July 1 marked the start of the 2018–19 fiscal year and along with it, new contribution rates, new compensation limits and new postretirement earnings limits. We’d like to remind you of some of the rates and limits that are now in effect.

**Fiscal Year 2018–19 Contribution Rates**

- The Defined Benefit Program member contribution rate for CalSTRS 2% at 60 members is 10.25 percent.
- The Defined Benefit Program member contribution rate for CalSTRS 2% at 62 members is 10.205 percent.
- The Defined Benefit Program employer contribution rate is 16.28 percent.
- The Defined Benefit Supplement Program member contribution rate for CalSTRS 2% at 60 members is 8 percent.
- The Defined Benefit Supplement Program member contribution rate for CalSTRS 2% at 62 members is 9 percent.
- The Defined Benefit Supplement Program employer contribution rate remains at 8.25 percent.

For more information about these contribution rates and the other contribution and interest rates and present value factors for fiscal year 2018–19, please refer to Employer Directive 2018-02 (ED18-02).
Fiscal Year 2018–19 Compensation Limits

The compensation limit for the Defined Benefit Program for CalSTRS 2% at 62 members and Cash Balance Benefit Program participants subject to PEPRA is $146,230.

Internal Revenue Code section 401(a)(17), which limits creditable compensation that may be counted toward a CalSTRS retirement benefit for all persons who became a CalSTRS Defined Benefit member or Cash Balance Benefit participant on or after July 1, 1996, is $275,000.

For more information about the creditable compensation limits for CalSTRS 2% at 62 members and Cash Balance Benefit participants subject to PEPRA for fiscal year 2018–19, please refer to Employer Information Circular Volume 34, Issue 4 (EIC34-04). For more information about the creditable compensation limits for 2% at 60 members, or other IRC pension plan limits in effect as of July 1, 2018, refer to Employer Information Circular Volume 34, Issue 1 (EIC34-01).

Fiscal Year 2018–19 Postretirement Earnings Limit

The postretirement earnings limit for members retired for service under the Defined Benefit Program who return to work to perform retired member activities is $45,022.

For more information about the postretirement earnings limits for the 2018–19 fiscal year and 2018 calendar year, please refer to Employer Directive 2017-03 (ED18-01).

All Employer Directives and Employer Information Circulars are available under Reference Items on the Secure Employer Website or online at CalSTRS.com/employers.
Are You Ready for Annual Update 2018?

The annual update process for the 2017–18 fiscal year is quickly approaching. Under Education Code section 23004, all monthly reports are due to CalSTRS 30 calendar days following the month in which the compensation was earned for Defined Benefit Program members. This means that all June 2018 Defined Benefit Program contribution reports were due by July 30, 2018. In order for member accounts to be accurately updated on their 2018 Retirement Progress Report, we must receive all employer contribution files no later than 5 p.m. on August 13, 2018. We will suspend the processing of 2017–18 employer contribution files after this date.

Employers may continue to upload employer contribution files, MR87s and address files using SEW; however, the transmittal of contribution files for fiscal year 2017–18 will be closed. You should continue submitting 2018–19 Defined Benefit Program monthly employer contribution files and VDF files in accordance with the Teachers’ Retirement Law.

At the conclusion of the annual update process, we will begin updating our system data in preparation for distributing the 2018 Retirement Progress Reports to our members and the return of excess contributions to the employers. We expect to post member Retirement Progress Reports and the return of excess contribution reports on September 12, 2018, by 8 a.m.

We appreciate your time and effort to ensure that all member and participant data is reported on time so that we may provide our members, your employees, with the most accurate reflection of their CalSTRS accounts for the 2017–18 fiscal year.

The update process will take place over Labor Day weekend. SEW will be unavailable starting Friday, August 31 at 5 p.m. Access is scheduled to resume on Tuesday, September 4, 2018, by 8 a.m.
Mandatory Membership in the Defined Benefit Program Clarified for Substitute, Part-Time Hourly and Part-Time Daily Employees

Substitute employees are required to be members of the Defined Benefit Program once they perform 100 complete days of creditable service in a school year for one district. Under Education Code section 22503, employers must establish their membership the first day of the pay period after they meet this threshold.

Part-time hourly and part-time daily employees become mandatory members of the Defined Benefit Program once they perform 60 hours or 10 days, respectively, of creditable service for one district or county office of education in one pay period. If this occurs, their membership should also be established the first day of the following pay period as required by Education Code section 22504.

Past CalSTRS communications regarding membership in the Defined Benefit Program for substitute, part-time hourly or part-time daily employees may have been inconsistent with those laws as they pertain to membership for employees who did not perform any further service in the same school year, for the same district, after meeting the applicable threshold.

Effective July 1, 2018, employers should begin establishing membership for substitute, part-time hourly and part-time daily employees the first day of the pay period following the pay period in which the employee meets the applicable thresholds regardless of whether employees met the threshold in the last pay period of the school year or if they return to work.

We are not requesting employers to retroactively establish or correct membership dates for previous fiscal years.

This information does not pertain to employers that offer the Cash Balance Benefit Program. There is no threshold for mandatory membership in the Defined Benefit Program for substitute, part-time hourly and part-time daily employees employed by a Cash Balance Benefit Program employer.

A directive with this information, along with other CalSTRS benefit program enrollment information, will be issued in the fall.
CalSTRS is sponsoring two bills this year that may be of interest to you: Assembly Bill 2052, signed by the governor on July 18, 2018, and Senate Bill 1165. The information below is based on the chaptered language in AB 2052 as of July 18, 2018, and the amended language in SB 1165 as of June 6, 2018. Although we do not expect additional amendments to SB 1165, we cannot know for certain until the final legislation is enacted. SB 1165, if enacted this year, and AB 2052 will become effective on January 1, 2019. We will keep you updated regarding SB 1165, as well as future amendments and any resulting changes to its effect on employers, as it makes its way through the legislative process.

**AB 2052 (Bonta) – Requiring Employers to Make Electronic Payments**

Current law permits employers to submit contributions via check or electronic funds transfer. On July 18, 2018, AB 2052 was chaptered into law, adding Sections 23001.5 and 26301.7 to the Education Code, requiring all employers to submit their contribution payments by EFT. The newly added sections will allow an employer that is unable to comply with this requirement to apply to the board for a waiver to pay in an alternate manner.

**SB 1165 (Pan) – CalSTRS Housekeeping**

On February 14, 2018, Senator Pan introduced SB 1165. As amended on June 6, 2018, this bill will make various technical and minor conforming changes to the Education Code to facilitate efficient administration of the State Teachers’ Retirement Plan, which includes the Defined Benefit, Defined Benefit Supplement and Cash Balance Benefit programs.

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SB 1165 proposes various technical changes to clarify the law is consistent with CalSTRS’s existing interpretation and procedures. Most of these amendments will not affect your day-to-day procedures. A few amendments, however, will affect your current processes:

**School Year Definition**

SB 1165 amends the definition of “school year” as designated in Sections 22169 and 25926. The current definitions allow for an ambiguous and confusing application of the term since it is defined as fiscal year or academic year. SB 1165 redefines “school year” to specifically mean fiscal year. With this revised definition, and the definition of “school term” enacted in 2016, SB 1165 would change all references to “school year” in the Teachers’ Retirement Law to “school term” where they refer to the academic year. These amendments are expected to improve understanding of the Teachers’ Retirement Law when the terms “school year” and “school term” are referenced, and may result in changes to how you present or interpret information from CalSTRS when discussing a “school year” and a “school term.”

**Membership Election Cleanup**

Effective in 2017, SB 1352 made amendments to Sections 22509 and 22515, placing a 30 calendar day deadline to submit the Retirement System Election form (ES372) and the Permissive Membership form (ES350) after the member’s signature. The amendments also established the first day of membership as the first day of the pay period following the permissive membership election.

In response to concerns employers raised regarding the 30-day deadline, SB 1165 would extend the deadline for submitting the Retirement System Election (ES372) and Permissive Membership (ES350) forms from 30 calendar days to 60 calendar days after the member’s signature date. SB 1165 would also stipulate that the Defined Benefit Program membership date for a new member who makes a permissive election be no earlier than the first day of the pay period of the member’s signature date. These amendments will require you to change your current processes for submitting the Retirement System Election (ES372) and Permissive Membership (ES350) forms by a different deadline and inputting a new member’s membership date on for a Permissive Membership election in accordance with the proposed change.

For more information on other amended sections of SB 1165, or to view our analysis of these two bills, go to CalSTRS.com/current-legislation. View all California bills at leginfo.legislature.ca.gov.
Reminder: Changes to the Reduced Workload Program for Employees Returning to Full-Time Employment

Beginning January 1, 2018, employees who participate in the Reduced Workload Program can now return to full-time employment without terminating their participation in the program. Assembly Bill 1325 (Chapter 298, Statutes of 2017) amended Education Code section 22713 to clarify the requirements of the Reduced Workload Program.

Prior to January 1, 2018, a member’s agreement to participate in the Reduced Workload Program was terminated if the employee returned to full-time employment. Employees could work under the program, return to full-time employment in a subsequent school year, and then return to a reduced workload again under the same Reduced Workload Program agreement. Previously, CalSTRS requested that employers contact their Employer Services representative to inform us when the member was returning to either full-time employment or a reduced workload under the original agreement.

If an employee who is participating in the Reduced Workload Program wishes to return to full-time employment, you no longer need to contact us. Simply continue to report the full-time service using the established Reduced Workload coding, and continue remitting member and employer contributions as required under Education Code section 22713. The years of full-time employment while still participating in the program count toward the 10 school years the employee is eligible to participate in the program.

If an employee wishes to formally terminate their agreement to participate in the program, they can do so at any time with the mutual consent of their employer. Employers must notify CalSTRS within 30 days and adjust reported contributions for that school year accordingly. If an employee wants to return to the Reduced Workload Program at a later date, a new Reduced Workload agreement must be established, the employee must re-meet all eligibility requirements and a new Reduced Workload Program Eligibility Certification Application (ES 1161) must be submitted to CalSTRS.

For more information about the Reduced Workload Program, see Employer Directive 2017-07.
Employer Training Tip: Why Not Y-Rate?

Y-rating is the practice of continuing to pay an employee according to a salary rate that is no longer included in the current salary range or that now corresponds to a higher step and column than the employee has attained. While Y-rating is a widely recognized method of paying salary to employees, Y-rating often results in compensation that is not creditable to CalSTRS.

An employer may use Y-rating and pay their employees according to old salary schedules or an unattained step/column; however, only the compensation matching the current salary schedule or attained step and column is creditable to CalSTRS. In compensating employees using two separate salary schedules for the same class of employees, an employer is, in fact, treating them as two classes of employees. However, Section 27300 of the Creditable Compensation Regulations states, in part, a class of employees may be based only on job duties, program, or other similarities based on the nature of the work. By paying employees who were hired before the new salary schedule at a different pay rate, the district would be creating an invalid class of employees based on hire date, which is not recognized by law. The Teachers’ Retirement Law endeavors to ensure that classes of employees are treated equitably for the purpose of calculating retirement benefits. By reporting all members of a class of employees according to the current salary schedule and attained step and column, members will be treated consistently in retirement.

For example, the Fabulosa School District decided to restructure its counseling department effective July 1, 2018. The current 2017–18 counselor salary schedule tops out at $75,000 per year. As a result of the restructure, the 2018–19 counselor salary schedule will max out at $65,000 per year. The district agreed to continue to pay counselors with salaries that exceed $65,000 at their current rates; however, they will not receive salary increases until the new salary schedule “catches up” to what they are currently being paid. The district also added wording to the salary schedule stating that counselors hired before the new schedule will continue to be paid according to the old schedule. Because the Fabulosa School District is now using two different salary schedules to compensate new and continuing counselors, the class of employees is not being treated in a consistent manner. For purposes of reporting compensation and pay rate to CalSTRS, the district is required to treat all counselors equitably for the purpose of calculating their retirement benefit and report their salaries in accordance with the restructured salary schedule that tops out at $65,000 a year.

If you have any questions regarding Y-rating and reporting data to CalSTRS, please contact your Employer Services representative or email EmployerHelp@CalSTRS.com.
CalSTRS Calendar of Upcoming Events

CalSTRS Meetings
Unless otherwise stated, all CalSTRS meetings are held at:
CalSTRS
100 Waterfront Place
West Sacramento, CA 95605

Teachers’ Retirement Board Meetings  September 19–21

Client Advisory Committee  September 19–21
CAC dates coincide with Teachers’ Retirement Board meeting dates

Employer Advisory Committee  August 8
2018 EAC Meetings are held at:
CalPERS Headquarters
400 Q Street
Lincoln North Plaza, Rm 1140
Sacramento, CA 95811

CalSTRS Closed  September 3
Labor Day