June 17, 2026

The Honorable Lola Smallwood-Cuevas
Chair, Senate Labor, Public Employment and Retirement Committee
1021 O Street, Suite 6740
Sacramento, CA 95814

RE: **AB 1383 (McKinnor) Public Employees' Retirement Benefits.**
OPPOSE *(As Amended May 13, 2026)*

Dear Senator Smallwood-Cuevas,

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), California Transit Association, Los Angeles Unified School District (LAUSD), Urban Counties of California (UCC), and California Association of School Business Officials(CASBO) 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 public 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. and
- Allow local agencies to adjust their local formula in a prospective manner;

Through these changes, the bill would dramatically increase 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. According to a 2024 estimate, for the state, schools, and public agencies in CalPERS, PEPRA had 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]. These data do not include the public agencies that maintain their own pension system, including twenty counties. The critical savings from PEPRA help 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 local agencies are currently considering significant budget cuts across all departments. AB 1383 would cause increased benefit costs and new cost pressures, 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 <u>$4.8 billion</u> across State, Schools, and Local Agency plans.** In addition to the change in PVB, CalPERS estimates that the **change to the accrued liability to be <u>$233 million</u>** across State, Schools, and Local Agency plans. Additionally, AB 1383 further proposes that employers may increase their PEPRA formula to 3% at age 55 through individual agency collective bargaining. The benefit for this formula will be limited to 90 percent of final compensation. The increase in the normal cost due to this change could lead to increased annual normal cost contributions of $353 million in the first year and increase the present value of future benefits by $3.4 billion.

The CalPERS analysis does not include estimates for non-CalPERS pension systems, including for the twenty county-operated pension systems. Additionally, these costs are based on a snapshot of current compensation for public employees and could be heightened significantly if compensation increases rise and exceed the current compensation cap.

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

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%, 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.

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 could increase as well to reach half of the new normal cost. This would mean that some PEPRA employees making under the pensionable compensation cap may have to pay more to CalPERS out of their check while not seeing a benefit from the increased pensionable compensation cap.

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, 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 these reasons, the organizations listed below are respectfully opposed to AB 1383. The CalPERS full fiscal analysis 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
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