

TEACHERS' RETIREMENT BOARD

REGULAR MEETING

Item Number: **9**

SUBJECT: Regulatory Amendments to Format for Monthly Reports (Pension Solution)

CONSENT: _____

ATTACHMENT(S): 3

ACTION: _____

MEETING DATE: November 8, 2018 / 20 mins

INFORMATION: X

PRESENTER: Grant Boyken

PURPOSE

The purpose of this item is to present a preliminary draft of the regulatory amendments necessary to implement the new file formats that employers must use when submitting member and contribution data to CalSTRS. These new file formats are necessary in order for employers to effectively align with the Pension Solution project.

BACKGROUND

Existing law requires employers to submit a monthly report to CalSTRS containing information that may be required in the administration of the Teachers' Retirement Plan. Monthly reports must be submitted electronically in an encrypted format provided by CalSTRS, ensuring the security of the transmitted member and participant data. Effective July 1, 2012, as a component of the Penalties and Interest Regulations, two documents were incorporated within CalSTRS regulations by reference: the F496 File Specification and the Voluntary Deduction File (VDF) Specification. These file specification documents are used by direct report employers when submitting monthly reports through the Secure Employer Website. There are currently 89 direct report employers that are subject to these regulations.

CalSTRS' pension administration system (system) is used to track members' service credit and compensation throughout their careers. These are two of the three critical factors used to calculate each member's retirement benefit. The pension administration system plays a key role in the organization's ability to fulfill its mission of securing the financial future and sustaining the trust of California's educators. Additionally, the system must effectively and securely manage large volumes of data required by the complexity inherent in the Teachers' Retirement Law as well as CalSTRS' longevity as a pension plan. The existing system is inflexible, increasingly expensive to maintain, and requires CalSTRS to undertake an increasing number of manual business processes. Therefore, CalSTRS has embarked on a system modernization effort, known as the Pension Solution project. Pension Solution is a multi-year project with completion anticipated by fiscal year 2022-23.

Once operational, the new system will allow CalSTRS to:

- Increase ability to respond to customer and business needs.
- Enhance services to members, beneficiaries, staff and employers.
- Gain long-term operational efficiencies.
- Improve internal controls.

The new file format (NFF) incorporates a comprehensive update to the data fields that contain information that employers report to CalSTRS and provide employers the most up-to-date file specifications reflecting current law and best practices in reporting information to CalSTRS. The NFF will improve data integrity, which is anticipated to improve accuracy when determining the appropriate amount of contributions as well as the ultimate calculation of benefits for members.

The Pension Solution Project includes an Employment File and Contribution File, which will replace several existing files. The Employment File is associated with new hires, terminations, deaths, demographic changes or other employment status changes (for example, a member moving from active to retired). The Contribution File is associated with monthly payroll contribution reporting. Most data fields that are contained in the existing F496 File and VDF specifications are being carried forward into either the new Employment File or the new Contribution File. Each file contains new fields and new values that will enhance the accuracy of employer reporting and therefore of member data.

DISCUSSION

To establish clear authority to implement the two new file formats, staff will recommend that the board initiate the rulemaking process at its January/February meeting to make the existing regulations inoperative and to enact new regulations, which will include, by reference, the file layout portions of the Employment File and Contribution File (as shown in attachment 1). The file layouts specify the data employers must submit and the acceptable file formats for successful transmittal of information to CalSTRS (as shown in attachments 2 and 3). The draft regulations also include a process for direct report employers to request a waiver that will give them additional time to comply with the new file format requirements if they are unable to comply by the required date.

Throughout the development of the NFF, CalSTRS has actively engaged with the direct report employers that will be subject to the associated regulatory requirements. Staff first began this engagement through web-based employer forums in 2015. Starting in 2016, staff posted an early draft of the NFF on the SEW and conducted an employer webinar to solicit feedback. Since February 2016, staff has consistently provided updates at quarterly Employer Advisory Committee meetings.

As a result of the Fit-Gap assessment in December 2017, staff determined the NFF that had been in development since 2016 required enhancements and began developing a new set of file formats. CalSTRS staff held a series of informational webinars at several stages of the development process to ask for additional feedback regarding the specific information that will be incorporated into the file specifications. The first of these webinars, in which CalSTRS staff shared draft versions of the

file formats with county offices of education and school employers, were held in May and June 2018. CalSTRS staff described the fields in the NFF and explained the differences between the existing file formats and the proposed new file formats. In July 2018, staff conducted employer pre-assessments with reporting entities to identify reporting relationships between counties and districts and to communicate expected reporting changes based on the new system and proposed file requirements. In August 2018 staff presented an update on the NFF to the Employer Advisory Committee and shared the new file format layout. In September 2018, CalSTRS staff held additional webinars in which revised versions of the file formats were presented and changes explained.

Most recently, in September and October 2018, staff presented the new file formats to representatives from the California Teachers Association, Faculty Association of California Community Colleges, Association of California School Administrators, California Association of School Business Officials, School Services of California, Los Angeles County Office of Education and Kern County Office of Education.

NEXT STEPS

Staff will return to the board at its January/February 2019 meeting to provide additional information and to seek approval to initiate the rulemaking process. If the rulemaking process is initiated, the board may elect to preschedule a public hearing, or it can direct staff to schedule one only if it is requested by the public no later than 15 days before the close of the written comment period. If the board chooses, it could potentially schedule an in-person hearing that coincides with its May 2019 meeting. The board could subsequently adopt regulations at its July 2019 meeting. Under this timeline, the regulations could be codified as early as January 1, 2020.

The NFF layouts have been finalized and the “File Layout Plus” document, which contains the technical information necessary for employers and payroll vendors to develop requirements, is scheduled to be distributed to employers at the Employer Advisory Committee meeting in November. From November 2018 through January 2019, staff will hold Employer Readiness Assessments in which the File Layout Plus document and the impact to employers will be discussed. These assessments will be one-on-one meetings or phone calls with each employer and their payroll software system vendor, if one is used. From then until the rollout of the NFF in the fall of 2021, staff expect to conduct additional in-person visits with employers to give access to the Employer Readiness Environment, a test environment in which employers can upload new file format files to the Employer Self Service portal and provide new system training to employer staff.

ATTACHMENTS

- Attachment 1 – Draft Regulations
- Attachment 2 – Employment File Layout
- Attachment 3 – Contribution File Layout

POWERPOINTS

None

Title 5. Education. Division 3. Teachers' Retirement System.

Chapter 1. Teachers' Retirement System

Article 15.5. Penalties and Interest for Late Remittances and Late and Unacceptable Reporting by Employers

§ 27000. Format for Monthly Reports

Employers shall file reports through CalSTRS' secure employer website as follows:

(a) Employers reporting information to the Defined Benefit Plan shall comply with Section 1.3 of CalSTRS' F496 File Specification, as revised on February 24, 2016, and hereby incorporated by reference, subject to the following exclusions.

(1) Information in the "Field Edits" column.

(2) The specific member contribution rates associated with field positions 53-56 and 91-94.

(b) Employers reporting information to the Cash Balance Benefit Program shall comply with Section 1.3 of CalSTRS' Voluntary Deduction File Specification, as revised on July 1, 2015, and hereby incorporated by reference.

(c) A field that contains a dollar value must be formatted as follows:

(1) The number is reported without decimal places with the last two field positions populated by the number of cents.

(2) Use leading zeroes to populate the full breadth of the field.

(3) To report a negative number, report the last field with an uppercase alphabetical character or a symbol, coded as follows: "J" for negative values ending in 1, "K" for negative values ending in 2, and so on, with "R" for negative values ending in 9. Use "{" for negative values ending in 0.

(4) Alphabetical characters or symbols may also be used to denote positive values, but are not required.

(d) This section shall become inoperative on the date specified by the board pursuant to Section 27800, and, as of two years thereafter, is repealed.

NOTE: Authority cited: California Constitution, Article XVI, Section 17; and Sections 22207, 22213, 22214, 22250, ~~and~~ 22305 and 23004, Education Code. Reference: Sections 23004, 23006, 23008 and 26301, Education Code.

§ 27001. Acceptable Report—Defined Benefit Program

(a) A monthly report for the Defined Benefit Program is acceptable if it is reported in compliance with Section 27000, subdivision (a). Reports that fail to comply shall be rejected by CalSTRS, and will not be received.

(b) A monthly report shall contain the information as specified in Section 27000 for all employees who perform creditable service for an employer during the month.

(c) Information reported pursuant to Section 27000, subdivision (a) for one or more employees from a prior month shall be aggregated and treated as a separate report for the month to which it relates.

(d) This section shall become inoperative on the date specified by the board pursuant to Section 27800, and as of two years thereafter, is repealed.

NOTE: Authority cited: California Constitution, Article XVI, Section 17; and Sections 22207, 22213, 22214, 22250, ~~and~~ 22305 and 23004, Education Code. Reference: Sections 23004, 23005 and 23006, Education Code.

§ 27002. Acceptable Report—Cash Balance Benefit Program

(a) A report for the Cash Balance Benefit Program is acceptable if it is reported in compliance with ~~section~~ Section 27000, subdivision (b). Reports that fail to comply shall be rejected by CalSTRS, and will not be received.

(b) A report shall contain the information required by ~~section~~ Section 27000, for all employees who perform creditable service for an employer during the pay period.

(c) Information reported pursuant to Section 27000, subdivision (b) for one or more employees from a prior pay period shall be aggregated and treated as a separate report for the pay period to which it relates.

(d) This section shall become inoperative on the date specified by the board pursuant to Section 27800, and as of two years thereafter, is repealed.

NOTE: Authority cited: California Constitution, Article XVI, Section 17; and Sections 22207, 22213, 22214, 22250 ~~and 22305~~ and 26301, Education Code. Reference: Section 26301, Education Code.

Title 5. Education. Division 3. Teachers' Retirement System.

Chapter 3. Employer Reporting

Article 2. Monthly Employer Reporting

All new text to be added to the California Code of Regulations follows, under new Article 2 in Chapter 3.

§ 27800. Format for Employer Reports

Effective on a date specified by the board but no earlier than October 1, 2021, employers shall file reports through CalSTRS' secure employer website as follows:

(a) Employers reporting identifying member information to establish a new account or to update existing member information shall comply with the CalSTRS' Employment File Layout, as of October 10, 2018, and hereby incorporated by reference.

(b) Employers reporting contribution information for the Defined Benefit Plan monthly or the Cash Balance Benefit Program each pay period shall comply with CalSTRS' Contribution File Layout, as of October 10, 2018, and hereby incorporated by reference.

(c) Employers unable to comply with subdivisions (a) or (b) may submit a written request for a waiver to CalSTRS, subject to the following:

(1) The written request for a waiver shall include the following:

(A) The name and address of the employer making the request.

(B) The reason or reasons that prevent the employer from being able comply with subdivisions (a) and (b).

(C) A plan for compliance, including the steps that will be taken in order to comply with subdivisions (a) and (b).

(D) Acknowledgement that the employer will be responsive to any inquiries made by CalSTRS regarding their plan for compliance.

(E) The signature of the superintendent, chancellor, president, or chief executive of the employer or a designee.

(2) A waiver that includes all the information required in paragraph (1) shall be approved by the board for a period of six months, beginning on the effective date of this section.

(3) The employer may submit a request for renewal of the waiver for up to two additional six-month periods.

(4) Upon approval of a waiver by the board, the employer shall file monthly reports as follows:

(A) Employers reporting information to the Defined Benefit Plan shall comply with Section 1.3 of CalSTRS' F496 File Specification, as revised on February 24, 2016, and hereby incorporated by reference, subject to the following exclusions.

(i) Information in the "Field Edits" column.

(ii) The specific member contribution rates associated with field positions 53-56 and 91-94.

(B) Employers reporting information to the Cash Balance Benefit Program shall comply with Section 1.3 of CalSTRS' Voluntary Deduction File Specification, as revised on July 1, 2015, and hereby incorporated by reference.

(C) A field that contains a dollar value must be formatted as follows:

(i) The number is reported without decimal places with the last two field positions populated by the number of cents.

(ii) Use leading zeroes to populate the full breadth of the field.

(iii) To report a negative number, report the last field with an uppercase alphabetical character or a symbol, coded as follows: "J" for negative values ending in 1, "K" for negative values ending in 2, and so on, with "R" for negative values ending in 9. Use "{" for negative values ending in 0.

(iv) Alphabetical characters or symbols may also be used to denote positive values, but are not required.

NOTE: Authority cited: California Constitution, Article XVI, Section 17; and Sections 22207, 22213, 22214, 22250, 22305, 22455, 23004 and 26301, Education Code. Reference: Sections 22455, 22457, 22717, 22717.5, 22718, 23004, 23006, 23008 and 26301, Education Code.

§ 27801. Acceptable Report

(a) Contribution information for the Defined Benefit Plan reported monthly or the Cash Balance Benefit Program reported each pay period to CalSTRS is acceptable if it is reported in compliance with subdivision (b) or (c) of Section 27800. Reports that fail to comply shall be rejected by CalSTRS, and will not be received.

(b) A report shall contain the information as specified in Section 27800 for all employees who perform creditable service for an employer during the month or pay period.

(c) Information reported pursuant to subdivision (b) or (c) of Section 27800 for one or more employees from a prior month or pay period shall be aggregated and treated as a separate report for the month or pay period to which it relates.

(d) This section shall become effective on the date specified by the board pursuant to Section 27800.

NOTE: Authority cited: California Constitution, Article XVI, Section 17; and Sections 22207, 22213, 22214, 22250, 22305, 23004 and 26301, Education Code. Reference: Sections 23004, 23005, 23006 and 26301, Education Code.