

PROPOSAL: Annual Billing of Excess Sick Leave

SUMMARY

This proposal would, effective upon authorization by the board, require employers to report and prefund the cost of excess sick leave granted to members annually. This proposal would also clarify the definition of basic and excess sick leave.

RECOMMENDATION

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

REASON FOR THE PROPOSAL

Reporting and funding excess sick leave balances at retirement has proven to be administratively challenging for employers, which has resulted in the misreporting of excess sick leave as a common audit finding. This proposal reduces that administrative burden by enabling CalSTRS to shift to an annual billing process in which employers prefund the cost of excess sick leave at the time it is granted.

ANALYSIS

Existing Law:

Current law defines a "basic sick leave day" as the equivalent of one day's paid leave of absence per pay period. This generally means up to 12 days per year of basic sick leave can be offered by an employer. Any days offered in excess of that amount are "excess sick leave days."

Current law requires that, upon application for service retirement, a member's final employer (or employers, if retiring from multiple employers) report accumulated unused basic and excess sick leave balances to CalSTRS. The sick leave is then converted to service credit to be used in calculating the member's benefit. The cost for the conversion of unused basic sick leave is covered, in part, by a 0.25 percent contribution by all employers. The cost for the conversion of unused excess sick leave is funded at the time of retirement by the member's final employer.

This Proposal:

This proposal would, effective upon authorization by the board, require employers to report and prefund the cost of a member's excess sick leave annually when it is granted. The cost of excess sick leave accrued by active members to date would also be incorporated in the contribution rate. This eliminates the requirement that a member's final employer report and fund the conversion of unused excess sick leave to service credit at retirement.

With the proposed changes being effective upon authorization by the board, the effective date can be aligned with the implementation of the new pension administration

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system. The proposal would have no impact on the annual accrual or crediting at retirement of a member's sick leave.

PROGRAM BACKGROUND

Employer audits have revealed significant problems with misreporting of unused excess sick leave. Since a member's final employer may not have granted excess sick leave or be aware the member has unused excess sick leave from previous employers, the final employer frequently underreports or fails to report the correct amount of sick leave accrued at the end of the member's career. The billing for pervasive misreporting of excess sick leave can be substantial, and an employer may choose to undergo a prolonged appeal process as an attempt to achieve a reduced settlement amount and delay recovery of the funds by CalSTRS.

In addition, the current process imposes the cost of excess sick leave on the member's final employer even if that employer did not grant the excess sick leave. A total of 12,076 excess sick leave days—equivalent to more than 60 years of service credit—were reported for 421 members that retired during 2016–17, at an average of 0.144 years of service credit per member. For a member with a \$100,000 final compensation, the employer cost to convert 0.144 years of excess sick leave was \$4,334.40 under the factors in effect during 2016–17.

FISCAL IMPACT

Program Costs/Savings – This proposal would likely provide savings to the plan by decreasing the current risk of employers failing to report unused excess sick leave.

Administrative Costs/Savings – Automating these changes is expected to be absorbed within the project implementing the new pension administration system.

The estimated costs for employers would be 0.2 to 0.3 percent of a member's creditable compensation for each day of excess sick leave earned during the year. This estimate includes both the cost of future accrual of excess sick leave and an estimate for contributions needed to prefund excess sick leave already accrued by members.

ARGUMENTS

Pro: Allocates the cost of excess sick leave to the employer that granted the leave.

Reduces misreporting and non-reporting of excess sick leave.

Reduces misallocation of sick leave costs and financial risks.

Con: May cause some employers to cease granting excess sick leave.