ATTACHMENT B

STAFF'S ARGUMENT

STAFF'S ARGUMENT TO ADOPT THE PROPOSED DECISION, AS MODIFIED

Matthew Watkins (Respondent) was employed with the Department of Motor Vehicles – District 01 (Respondent DOT) as a Transportation Engineering Technician. By virtue of his employment, Respondent was a state miscellaneous member of CalPERS.

On March 8, 2018, Respondent DOT presented Respondent with a Notice of Absence Without Leave Separation (AWOL Notice) stating that Respondent's employment would be terminated effective March 18, 2018, because he was absent from work without leave. Later, Respondent filed an appeal of his separation with the California Department of Human Resources. The parties entered a Stipulated Settlement Agreement (Agreement) dated June 6, 2018. Under the Agreement, Respondent DOT agreed to withdraw the AWOL Notice and remove it from Respondent's Official Personnel File. In exchange, Respondent agreed to resign effective May 31, 2018, withdraw the appeal of his separation, and file no further legal action regarding the AWOL Notice. Respondent also agreed that any future employment of Respondent with Respondent DOT was at Respondent DOT's sole discretion. Lastly, he agreed that if he acquired future employment with Respondent DOT, he was subject to summary dismissal without any type of appeal rights.

CalPERS received Respondent's application for disability retirement on October 3, 2024. Disability was claimed on the basis of a neurological condition (Korsakoff psychosis) and a hepatological condition (liver disease). Respondent described his conditions as chronic. He stated that according to medical records, they occurred between 2018 and 2019. Based on these diagnoses, he stated that he was approved for Social Security Disability Insurance (SSDI) on February 16, 2019. He explained that he suffers symptoms and limitations which include "psychological and cognitive impairment, severe memory difficulties, confusion and inability to focus, physical fatigue, and difficulty following directions, complying with procedures and completing tasks."

By letter dated February 28, 2025, CalPERS notified Respondent that he was not eligible for disability retirement because his employment ended for reasons not related to a disabling medical condition. CalPERS determined that Respondent was precluded from applying for disability retirement pursuant to the holdings in *Haywood v. American River Fire Protection District* (1998) 67 Cal.App.4th 1292 (*Haywood*); *Martinez v. Public Employees Retirement System* (2019) 33 Cal.App.5th 1156 (*Martinez*); and *In the Matter of the Application for Industrial Disability Retirement of Robert Vandergoot*, dated February 19, 2013, and made precedential by the CalPERS Board of Administration on October 16, 2013 (*Vandergoot*). In a supplemental determination letter dated January 6, 2026, CalPERS further notified Respondent that it also rejected his application as untimely.

The *Haywood* court found that a complete severance of the employment relationship extinguishes the right to receive a disability retirement where the severance: (1) is not due to a disabling medical condition; and (2) does not preempt a vested and matured right to a disability retirement. It further found that a disability retirement is only a "temporary separation" from public service, and that allowing disability retirement in the case of a complete severance would create a legal anomaly – a "temporary separation" that can never be reversed. Therefore, the courts have found disability retirement and a complete severance to be legally incompatible.

The *Martinez* court affirmed the holding in *Haywood* and refused to overturn more than twenty years of legal precedent. The *Martinez* court also affirmed the *Vandergoot* Precedential Decision as a logical application of *Haywood* and *Smith v. City of Napa* (2004) 120 Cal.App.4th 194. In *Vandergoot*, the Board held that "a necessary requisite for disability retirement is the potential reinstatement of the employment relationship" with the employer if it is ultimately determined that the employee is no longer disabled. The Board concluded that an employee's resignation was tantamount to a dismissal when the employee resigned pursuant to a settlement agreement entered to resolve a dismissal action and the employee agreed to waive all rights to return to his former employer. Both *Martinez* and *Vandergoot* involved employees who agreed to resign following a notice of termination.

Respondent appealed CalPERS' determination by letter dated March 13, 2025, and exercised his right to a hearing before an Administrative Law Judge (ALJ) with the Office of Administrative Hearings (OAH). A hearing was held on July 30, 2026. Respondent represented himself at the hearing. Respondent DOT did not appear at the hearing, and a default was taken as to Respondent DOT only, pursuant to Government Code section 11520.

Prior to the hearing, CalPERS explained the hearing process to Respondent and the need to support his case with witnesses and documents. CalPERS provided Respondent with a copy of the administrative hearing process pamphlet, was available to answer Respondent's questions, and clarified how to obtain further information on the process.

At the hearing, Respondent testified that Respondent DOT accommodated his medical conditions while he was employed out of San Diego; however, when he was transferred to Eureka, he did not receive the reasonable accommodations he needed, and he was subsequently terminated for his unapproved absences. Respondent further stated that Respondent DOT breached the Agreement when it didn't remove the AWOL Notice from his Official Personnel File.

After considering all the evidence introduced, as well as arguments by the parties, the ALJ denied Respondent's appeal. The ALJ found CalPERS had established that the Agreement completely severed the employment relationship, making Respondent ineligible for disability retirement benefits. Conversely, the ALJ found that Respondent presented no evidence that his dismissal was the ultimate result of a disabling medical

condition, or that it preempted an otherwise valid claim for disability retirement. Under *Haywood* and subsequent cases Respondent bears the burden of proof on these points. In fact, the "Physician's Report on Disability" form he offered evidenced that Respondent was not disabled at the time of separation and qualified for neither exception.

In the Proposed Decision, the ALJ concluded that CalPERS properly determined Respondent was precluded from applying for disability retirement and his appeal must be denied. Because the court ruled on the basis of *Haywood* and its progeny, it did not reach the issue of whether Respondent's application was timely. Lastly, the court found it lacked jurisdiction to consider Respondent's claims that Respondent DOT breached the Agreement and that it need not do so to decide his appeal.

Pursuant to Government Code section 11517, subdivision (c)(2)(C), the Board is authorized to "make technical or other minor changes in the proposed decision." To correct a typographical error, staff recommends that the word "the" be inserted before the word "future" on page 3, paragraph 2, bullet five.

For all the above reasons, staff argues that the Proposed Decision should be adopted by the Board, as modified.

November 18, 2026

Sean Stowers
Senior Attorney