



Audits & Risk Management Committee

Item Number 3 – Open Session

Subject: Annual Report of Benefit Payment Modifications for FY 2020-21

Presenter(s): Chairperson

Item Type: Consent Information

Date & Time: November 4, 2021 – 0 minutes

Attachment(s): None

PowerPoint(s): None

PURPOSE

This report describes modifications to benefit payments for FY 2020-21 and the actions taken to reduce the number and value of benefit payment modifications (payment increases and decreases), as required by Education Code section 24619.

DISCUSSION/SUMMARY

As a part of ongoing operations, CalSTRS monitors the number, dollar value and nature of modifications to benefit payments. In some instances, this review may identify a systemic problem requiring a strategic action plan. In many cases, the modifications are determined to be part of standard business processes in the administration of ongoing benefits.

ANNUAL REPORT FOR FY 2020-21

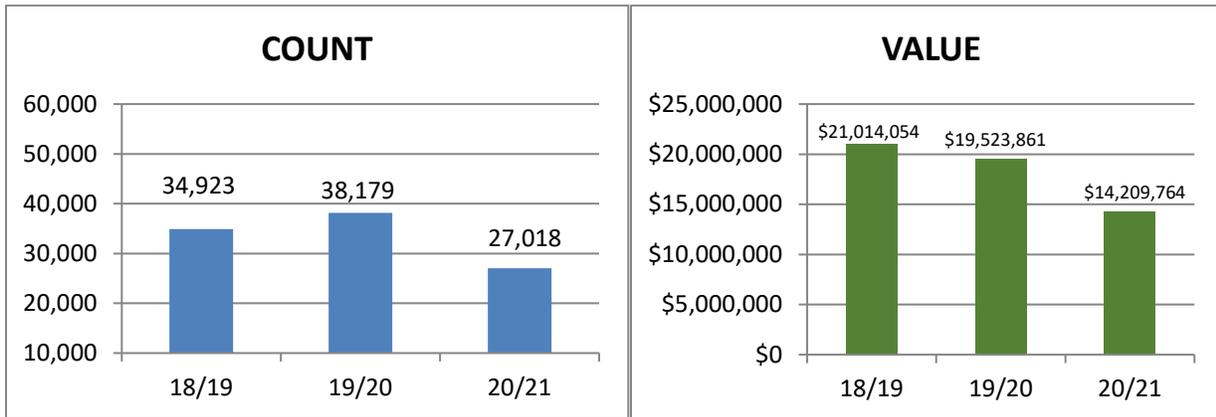
Modifications Resulting in Benefit Payment Increases

During FY 2020-21, CalSTRS made modifications increasing 27,018 benefits with a monetary value of approximately \$14.2 million. In total, these amounts represent less than a quarter of one percent of the \$16.6 billion in benefits paid to members and their beneficiaries during the same period.

From FY 2019-20 to FY 2020-21, modifications resulting in increases to benefit payments decreased by 11,161 in count or 29%, while the total value decreased by approximately \$5.3 million or 27%. CalSTRS system of record for pension payments, START, classifies certain one-time payments as “payment increases” if the payment resulted from an increase to a

component of the benefit calculation (for example, an increase to service credit resulting from additional employer reporting).

Benefit Payment Increases by Count and Value

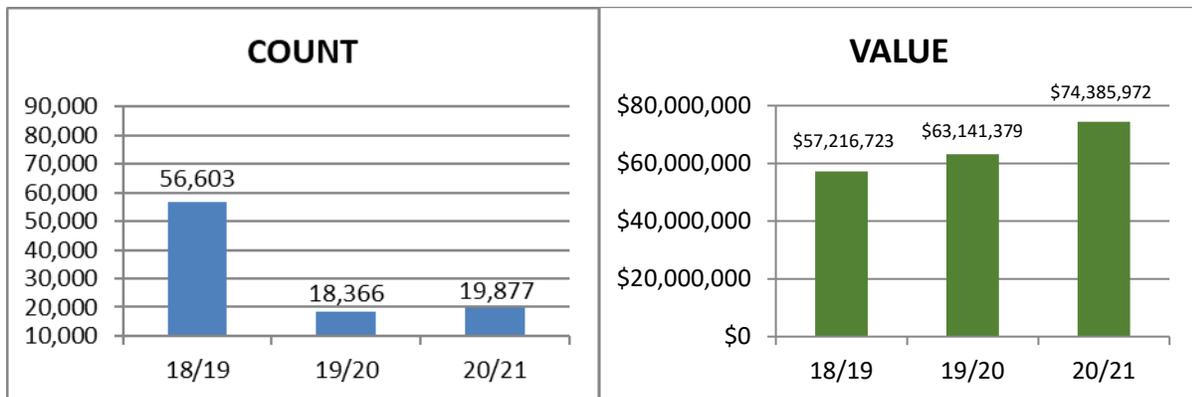


Modifications Resulting in Benefit Payment Decreases

For the same period, CalSTRS made modifications reducing 19,877 benefit payments (payment decreases) with a monetary value of approximately \$74.4 million, creating additional member accounts receivable. In total, these amounts represent less than half of one percent of the \$16.6 billion in benefits paid to members and their beneficiaries during the same period.

From FY 2019-20 to FY 2020-21, member overpayments increased 1,511 in count or 8% and increased by approximately \$11.2 million in value or 18%. The majority of the increase in value during the fiscal year results from the death of members and beneficiaries. Benefit payments issued during the month of members/beneficiaries' death are revoked, creating death receivables, a standard business practice.

Benefit Payment Decreases by Count and Value



As of June 30, 2021, there were 6,580 open member accounts receivable with a total balance of \$30.1 million. Of this amount, CalSTRS estimates approximately \$8.7 million is uncollectible based on the projected actuarial life of members/beneficiaries. CalSTRS discharged \$2.3 million in FY 2020-21, a decrease of \$1.7 million from FY 2019-20, due to the three-year statute of limitations on collection of an overpayment (Education Code section 22008) or because the overpayment was deemed uncollectible. The decrease in amount discharged is mainly due to the decrease in volume of write-offs processed in current year versus prior year.

Typical Reasons Benefit Modifications Occur

CalSTRS has identified several common reasons for benefit payment modifications.

1. CalSTRS processes new benefit applications to coincide with the members' requested benefit effective date. For most active members, this results in establishing the benefits prior to final compensation and contribution reporting from the employer. The final contribution reporting from employers may result in benefit modifications.
2. Report of the death or verification of the date of death of a member or beneficiary received by CalSTRS after release of the monthly allowance roll, resulting in benefit payment modifications.
3. Reporting errors identified during an employer audit, or a compensation review finding that retired members' compensation was not reported accurately. Correcting reporting errors results in inaccurate benefit payments.
4. Normal changes to benefits resulting from post-retirement events such as the death of an option beneficiary prior to the death of the member, resulting in benefit payment modifications.

Actions Taken to Reduce Benefit Modifications

Penalties and Interest (P&I) Regulations

The regulations to assess Penalties and Interest are meant to incentivize employers to report payroll and contributions in a timely manner. The goal is to achieve a zero penalties and interest assessment.

For FY 2020-21, CalSTRS assessed \$7.8 million in penalties and interest on employers. The assessed amount increased by approximately \$2.1 million over the prior year. The majority of the increases are attributable to an increase in employer corrections and adjustments as well as late contributions.

Quality Assurance Processes

CalSTRS has a multi-faceted quality assurance program for benefit payments.

1. The Service Retirement (SR) Division administers a series of quality controls when establishing new benefits for members. Complicated calculations have two-step quality checks completed by a dedicated team of analysts, to assist with decreasing the risk of modifications due to errors on complex cases. Additionally, the SR Quality Assurance team has improved its data tools to find trends, monitor thresholds and provide information about service retirement payments to benefit initiation and maintenance areas, to assist with reducing the risk of error.
2. The Disability and Survivor Benefits Division applies a series of internal controls throughout the benefit review process which includes performing detailed reviews of newly created payments. Additionally, the verification of eligibility and the termination of undue benefits processes help decrease potential overpayments.
3. The Pension Disbursements Unit continues to review fluctuations in benefit amounts at the member level. This analysis provides information regarding the underlying causes of adjustments to established benefits. A report outlining the causes of benefit amount changes is provided to the Executive Staff on a quarterly basis. The identification of process-based issues increases awareness and provides opportunity for change and assisting with the reduction of benefit payment increases and decreases.

Allowance Roll Reasonableness Policy

Any benefit type (paid through an allowance roll) that exceeds an established threshold is flagged for management review prior to the release of the allowance roll to the California State Controller's Office pursuant to CalSTRS Allowance Roll Reasonableness Policy. This policy documents the system's longstanding review process of monthly and quarterly allowance rolls for benefit payments. It establishes fluctuation thresholds based on historical trends.

The tables below present an overview of benefit modifications resulting in both underpayments and overpayments by benefit type and fiscal year for the last three fiscal years:

PAYMENT INCREASES		
Fiscal Years 2018-2019, 2019-2020, and 2020-2021		
Benefit Type	Count	Value
Service Retirement		
FY 2018/2019	33,601	\$19,812,559
FY 2019/2020	35,601	\$18,172,093
FY 2020/2021	26,128	\$12,564,229
Disability		
FY 2018/2019	493	\$737,896
FY 2019/2020	378	\$620,694
FY 2020/2021	148	\$1,075,886
Survivor Benefits		
FY 2018/2019	829	\$463,599
FY 2019/2020	2,200	\$731,074
FY 2020/2021	742	\$569,649
Refunds*		
FY 2018/2019	N/A	N/A
FY 2019/2020	N/A	N/A
FY 2020/2021	N/A	N/A
Cash Balance*		
FY 2018/2019	N/A	N/A
FY 2019/2020	N/A	N/A
FY 2020/2021	N/A	N/A
TOTAL BY FISCAL YEAR		
FY 2018/2019	34,923	\$21,014,054
FY 2019/2020	38,179	\$19,523,861
FY 2020/2021	27,018	\$14,209,764

PAYMENT DECREASES		
Fiscal Years 2018-2019, 2019-2020, and 2020-2021		
Benefit Type	Count	Value
Service Retirement		
FY 2018/2019	24,072	\$46,989,686
FY 2019/2020	14,716	\$52,995,575
FY 2020/2021	15,806	\$64,632,019
Disability		
FY 2018/2019	1,105	\$2,236,694
FY 2019/2020	542	\$2,405,722
FY 2020/2021	505	\$2,166,470
Survivor Benefits		
FY 2018/2019	7,403	\$7,042,984
FY 2019/2020	2,574	\$7,094,032
FY 2020/2021	3,016	\$7,235,584
Refunds		
FY 2018/2019	23,984	\$893,561
FY 2019/2020	465	\$417,126
FY 2020/2021	542	\$302,067
Cash Balance		
FY 2018/2019	39	\$53,798
FY 2019/2020	69	\$228,924
FY 2020/2021	8	\$49,832
TOTAL BY FISCAL YEAR		
FY 2018/2019	56,603	\$57,216,723
FY 2019/2020	18,366	\$63,141,379
FY 2020/2021	19,877	\$74,385,972

* The term "payment increase" is not applicable to refunds of contributions and interest, or any one-time, non-recurring disbursement, such as Cash Balance lump sum payments. If the system determines a member who refunded has not received the full balance of his or her account, a second refund distribution is issued to the member.

RECOMMENDATION

Staff recommends acceptance of the Annual Report of Benefit Payment Modifications for FY 2020-21.