9	17,206.7
Schools			
a) Total Normal Cost	17.4%	17.2%	17.0%
b) PVB	154,185.6	151,251.1	148,316.6
c) AL	127,535.4	124,975.4	122,415.4
Miscellaneous Pool – 2% at age 62			
a) Total Normal Cost	16.8%	16.5%	16.2%
b) PVB	4,755.5	4,680.5	4,605.5
c) AL	1,621.3	1,593.8	1,566.3
Safety Pool – 2% at age 57			
a) Total Normal Cost	26.7%	26.4%	26.1%
b) PVB	155.9	153.8	151.7
c) AL	38.1	37.5	36.9
Safety Pool – 2.5% at age 57			
a) Total Normal Cost	26.8%	26.5%	26.2%
b) PVB	37.3	36.8	36.3
c) AL	8.2	8.1	8.0

As of June 30, 2023	10% Lower Mortality Rates (millions)	Current Assumptions	10% Higher Mortality Rates (millions)
Safety Pool – 2.7% at age 57			
a) Total Normal Cost	31.5%	31.1%	30.7%
b) PVB	4,766.6	4,709.6	4,652.6
c) AL	1,170.1	1,155.4	1,140.7
Miscellaneous Non-Pooled Plans			
a) Total Normal Cost	18.7%	18.4%	18.1%
b) PVB	177,902.4	174,629.2	171,356.0
c) AL	150,306.6	147,427.8	144,549.0
Safety Non-Pooled Plans 2% at age 57			
a) Total Normal Cost	30.1%	29.8%	29.5%
b) PVB	3,236.9	3,184.0	3,131.1
c) AL	2,850.2	2,801.9	2,753.6
Safety Non-Pooled Plans 2.5% at age 57			
a) Total Normal Cost	34.1%	33.7%	33.3%
b) PVB	1,100.9	1,084.0	1,067.1
c) AL	982.9	967.1	951.3
Safety Non-Pooled Plans 2.7% at age 57			
a) Total Normal Cost	33.4%	33.0%	32.6%
b) PVB	87,130.1	85,830.9	84,531.7
c) AL	73,459.2	72,306.4	71,153.6

Funded Status – Low Default Risk Basis

Actuarial Standard of Practice (ASOP) No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*, requires the disclosure of a low-default-risk obligation measure (LDROM) of benefit costs accrued as of the valuation date using a discount rate based on the yields of high quality fixed income securities with cash flows that replicate expected benefit payments. Conceptually, this measure represents the level at which financial markets would value the accrued plan costs, and would be approximately equal to the cost of a portfolio of low-default-risk bonds with similar financial characteristics to accrued plan costs.

As permitted in ASOP No. 4, the Actuarial Office uses the Entry Age Actuarial Cost Method to calculate the LDROM. This methodology is in line with the measure of "benefit entitlements" calculated by the Bureau of Economic Analysis and used by the Federal Reserve to report the indebtedness due to pensions of plan sponsors and, conversely, the household wealth due to pensions of plan members.

As shown below, the discount rate used for the LDROM is 4.82%, which is the Standard FTSE Pension Liability Index[1] discount rate as of June 30, 2023, net of assumed administrative expenses

	Estimated Valuation Results Reflecting AB 1383	
As of June 30, 2023	**Current Assumptions (millions)**	**LDROM Discount Rate (millions)**
Discount Rate	**6.8%**	**4.82%**
State Miscellaneous		
PVB	167,902.4	231,140.5
AL	142,107.6	180,787.0
State Industrial		
PVB	7,717.4	10,988.5
AL	6,221.3	8,135.3
State Safety		
PVB	23,252.3	32,489.9
AL	18,535.6	23,993.7
State Peace Officers & Firefighters		
PVB	75,505.9	105,970.3
AL	63,928.1	83,611.1
California Highway Patrol		
PVB	20,426.4	28,699.5
AL	17,469.9	22,886.2
Schools		
PVB	151,251.1	212,347.4
AL	124,975.4	162,113.4
Miscellaneous Pool – 2% at age 62		
PVB	4,680.4	8,370.7
AL	1,593.8	2,414.2
Safety Pool – 2% at age 57		
PVB	153.8	283.7
AL	37.5	58.0
Safety Pool – 2.5% at age 57		
PVB	36.7	72.9
AL	8.1	13.3

As of June 30, 2023	Current Assumptions (millions)	LDROM Discount Rate (millions)
Discount Rate	**6.8%**	**4.82%**
Safety Pool – 2.7% at age 57		
PVB	4,709.6	8,836.5
AL	1,155.4	1,792.1
Miscellaneous Non-Pooled Plans		
PVB	174,629.2	242,331.5
AL	147,427.8	190,240.2
Safety Non-Pooled Plans 2% at age 57		
PVB	3,184.0	4,324.7
AL	2,801.9	3,615.8
Safety Non-Pooled Plans 2.5% at age 57		
PVB	1,084.0	1,483.4
AL	967.1	1,252.5
Safety Non-Pooled Plans 2.7% at age 57		
PVB	85,830.9	120,532.1
AL	72,306.4	94,280.5

AB 1383 (McKinnor), as amended April 11, 2025
Fiscal Impact

Program Costs/Savings – The provisions of AB 1383 are prospective, so the bill does not directly affect CalSTRS' unfunded actuarial obligation for the Defined Benefit (DB) Program. However, in order to fully fund future benefits attributable to a new PEPRA compensation cap of approximately $280,000, as prescribed in the bill, the normal cost of the CalSTRS 2% at 62 member benefit would increase by 0.900%. It is possible that the language in AB 1383 allows for the existing cap to continue to apply to 2% at 62 members. If that is clarified, there would be no increase in the normal cost, and the administrative complexity and associated costs described below would be removed.

2% at 62 Members – When combined with other normal cost increases since the last change in the 2% at 62 member contribution rate in 2018, the additional costs would be high enough to trigger an increase under PEPRA of 0.500% in the 2% at 62 member contribution rate, raising it to 10.705%. The impact on the normal cost of the 2% at 62 member benefit and contribution rate takes into account the number of total members who are now and will in the future be earning more than the existing cap and would, therefore, receive an increased benefit under the bill. CalSTRS looks at its entire population to estimate the future impact. While there are currently about 9,000 members who earn more than the existing cap, or about 2% of CalSTRS active membership, an additional 5% to 10% of CalSTRS active members are likely going to exceed the cap before retirement.

Employers – The current employer contribution rate of 19.1% would remain the same at this time. The increased normal cost of the 2% at 62 member benefit would increase the risk of raising the employer contribution rate in the future. It may also increase the risk over time that CalSTRS may not be able to reach full funding by 2046 in line with the CalSTRS Funding Plan. Moreover, the proposed increase in the compensation cap would require additional employer contributions for any compensation above the current cap that would be creditable to the DB Program.

State – There would be no immediate impact on the state contribution rate as the proposed change in the contribution cap is prospective. The proposed increase in the compensation cap would require additional state contributions for any compensation above the current cap that would be creditable to the DB Program.

In regard to all DB Program members and Cash Balance Benefit Program participants whose exclusive representatives bargain for their employer to pay a portion of their member or participant contributions, there would be no direct impact to CalSTRS. Those members or participants would experience a lower deduction from their paychecks for contributions, and those employers would experience increased costs associated with paying for a portion of the member or participant contributions.

Administrative Costs/Savings – An estimated total of one-time and ongoing additional administrative costs in the range of $1.7 million to $2.7 million associated with the prospective increase in the PEPRA compensation cap, which necessitates creating and administering separate retirement benefit calculations for 2% at 62 members with a final compensation exceeding the existing cap after the bill takes effect. This change represents a major departure from CalSTRS' long-time practice of having one benefit formula for each membership group.

To implement this bill, CalSTRS must either make significant technology changes to the pension administration system or manually perform complex multiple benefit calculations for the affected population. While an automated solution is preferable from an administrative standpoint for accuracy and efficiency, this technology change to CalSTRS' pension administration system is estimated to have a one-time cost in the range of $1.5 million to $2.5 million and to take about one year to complete. This estimate does not include any additional costs, which are unknown, but believed to be substantial, that may be associated with delaying the implementation of CalSTRS' new pension administration system to implement AB 1383 as quickly as possible. However, given the short window to implement multiple retirement calculations and CalSTRS' commitment to implement the new pension administration system in fall 2025, an automated solution is unlikely to be available when the bill takes effect, and it is unknown when CalSTRS would have capacity to implement the change.

To manually calculate benefits for the affected members, CalSTRS estimates that two additional analyst positions at a combined annual cost of approximately $250,000 would be required to perform and review highly complex manual benefit calculations and related transactions, monitor members potentially affected by the new cap, and respond to increased member inquiries about the multiple benefit calculations. As of June 30, 2024, CalSTRS has about 83 vested 2% at 62 members with a compensation earnable close to or over the existing cap that are eligible to retire (age 55 or older) when the bill takes effect. CalSTRS anticipates the number of members affected by the bill to grow over time, thereby increasing the manual workload until an automated solution is in place. Minor and absorbable one-time costs are also anticipated for updating training, communications and procedures.