

**BILL NUMBER: AB 2052 (Bonta) as introduced February 6, 2018**

**SUMMARY**

AB 2052, effective upon authorization by the Teachers' Retirement Board (board), requires all employers to submit their contribution payments by an electronic funds transfer (EFT) method. It also allows an employer that is unable to comply with this requirement to apply to the board for a waiver to pay in an alternate manner.

**BOARD POSITION**

**Sponsor.** The board's policy is to support or sponsor legislation that provides more effective and efficient administration of the retirement plan.

**REASON FOR THE BILL**

This bill allows CalSTRS to gain efficiency and accuracy in processing employer contribution payments, while reducing the workload and risks related to processing these payments. EFT payments also align with industry best practices and support CalSTRS green efforts.

**ANALYSIS**

**Existing Law:**

Existing statute does not require employers to remit member and employer contributions to CalSTRS by EFT.

**This Bill:**

Specifically, effective upon authorization by the board, this bill:

- Requires employers to pay contributions by an EFT method prescribed by the board.
- Allows an employer that is unable, for good cause, to comply with this requirement to apply to the board for a waiver that allows the employer to pay in an alternate manner, as prescribed by the board.

**LEGISLATIVE HISTORY**

AB 637 (Hill, Chapter 118, Statutes of 2009) required contributions made by employers contracted with CalPERS to be paid through EFT and allowed employers to request waivers to this requirement.

**PROGRAM BACKGROUND**

Under current practice, employers are able to submit contribution payments by EFT or paper check. Paper checks may be sent directly to CalSTRS or deposited in regional banks by county offices of education. Funds related to payments by paper check, whether sent directly to CalSTRS or deposited in regional banks, are immediately made

available by the State Treasurer's Office to be invested by CalSTRS even though they require several days to complete the check-clearing process. Approximately 59 percent of total contributions to CalSTRS are sent by EFT methods. The remaining 41 percent of contributions are in the form of paper checks. One percent of the total contributions are sent directly by paper check to CalSTRS, and 40 percent are deposited in regional banks by paper check. In terms of number of payment *transactions*, paper checks comprise more than 60 percent of all transactions, with 43 percent sent directly to CalSTRS and 19 percent deposited in regional banks.

Processing paper checks carries inefficiencies and risks that include:

- Higher likelihood of errors at multiple stages in the process.
- Greater administrative expenses.
- Greater risk for fraud.
- Higher environmental impact related to sending paper checks.

Similar to this proposal, AB 637 (Chapter 118, Statutes of 2009) required contributions made by employers contracted with CalPERS (including school employers that also employ CalSTRS members) to be paid through EFT. AB 637 allows employers to request waivers to this requirement that CalPERS evaluates on a case-by-case basis. CalPERS implemented this requirement beginning in July 2017.

## **FISCAL IMPACT**

Program Cost – None.

Administrative Costs/Savings – For CalSTRS, processing an EFT payment costs \$4.62, while processing a paper check costs \$35.63, resulting in an additional cost of \$31.01 to process a paper check as compared to an EFT payment. Therefore, annual savings of up to approximately \$96,000 are expected as more employers adopt the use of EFT payments.

## **SUPPORT**

CalSTRS (Sponsor)

## **OPPOSITION**

None known.

## **ARGUMENTS**

Pro: Improves efficiency and accuracy in processing employer contribution payments.

Reduces workload related to processing paper checks.

Minimizes risks associated with processing paper checks.

Aligns CalSTRS more with industry best practices.

Supports CalSTRS green efforts.

Requires less paperwork and manual processes for employers that use EFT.

Allows employers to make or schedule payments up to the due date (no longer creating the need to determine mailing time).

Con: May cause resistance among some employers because they would lose the ability to “float” checks during the several days it takes a paper check to clear, preventing the funds from being invested by employers for those days.

## **LEGISLATIVE STAFF CONTACT**

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