CalPERS

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 May 13, 2026. 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 redefine the compensation cap established under PEPRA for Miscellaneous and Safety PEPRA members. The new proposed PEPRA cap is increased to the amount specified in Section 430(b) of Title 42 of the United States Code (i.e. $184,500 for those whose service is included in the federal system and $249,075 for those whose service is not included in the federal system for 2026). 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, 2027. All PEPRA benefits earned from January 1, 2013 through December 31, 2026 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 some PEPRA members by varying degrees. The increase to the present value of future benefits (PVB) is estimated at $4.8 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 $233 million for all State, Schools, and Local Agency plans. As a result, this $4.8 billion increase to the PVB would be funded through a combination of increased annual normal cost contributions for future service over the remaining future working lifetime of the employees who were active as of June 30, 2024, and increased amortization payments to pay down the resulting increase in unfunded accrued liability. Consistent with the normal cost sharing provisions, these additional contributions would be shared between employers and PEPRA employees. This is modeled in scenario 3 of this disclosure.

II. Valuation Basis

Valuation Date: 06/30/2024

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 data used for the June 30, 2024 actuarial valuations.

Methods and Assumption: This cost analysis uses the methods described in Appendix A of the June 30, 2024 actuarial valuation and assumptions included in the November 2025 CalPERS Experience Study and Review of Actuarial Assumptions. 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 amount specified in Section 430(b) of Title 42 of the United States Code for 2026
    a. One hundred percent for a member whose service is included in the federal system, $184,500
    b. One hundred thirty-five percent for a member whose service is not included in the federal system, $249,075
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, further improve benefit formula for PEPRA Safety members to 3% at age 55 and the benefit limit shall be 90 percent of final compensation

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, 2027.

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 430(b) of Title 42 of the United States Code (i.e. $184,500 for those whose service is included in the federal system and $249,075 for those whose service is not included in the federal system for 2026). For reference, the 2026 compensation cap for PEPRA members is $159,733 for members whose service is included in the federal system and $191,679 for those whose service is not included in the federal system. 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 displayed 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	0.41%	0.21%	$914.9	$36.6
State Industrial	0.20%	0.10%	22.5	(0.3)
State Safety	0.23%	0.10%	136.6	15.0
State Peace Officers & Firefighters	0.19%	0.09%	82.9	7.2
California Highway Patrol	3.79%	1.36%	309.5	6.9
Schools	0.11%	0.06%	284.7	35.6

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	0.31%	$159.4	$8.5
Safety Pool – 2% at age 57	0.70%	6.5	0.2
Safety Pool – 2.5% at age 57	1.66%	3.8	0.0
Safety Pool – 2.7% at age 57	1.61%	362.1	9.2

Scenario 1 (cont'd)

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	Total Increase to Present Value of Future Benefits (millions)	Total Increase to Accrued Liabilities (millions)
Miscellaneous	Low	0.00%	0.00%	$925.6	$58.2
	Median	0.22%	0.11%		
	High	1.16%	0.65%		
Safety – 2% at age 57	Low	0.17%	0.00%	6.3	0.3
	Median	0.42%	0.09%		
	High	0.89%	0.43%		
Safety – 2.5% at age 57	Low	N/A	N/A	10.6	0.5
	Median	2.43%	1.35%		
	High	N/A	N/A		
Safety – 2.7% at age 57	Low	0.01%	0.01%	991.3	22.8
	Median	2.24%	0.95%		
	High	3.30%	1.62%		

The increase in the normal cost due to increasing the compensation limit would result in an increase to annual normal cost contributions of $241 million in the first year and increase the present value of future benefits by $4.2 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, 2027 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	0.22%	0.12%	$42.0	$1.1
State Peace Officers & Firefighters	0.45%	0.22%	153.9	7.5
California Highway Patrol	0.67%	0.24%	40.6	2.4

Local Agency Pooled Plans

Plan	Estimated Increase to Total Normal Cost	Increase to Present Value of Future Benefits (millions)	Increase to Accrued Liabilities (millions)
Safety Pool – 2% at age 57	0.33%	$2.2	$0.0
Safety Pool – 2.5% at age 57	0.51%	0.8	0.0
Safety Pool – 2.7% at age 57	0.66%	101.3	6.1

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

<table>
<tr><th>Plan</th><th></th><th>Estimated Increase to Total Normal Cost for PEPRA Members Only</th><th>Estimated Increase to Total Normal Cost for Entire Plan</th><th>Increase to Present Value of Future Benefits (millions)</th><th>Increase to Accrued Liabilities (millions)</th></tr>
<tr><td rowspan="3">Safety – 2% at age 57</td><td>Low</td><td>0.32%</td><td>0.00%</td><td rowspan="3">$3.4</td><td rowspan="3">$0.2</td></tr>
<tr><td>Median</td><td>0.46%</td><td>0.22%</td></tr>
<tr><td>High</td><td>0.56%</td><td>0.30%</td></tr>
<tr><td rowspan="3">Safety – 2.5% at age 57</td><td>Low</td><td>N/A</td><td>N/A</td><td rowspan="3">1.8</td><td rowspan="3">0.1</td></tr>
<tr><td>Median</td><td>0.52%</td><td>0.29%</td></tr>
<tr><td>High</td><td>N/A</td><td>N/A</td></tr>
<tr><td rowspan="3">Safety – 2.7% at age 57</td><td>Low</td><td>0.55%</td><td>0.20%</td><td rowspan="3">214.2</td><td rowspan="3">16.0</td></tr>
<tr><td>Median</td><td>0.69%</td><td>0.31%</td></tr>
<tr><td>High</td><td>0.81%</td><td>0.42%</td></tr>
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The increase in the normal cost due to the formula change would result in an increase to annual normal cost contributions of $38 million in the first year and increase the present value of future benefits by $560 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 Annual Normal Cost Contributions (millions)	Increase to Present Value of Future Benefits (millions)	Increase to Accrued Liabilities (millions)
State Miscellaneous	0.41%	0.21%	$48.1	$914.9	$36.6
State Industrial	0.20%	0.10%	1.5	22.5	(0.3)
State Safety	0.45%	0.22%	15.5	$179.6	$16.0
State Peace Officers & Firefighters	0.64%	0.31%	14.5	237.2	14.7
California Highway Patrol	4.56%	1.64%	18.2	358.7	9.1
Schools	0.11%	0.06%	19.0	284.7	35.6

Local Agency Pooled Plans

Plan	Estimated Increase to Total Normal Cost	Increase to Annual Normal Cost Contributions (millions)	Increase to Present Value of Future Benefits (millions)	Increase to Accrued Liabilities (millions)
Miscellaneous Pool – 2% at age 62	0.31%	$11.5	$159.4	$8.5
Safety Pool – 2% at age 57	1.03%	0.5	$8.8	$0.2
Safety Pool – 2.5% at age 57	2.20%	0.2	4.7	0.1
Safety Pool – 2.7% at age 57	2.31%	24.9	473.6	15.1

Scenario 3 (cont'd)

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 Annual Normal Cost Contributions (millions)	Increase to Present Value of Future Benefits (millions)	Increase to Accrued Liabilities (millions)
Miscellaneous	Low	0.00%	0.00%	$63.9	$925.6	$58.2
	Median	0.22%	0.11%			
	High	1.16%	0.65%			
Safety – 2% at age 57	Low	0.73%	0.01%	0.6	9.8	0.5
	Median	0.75%	0.40%			
	High	1.38%	0.66%			
Safety – 2.5% at age 57	Low	N/A	N/A	0.7	12.6	0.7
	Median	3.01%	1.68%			
	High	N/A	N/A			
Safety – 2.7% at age 57	Low	0.71%	0.33%	62.4	1,234.3	38.1
	Median	3.01%	1.27%			
	High	4.00%	2.02%			

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 $282 million in the first year and increase the present value of future benefits by $4.8 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 benefit for this formula will be limited to 90 percent of final compensation. 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	10.02%	5.51%	$1,136.3	$200.5
State Peace Officers & Firefighters	4.50%	2.18%	846.7	159.7
California Highway Patrol	3.17%	1.14%	130.0	14.6

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	8.72%	$48.0	$4.6
Safety Pool – 2.5% at age 57	3.71%	6.4	1.1
Safety Pool – 2.7% at age 57	2.22%	371.0	79.5

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

<table>
<tr><th>Plan</th><th></th><th>Estimated Increase to Total Normal Cost for PEPRA Members Only</th><th>Estimated Increase to Total Normal Cost for Entire Plan</th><th>Increase to Present Value of Future Benefits (millions)</th><th>Increase to Accrued Liabilities (millions)</th></tr>
<tr><td rowspan="3">Safety – 2% at age 57</td><td>Low</td><td>5.80%</td><td>0.09%</td><td rowspan="3">$41.7</td><td rowspan="3">$7.9</td></tr>
<tr><td>Median</td><td>6.59%</td><td>3.14%</td></tr>
<tr><td>High</td><td>7.65%</td><td>3.18%</td></tr>
<tr><td rowspan="3">Safety – 2.5% at age 57</td><td>Low</td><td>N/A</td><td>N/A</td><td rowspan="3">11.5</td><td rowspan="3">2.0</td></tr>
<tr><td>Median</td><td>3.12%</td><td>1.74%</td></tr>
<tr><td>High</td><td>N/A</td><td>N/A</td></tr>
<tr><td rowspan="3">Safety – 2.7% at age 57</td><td>Low</td><td>1.76%</td><td>0.62%</td><td rowspan="3">775.5</td><td rowspan="3">193.1</td></tr>
<tr><td>Median</td><td>2.13%</td><td>0.96%</td></tr>
<tr><td>High</td><td>2.58%</td><td>1.44%</td></tr>
</table>

The increase in the normal cost due to the formula change to 3% at age 55 and 90% benefit limit would result in an increase to annual normal cost contributions of $353 million in the first year and increase the present value of future benefits by $3.4 billion.

__Notes:__

- **All estimated costs were calculated using CalPERS current actuarial assumptions and methods that were approved by the Board in November 2025.**
- 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 for these proposed formulas were left identical to the retirement assumptions for existing PEPRA formulas. 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 in some cases will 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.
- 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 is provided in Attachment 1 of this document. This information provides a more complete assessment of the possible financial implications of this Bill.
- With this proposed amendment, a greater number of PEPRA members could potentially be impacted by the IRC Section 415 limit. While a member's retirement benefit may be subject to limitation under their individualized IRC Section 415 limit, members who first become CalPERS members on or after January 1, 2013 are not eligible to receive a replacement benefit.

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, 2024. 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
Attachment 2 – Estimated Impact to Normal Cost

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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.