

**PRELIMINARY DATA - FOR DISCUSSION PURPOSES ONLY**

What is DB Penalty 3? Penalty 3, or the extra-late contribution penalty, is currently a 5 percent penalty assessed for a late contribution received after March 1 of the fiscal year after the fiscal year in which the contribution was due (subdivision (a) of Section 27007 of the California Code of Regulations).

*Example:* Contribution Due Date: **7/22/2013**  
 Contribution Payment Date: **5/13/2015**  
 Fiscal Year Due: **2013–14**  
 Fiscal Year Received: **2014–15**  
 Contributions received after March 1: **Yes**  
 Creditable Compensation: **\$4,500**  
 Penalty Amount: **\$225** (\$4,500 x 5%)

More information about penalties and interest can be found on the Secure Employer Website (search for the *Penalties and Interest Employer Reference Guide* or download the PDF by clicking [here](#)).

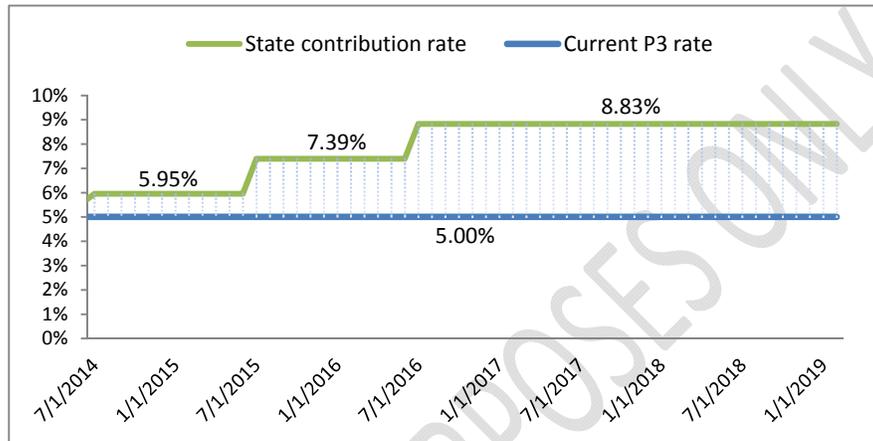
Purpose of Penalty 3	<p>Each year on or before April 15, CalSTRS transmits a final report of the total creditable compensation reported during the preceding fiscal year to the state. The data in that report is the basis for the state contribution. Extra-late remittance of data means those state contributions are permanently missed.</p> <p>Penalty 3 is intended to recover those lost contributions. At the time the Penalties and Interest regulations were written, the state contribution was lower than it is today. A 5 percent rate is no longer sufficient to serve the original purpose of this penalty.</p>
Proposed new Penalty 3 rate	<p>CalSTRS is in the process of drafting regulations that would change the Penalty 3 rate from a flat 5 percent to instead more closely reflect the actual state contribution rate (8.828 percent in 2016–17).</p>
Effect on employers	<p>In a preliminary analysis, over the course of one year, just under \$600,000 was paid by approximately 425 employers for Penalty 3, an average of \$1,400 per affected employer. Extra late contributions subject to Penalty 3 accounted for less than 0.05 percent of creditable compensation. If employers continue to remit extra-late contributions at the same rate as last year, the estimated cost to employers is initially about \$300,000, increasing to \$550,000 per year over the next five years.</p> <p>The state contribution rate is subject to adjustment by the Teachers’ Retirement Board under Chapter 47, Statutes of 2014 (AB 1469–Bonta), beginning in 2017–18. The state contribution may be increased by no more than 0.5 percent per year, or may be adjusted down as low as 4.517 percent (2.017 for the state contribution to the Defined Benefit Program, plus 2.5 percent for the Supplemental Benefits Maintenance Account), in accordance with the funding needs of the plan pursuant to the actuarial valuation. As a result, depending upon plan funding, adjustments to the state rate could represent greater or lesser costs to employers than estimated.</p>

DB Penalty 3 – Late Fiscal Year Contributions Proposed Rate Change

**PRELIMINARY DATA - FOR DISCUSSION PURPOSES ONLY**

Effect on CalSTRS fund      The 5 percent penalty currently being assessed does not recoup the state contributions that are lost when CalSTRS does not have accurate compensation totals to provide the state.

The graph below shows the projected state contribution rate over the next several years and the gap between that rate and the current Penalty 3 rate.



---

Target effective date      Penalties on or after **March 1, 2016**, for contributions that were due in FY 2014–15.

---

Comments/questions      Email [Regulations@CalSTRS.com](mailto:Regulations@CalSTRS.com) to share your thoughts on the proposed change to the Penalty 3 rate and to request that notification be sent to you regarding these or other CalSTRS rulemaking activities.