



Please Refer to Employer Directive 2003-04

DATE: January 14, 2002

TO: All County Superintendents of Schools
District Superintendents of Schools
Community College Districts and
Other Employing agencies

FROM: EXECUTIVE OFFICE

SUBJECT: Employer Directive 2002-02
Implementation of Employer Pick-Up of Member Contributions
For Voluntary Receivable Payments
Supercedes Administrative Directive 95-04

PURPOSE

The purpose of this employer directive is to inform employers of the procedures required to implement the provisions of employer pick-up, or tax deferral, of voluntary receivable payments, i.e., the purchase of permissive service and redeposits, under Internal Revenue Code Section 414 (h) (2).

SCOPE

The procedures described in this directive apply to all employers of California State Teachers' Retirement System (CalSTRS) members who elect to defer taxes on payroll deduction payments for voluntary receivables and clarify the role of the employers responsible for reporting and remitting these payments to CalSTRS.

For the purpose of this directive, the term employer is used interchangeably to mean a county or a District Office of Education. At the discretion of the County Office of Education, a District Office may submit the Payroll Deduction Personal Computer (PC) Report and remittance directly to CalSTRS within the specified time parameters. Coordination between the County Office and the District will be left to their discretion.

DISCUSSION

The Internal Revenue Service (IRS) has ruled that CalSTRS members may elect to have their payments for voluntary receivables, i.e., purchase of permissive service and redeposits, qualify as tax deferred payments if certain conditions are met:

- The employer must adopt a resolution making tax deferred installment payments for voluntary receivables through payroll deduction available. If the resolution is adopted, non-tax deferred installment payments for voluntary receivables will no longer be permitted through payroll deduction. Members wishing non-tax deferred installment payments must make direct payment to CalSTRS.
- The member must agree to and sign an Irrevocable Payroll Authorization (CalSTRS Form AC-0194 – Attachment 1) for the voluntary receivable.
- The member may not make direct payments to CalSTRS after the member has agreed to the irrevocable payroll authorization.
- The member may not terminate the irrevocable payroll authorization before completion of the payments or termination of employment.
- If deductions become delinquent because of termination of employment, CalSTRS will return all tax deferred amounts to the employer who, in turn, must return them to the member as taxable income. Because termination of employment automatically cancels the irrevocable payroll authorization, a terminated member may avoid delinquency by making direct payments in lump sum, monthly installments or by payroll deductions from a subsequent employer within 30 days.
- A member who elects to make payment of a voluntary receivable through tax deferred payroll deduction will have their taxable income reduced by the amount of the tax deferred deductions, in the same manner that the tax deferred contributions to CalSTRS reduces their taxable income.

NOTE: The tax deferral is not applicable to any mandatory deductions CalSTRS may have instructed an employer to make in accordance with Education Code Section 22459.

ACTION

To utilize these provisions, the Governing Board of the School District or Community College District, County Board of Education, County Superintendent of Education or other employing agency must formally adopt without change the model resolution as approved by the IRS. The original copy of the resolution must be sent to CalSTRS, directed to the attention of the Accounting Receivables Unit. A copy is to be maintained in the employer's office.

Once the resolution is adopted, the employer may only take payroll deductions for a voluntary receivable for which both the member and the employer have signed the irrevocable payroll authorization (CalSTRS Form AC 0194). Copies of the irrevocable payroll authorization are to be maintained in the employer's office and shall be made available upon request.

Effective Date

The effective date for commencement of tax deferred voluntary receivables cannot be any earlier than the date the resolution is signed and put into effect or July 1, 1995, whichever is later. In addition, the effective date for individual member tax deferred deductions cannot be any earlier than the effective date of the resolution and the date the irrevocable payroll authorization is signed by both the employer and the member.

Adoption of the resolution and the reporting of payments are two separate items. All tax deferred payroll deduction payments must be reported and paid to CalSTRS in the time frame and manner prescribed by the Teachers' Retirement Board. Tax deferred voluntary receivable payments cannot be reported on the regular monthly contribution report (F-496).

Processing Requirements – Both Tax Deferred and Non-Tax Deferred

If an employer adopts the resolution to permit tax deferred payroll deduction payments, the Tax Deferred Installation Program can be obtained from the CalSTRS web site, www.calstrs.ca.gov. The Tax Deferred Program is now part of the CalSTRS Employer Application Suite. The program can be used with all versions of Windows. (Appendix A)

The tax deferred software will provide directions for installing the program and will also prompt the user on how to use the program. Upon installation of the PC program, the employer will have the database containing the detail for all their employees currently electing payroll deduction. The employer will be responsible for maintaining the accuracy of the detail entered into the database. The employer will maintain the database by adding, editing or deleting detail as needed. The detail will consist of the employee's full name, Social Security Number, CalSTRS' receivable type code, dollar amount of the monthly deduction and tax deferred status indicator. The information needed to establish new deductions is located on the initial billing letter or payroll deduction recalculation letter sent to the member from CalSTRS. The member must bring the letter to the employer when requesting to have payroll deduction established. Only the amounts on these documents will be accepted as valid. Any differences noted will result in immediate contact from CalSTRS, and corrections must be made. The employer will be able to print a hard copy report of the employee detail and the total amount of deductions withheld.

Within fifteen days immediately following the period covered by the Payroll Deduction PC Report, the employer will submit the most current copy of the database on a diskette, a hard copy printout of the detail, and a warrant for the amount of the total deductions withheld to CalSTRS as follows:

State Teachers' Retirement System
Attention: Cash Receipts Section
P. O. Box 15275, MS 12
Sacramento, CA 95851-0275

CalSTRS will process the data and return the diskettes for reuse on request.

When the receivable balance is within one payment of final payoff, CalSTRS will generate a letter to the employer informing them of the final amount to be withheld. When the receivable balance is zero, the System will generate a letter to the member and the employer stating payment is complete.

All voluntary receivable (tax deferred and non-tax deferred) deduction payments may be reported with the PC process. Deductions for mandatory receivables may also be reported using the PC process or may continue to be reported on the regular monthly report of contributions (F-496). If the PC process is used for all receivables, the employer will need to disconnect the receivable portion of the F-496 tape process completely. Otherwise, if the PC process is used only for the receivables that cannot be reported on the F-496, and the remaining receivables are reported on the F-496, the employer would need to make sure that no deductions are inadvertently reported on both the PC process and F-496.

If a district does not elect to offer tax deferred payroll deductions, the district may still use the reporting and payment process developed for tax deferred payroll deductions, or may continue to report payroll deductions in the regular report of monthly contributions (F-496).

Using This Directive As a Reference

This directive is intended to serve as a reference for the employers of CalSTRS members who elect to offer tax deferred payroll deductions. Please refer to it whenever any issues related to this program arise.

Contact

Please direct questions regarding this employer directive or the procedures to the CalSTRS Accounting Office, Receivables Unit, at (916) 229-3982 or e-mail the CalSTRS receivables unit at ar@calstrs.ca.gov.

JAMES D. MOSMAN
Chief Executive Officer

Attachments



Please Refer to Employer Directive 2003-04

IRREVOCABLE PAYROLL AUTHORIZATION
AC 0194 (Revised 03/2000)

Toll Free 1-800-228-5453
or (916) 229-3870
TDD Hearing Impaired (916) 229-3541

**PERMISSIVE INSTALLMENT PAYMENTS
IRREVOCABLE PAYROLL AUTHORIZATION**

A California State Teachers' Retirement System (CalSTRS) member, pursuant to statute, is permitted to redeposit member contributions previously withdrawn and/or elect to purchase permissive service credit. Any Amounts due may generally be paid by the member directly to the retirement system, or the member may request, and the employer may permit, deductions through payroll.

I understand that my employer has adopted a resolution under the "pickup" tax deferred provisions of Internal Revenue Code Section 414(h)(2) for payroll deduction and that tax deferral of my redeposit and/or purchase of permissive service requires this irrevocable payroll deduction authorization.

I hereby authorize and understand that this authorization is binding and irrevocable.

1. Deductions are to be made from my salary, for at total of _____ months in the amount of \$ _____ per month. (These amounts may be changed but not terminated with prior authorization from CalSTRS, as long as the payment period does not exceed 120 months from the initial payment date).
2. These payments through payroll deduction are in addition to the required contributions to CalSTRS.
3. For the effective period of this agreement, payments are to be made by my employer. While this agreement is in effect, I understand that CalSTRS will only accept payment from my employer and not directly from me.
4. My employer is obligated to make payment pursuant to this agreement only if there are sufficient funds from my earnings to do so after any other mandatory deductions.
5. This agreement shall remain in effect only until:
 - a) payroll payments are completed, or b) termination of employment.
6. All payments must be made prior to retirement.

I UNDERSTAND THAT IF THE MONTHLY DEDUCTION AUTHORIZED IN THIS DOCUMENT BECOMES 120 DAYS DELINQUENT, CALSTRS WILL CANCEL THIS ELECTION AND REFUND ALL PAYMENTS RECEIVED TO THE EMPLOYER. THE EMPLOYER WILL THEN DISBURSE THESE FUNDS, SUBJECT TO TAX WITHHOLDINGS, TO THE UNDERSIGNED EMPLOYEE.

COUNTY NAME: _____

DISTRICT NAME: _____

BILLING TYPE CODE: _____ (from initial billing statement)

I authorize the above irrevocable payroll deductions under the conditions as specified.

EMPLOYEE NAME: _____

EMPLOYEE SOCIAL SECURITY NUMBER: _____

EMPLOYEE SIGNATURE: _____

DATE: _____

Please Refer to Employer Directive 2003-04

REDEPOSIT PAYROLL RESOLUTION

WHEREAS, Internal Revenue Code (IRC) Section 414(h)(2) permits employer “pickup” of the employee portion of contributions to a retirement plan, thereby resulting in tax deferral of employee contributions; and

WHEREAS, under the (California) State Teachers’ Retirement System (CalSTRS) plan conditions, members may be allowed to redeposit contributions previously withdrawn plus interest and/or purchase permissive service credit;

NOW THEREFORE, BE IT RESOLVED, that in order to permit tax deferral for these additional amounts, an employee shall enter into a binding irrevocable payroll deduction authorization and such employee shall not have the option of choosing to receive the amounts directly instead of having them paid by the employer to CalSTRS:

BE IT FURTHER RESOLVED, that additional amounts herein specified, through payroll deduction from salary, are designated as being picked up by the employer and paid by the employer in accordance with CalSTRS retirement plan requirements.

DISTRICT: _____

Approved by the Governing Board

DATE: _____

Secretary of the Governing Board

SIGNATURE: _____

DATE: _____

Please Refer to Employer Directive 2003-04
Appendix A.

Downloading the CalSTRS Employer Application Suite
Revised 11/1/01

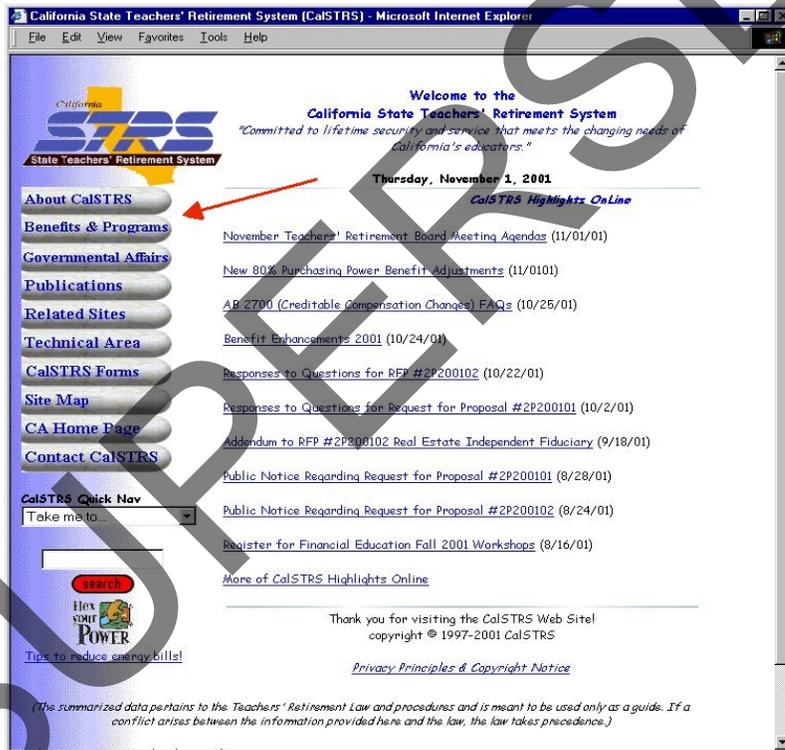
CalSTRS has released a new application, which combines programs previously released separately. This new application is referred to as the **CalSTRS Employer Application Suite**.

The Suite contains updated versions of the *MR87* and *Tax Deferred* applications. A new program, *Cash Balance Voluntary File Deduction*, has been added to the Suite

This application is now available for download at the CalSTRS web site. You must have the Userid and Password to access the DB Employers Secure Area. If you do not have these, please contact your CalSTRS Reporting Section technician.

Bring up your browser and go to CalSTRS web page at <http://www.calstrs.ca.gov>.

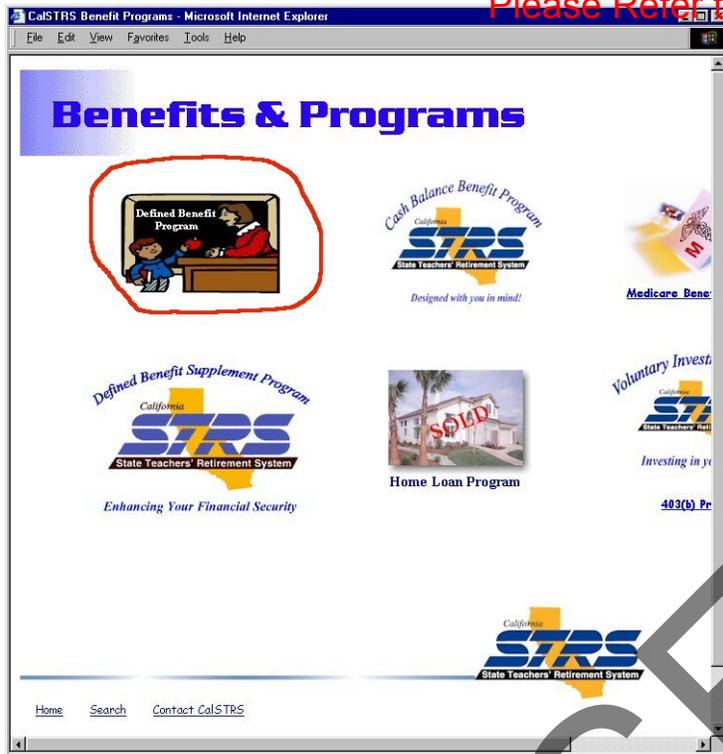
If you do not have Internet access, you can request the software on CD-ROM. Please call Hugo Castro at (916) 229-3606.



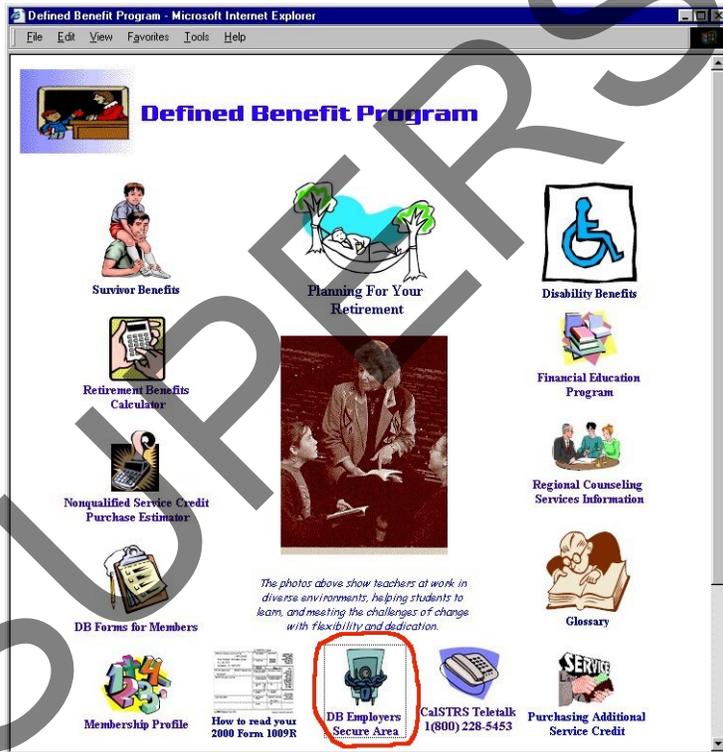
CalSTRS home page.

Please click on the **Benefits & Programs** button.

Please Refer to Employer Directive 2003-04



Now click on the **Defined Benefit Program** icon.



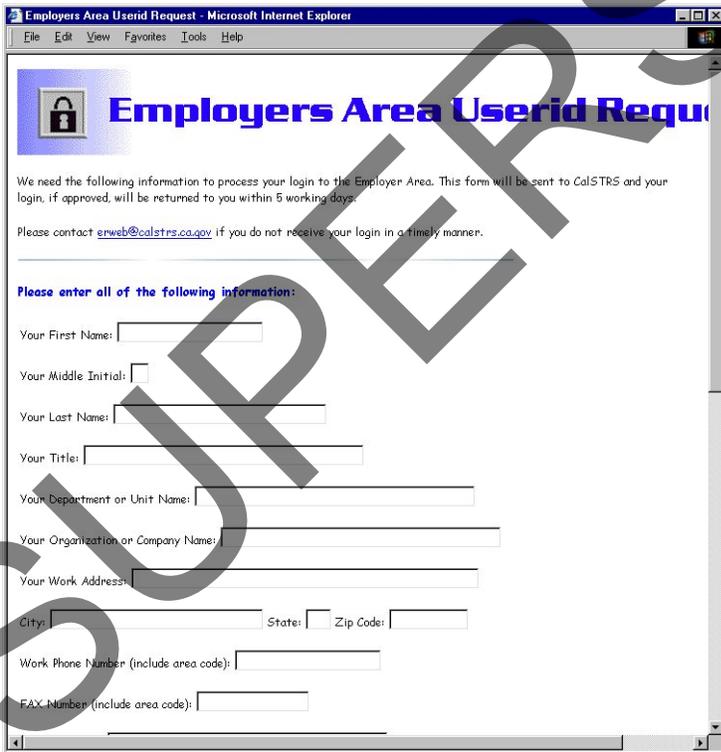
Click on the **DB Employers Secure Area** located at the bottom of the page.

Please Refer to Employer Directive 2003-04



If you already have you User ID and pasword, Click on the **Click Here To Login** link

Otherwise, click on the **Click here to establish a login.**



Please fill this section to request a login.

Please Refer to Employer Directive 2003-04

Enter your UserId and Password.



Enter Network Password

Please type your user name and password.

Site: www.calstrs.ca.gov

Realm: CalSTRS Employer

User Name:

Password:

Save this password in your password list

OK Cancel

Click on the **Employers Application Suite** link.



DB Employers Area - Microsoft Internet Explorer

File Edit View Favorites Tools Help

DB Employers Area

The DB Employers Area is intended to provide information for employers of CalSTRS' Defined Benefit Program members, Cash Balance Benefit Program participants, as well as CalSTRS staff. Our intention is to provide this information to assist you in your daily operations involving the retirement programs offered by CalSTRS.

[Employer Application Suite \(Version 2.02 now available\)](#)

- Policies, Procedures, and References
- Member Annual Statement Information
- Remote Employer Access Program
- Publications, Forms, and Applications
- Advisory Committees
- Employer Training
- Contacts
- Calendar of Events

Cash Balance Benefit Program
SRS
State Teachers Retirement System
Designed with you in mind!

Please Refer to Employer Directive 2003-04



Click on the **Click Here to Download Now** link to start downloading the installation file.

For instructions on how to install the application on your computer, click on **Installation Instructions**.

SUPERSEDED



Please Refer to Employer Directive 2003-04

IRREVOCABLE PAYROLL AUTHORIZATION
AC 0194 (Revised 03/2000)

Toll Free 1-800-228-5453
or (916) 229-3870
TDD Hearing Impaired (916) 229-3541

**PERMISSIVE INSTALLMENT PAYMENTS
IRREVOCABLE PAYROLL AUTHORIZATION**

A California State Teachers' Retirement System (CalSTRS) member, pursuant to statute, is permitted to redeposit member contributions previously withdrawn and/or elect to purchase permissive service credit. Any Amounts due may generally be paid by the member directly to the retirement system, or the member may request, and the employer may permit, deductions through payroll.

I understand that my employer has adopted a resolution under the "pickup" tax deferred provisions of Internal Revenue Code Section 414(h)(2) for payroll deduction and that tax deferral of my redeposit and/or purchase of permissive service requires this irrevocable payroll deduction authorization.

I hereby authorize and understand that this authorization is binding and irrevocable.

1. Deductions are to be made from my salary, for at total of _____ months in the amount of \$ _____ per month. (These amounts may be changed but not terminated with prior authorization from CalSTRS, as long as the payment period does not exceed 120 months from the initial payment date).
2. These payments through payroll deduction are in addition to the required contributions to CalSTRS.
3. For the effective period of this agreement, payments are to be made by my employer. While this agreement is in effect, I understand that CalSTRS will only accept payment from my employer and not directly from me.
4. My employer is obligated to make payment pursuant to this agreement only if there are sufficient funds from my earnings to do so after any other mandatory deductions.
5. This agreement shall remain in effect only until:
 - a) payroll payments are completed, or b) termination of employment.
6. All payments must be made prior to retirement.

I UNDERSTAND THAT IF THE MONTHLY DEDUCTION AUTHORIZED IN THIS DOCUMENT BECOMES 120 DAYS DELINQUENT, CALSTRS WILL CANCEL THIS ELECTION AND REFUND ALL PAYMENTS RECEIVED TO THE EMPLOYER. THE EMPLOYER WILL THEN DISBURSE THESE FUNDS, SUBJECT TO TAX WITHHOLDINGS, TO THE UNDERSIGNED EMPLOYEE.

COUNTY NAME: _____

DISTRICT NAME: _____

BILLING TYPE CODE: _____ (from initial billing statement)

I authorize the above irrevocable payroll deductions under the conditions as specified.

EMPLOYEE NAME: _____

EMPLOYEE SOCIAL SECURITY NUMBER: _____

EMPLOYEE SIGNATURE: _____

DATE: _____



Please Refer to Employer Directive 2003-04

January 30, 2002

TO: All County Superintendents of Schools
District Superintendents of Schools
Community College Districts
Other Employing Agencies
District Payroll Managers, and
District Human Resource Managers

FROM: EXECUTIVE OFFICE

SUBJECT: Employer Directive 2002-03
Creditable Compensation Changes
(Please also see AD 97-9 DB (Corrected Copy))

PURPOSE

The purpose of this directive is to inform employers of changes to creditable compensation as a result of Chapter 1021, Statutes of 2000 (Assembly Bill 2700) and set forth revised reporting procedures for employers that will become effective July 1, 2002.

This directive is being issued in advance of the effective date to enable employers to make required changes to their payroll and reporting systems, review compensation to determine how to report it, and inform affected employees of the creditable compensation changes. Please refer to page 18 for specific action steps set forth in this directive.

Administrative Directive (AD) 97-9 DB (Corrected Copy), Creditable Compensation and Class of Employees, issued on August 12, 1997 remains in effect for purposes of reporting compensation for service performed through June 30, 2002. This directive supercedes the Creditable Compensation guidance in AD 97-9 for compensation for service performed July 1, 2002 and later. The Class of Employees guidance in AD 97-9 (Section C) is still applicable under AB 2700 for service performed July 1, 2002 and later.

SCOPE

This directive applies to all county superintendents of schools, school districts, community college districts and other employing agencies that employ persons to perform creditable service subject to coverage under the State Teachers' Retirement Plan, administered by the California State Teachers' Retirement System (CalSTRS), which includes among other programs, the Defined Benefit (DB) and the Defined Benefit Supplement (DBS) Programs.

Because this employer directive is lengthy, we are providing a Table of Contents to assist you and your staff.

California State Teachers' Retirement System, Membership Division, MS 16
7667 Folsom Boulevard, Post Office Box 15275, Sacramento, CA 95851-0275
(916) 229-3228, TDD (916) 229-3541

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DISCUSSION

AB 2700 makes a number of important changes to the crediting of compensation reported to CalSTRS. This employer directive provides a brief overview of AB 2700 and reporting changes, reviews compensation reporting for compensation earned June 30, 2002 and prior, states key principles for crediting compensation earned July 1, 2002 and later, and provides detailed reporting instructions for compensation earned July 1, 2002 and later.

Overview of AB 2700

The intent of AB 2700 is to:

- 1) Ensure benefits paid to individual members of the DB Program reflect all of the creditable service the member performs and all of the creditable compensation the member earns.
- 2) Supplement benefits payable under the DB Program by providing additional benefits under the DBS Program established by AB 1509 (Chapter 74, Statutes of 2000).

AB 2700 amends or adds several sections of the Education Code that are key to compensation crediting. They are:

<u>Education Code Section</u>	<u>Description</u>
22115	Definition of "compensation earnable"
22119.2	Definition of "creditable compensation"
22703	Crediting contributions on service over 1.000 in a school year
22905	Contributions creditable to the DBS Program

AB 2700 included two dates on which the Education Code sections cited above would become effective (July 1, 2002 and July 1, 2003) and specified the effective date would be July 1, 2002 if the revenue limit cost-of-living adjustment computed by the Superintendent of Public Instruction for the 2001-02 fiscal year is equal to or greater than 3.5 percent. The specified cost-of-living revenue limit has been met and compensation crediting changes under AB 2700 will be effective on July 1, 2002.

Other relevant Education Code sections that were not amended or had only minor technical changes are:

<u>Education Code Section</u>	<u>Description</u>
22112.5	Definition of "class of employees" – no change
22119.5	Definition of "creditable service" – no change
22138.5	Definition of "full-time" – minor changes
22151	Definition of "overtime" – minor changes

Overview of AB 2700 Reporting Changes

While the format of the F496 Monthly Report of Retirement Contributions to CalSTRS will not change, a new Assignment Code 71 will be established for reporting special compensation that is creditable only to the DBS Program. Assignment Codes 49 and 59 and Contribution Code 9 will not be valid for service performed and compensation earned July 1, 2002 or later. Existing reporting structures will be used to report compensation for summer school and intersession and stipends for additional duties; however, the need to develop annual pay rates for reporting stipends may require local payroll system changes.

To assist employers in determining whether compensation is creditable and how to report it, CalSTRS will issue a related Employers' Creditable Compensation Guide in conjunction with this directive. The guide is expected to be available within a couple of months.

Reporting Compensation Earned Through June 30, 2002

Currently the definition of "creditable compensation" specifically excludes compensation for overtime or summer school, compensation for service that exceeds 1.000 in a school year, and compensation that is not paid to everyone in the same class of employees. Such compensation is not included in the determination of final compensation for benefit calculation purposes.

- Summer school and intersession service is not creditable, even for part-time employees who accrue less than one year of service in a school year.
- Members who perform duties in addition to the duties required for their full-time position do not earn service credit, or make contributions on the compensation earned for the additional duties.
- Remuneration in addition to salary is creditable only if it is paid to everyone in the same class of employees in the same dollar amount, the same percentage of salary, or the same percentage of the amount being distributed.
- Stipends paid for additional duties are creditable only if the employer grants release time from the member's regular duties or if the stipend is paid for extra responsibility or skill that is part of the employee's normal duties.
- Compensation for service that exceeds 1.000 in a school year is not creditable. CalSTRS notifies employers when service exceeds 1.000 in a school year, and employers must report adjustments for that excess service and must return related contributions to the member.
- Summer school and intersession service or additional duties performed by non-members are not considered for purposes of mandatory membership qualification.

Under the provisions of AB 2700, compensation crediting under the previous scenarios will change effective July 1, 2002 for service performed July 1, 2002 and later.

Compensation Crediting Principles Effective July 1, 2002

CalSTRS will apply the following crediting principles to service performed and compensation earned on July 1, 2002 and later.

Class of Employees

- The definition of “class of employees” has not changed, although compensation is creditable if it is payable, even if it is not paid, to everyone in a class of employees. Hence, determination of who is in a class of employees and what constitutes a class of employees continues to be a key component in determining how compensation is creditable.
- Employers must establish the length of time (i.e., days or hours) employees in full-time positions are required to serve in the school year, and must establish the full-time equivalent (FTE) for persons employed on a part-time basis. The full-time requirement or FTE must be consistent with the minimum standards set forth in Education Code Section 22138.5. The “employer” refers to the district except in instances where the position is located at the county level, in which case the employer is the County Office of Education. “Employer” does not refer to the individual school site.
- The employer must apply a uniform standard for full time to everyone in the same class of employees.

Creditable Service

- Compensation for summer school and intersession service will be creditable along with additional duties that meet the definition of “creditable service” such as school activities that are related to, or an outgrowth of, the instructional and guidance program of the school.
- Compensation for creditable service that exceeds the full-time requirement for the position must be reported as creditable and contributions must be remitted.
- A member can still only accrue one year of service credit per school year under the DB Program. CalSTRS will credit the contributions associated with service in excess of one year to the DBS Program.
- Additional duties that increase the total time assigned by the employer to some, but not all members of the class of employees, must be considered to be duties in a separate assignment for purposes of reporting the service and related compensation to CalSTRS.

- If the member is not otherwise performing creditable service for any employer, the duties may not be considered “school activities related to, or an outgrowth of, the instructional and guidance program of the school when performed in addition to other activities” under Education Code Section 22119.5(a)(6). This situation occurs most frequently when employers hire walk-on coaches and parents to assist with after-school activities. In many cases, performing an after-school activity as an assignment with no other position with any employer will not meet the definition of creditable service.

Creditable Compensation

Compensation for “creditable service” that is consistent with the definition of “creditable compensation” in Education Code Section 22119.2 must be reported as creditable compensation and 8.25 percent employer and 8 percent member contributions must be remitted on the related creditable compensation.

- Creditable compensation must be payable (although not necessarily paid) to everyone in the same class of employees, in the same dollar amount, the same percentage of salary, or the same percentage of the amount being distributed. Compensation will be considered “payable” if everyone in the class of employees who meets the criteria established by the employer in the collective bargaining or employment agreement is eligible to receive the payment. For example, a yearbook editor stipend is provided for in the collective bargaining agreement. All full-time teachers are eligible to receive the stipend but only one teacher meeting the qualifications is selected. The stipend paid to the classroom teacher who serves as yearbook editor is creditable even though no other classroom teacher is paid the stipend.
- For compensation to be creditable, it must be paid by the employer. If compensation is paid by an entity other than the employer, the compensation is not creditable. For example, a National Board Certification Award paid by the Department of Education is not creditable. (Refer to CalSTRS Employer Information Circular, Volume 17, Issue 5, National Board Certification Award.) However, a bonus paid by the employer to members for attaining National Board certification would be creditable. Monies paid directly to members by parent booster clubs or other outside entities also are not creditable. However, compensation paid by the employer originating from an outside source such as Federal Title I funds, are creditable as long as the activities are eligible for state apportionment and the compensation is for creditable service.
- Compensation for additional duties that increase the total time assigned by the employer to some, but not all members of the class of employees where the employer does not grant release time will be considered compensation for a separate assignment and will be creditable.
- Remuneration in addition to salary that is paid without a requirement for additional service to be performed that is consistent with Education Code Section 22119.2 will be creditable compensation, provided it is not specifically excluded from being creditable in

subdivision (c) of that section. Certain types of remuneration in addition to salary will be creditable only to the DBS Program. The remaining types of compensation that are creditable to the DB Program will be used in the determination of service credit and may increase the service credit earned by members who would otherwise have less than 1.000 for the school year.

- Compensation must be reported to CalSTRS for the pay period in which it was earned.

Compensation Earnable

As defined in Education Code Section 22115, "compensation earnable" is the creditable compensation that a member could earn in a school year if he or she were employed on a full-time basis and worked full-time. Compensation earnable is used in determining a member's credited service as well as final compensation for benefit calculation purposes at the time a CalSTRS benefit is paid.

- Compensation earnable is based on service with the highest pay rates credited to the DB Program in the school year and will include special compensation credited to the DB Program that year.
- "Final compensation" is the highest average annual compensation earnable by a member during any period of 12 consecutive months (if eligible) or three consecutive years. The determination of final compensation will not include compensation for which contributions are credited to the DBS Program. For example, a member fulfills a full-time contract and performs summer school service at a lower pay rate than his or her contract service resulting in service in excess of 1.000. The contributions related to summer school earnings that exceed one year of service credit at the lower pay rate will be credited to the member's DBS account and will not affect final compensation.
- When a member earns creditable compensation at multiple pay rates during a school year and service credit at the highest pay rate is at least .900 of a year, compensation earnable will be determined as if all service credit for that year had been earned at the highest pay rate. If service credit at the highest pay rate is less than .900 of a year, compensation earnable will be determined using a weighted average of the various pay rates reported for the member during that school year.

Allocating Contributions Between the DB and DBS Programs

- CalSTRS will credit the member and employer contributions on creditable compensation for creditable service that exceeds 1.000 in a school year to the member's DBS account at the end of the school year following a service credit deletion process, or before the end of the school year, if the member exceeds 1.000 and applies for a DB benefit. Service at the lowest pay rate will be deleted first. Consideration will not be given to the timing of when in the school year the service was performed.

- Member and employer contributions on creditable compensation paid for the principal purpose of enhancing a member's benefits under the DB Program will be credited to the member's DBS account. (See page 13.)
- Member and employer contributions on creditable compensation that is payable for a specified number of times as limited by law, a collective bargaining agreement or employment agreement will be credited to the member's DBS account. (See page 13.)
- The employer contribution rate on compensation for creditable service continues to be 8.25 percent of the member's creditable compensation. However, when contributions are to be credited to the DBS Program, the employer's 8 percent of compensation will be credited to the member's DBS account and the remaining .25 percent will continue to be associated with the DB Program.

Reporting Compensation Earned July 1, 2002 and Later

Prior to reporting compensation earned that previously was not creditable, the employer should determine whether or not the compensation was paid for "creditable service" and meets the revised definition of "creditable compensation" effective July 1, 2002 under the provisions of AB 2700. Compensation not currently creditable that will become creditable on July 1, 2002 includes:

- Compensation for summer school and intersession service;
- Compensation for duties in addition to those required for the member's full-time or part-time position;
- Some types of additional compensation when no additional service is performed.

Additional criteria and scenarios are provided below to assist employers in determining the type of compensation and how to report it. The criteria relate to how the compensation is structured in the applicable bargaining or employer agreement, how the duties relate to the class of employees, and/or the provision of release time. The employer is responsible for determining if the compensation meets the stated criteria. The employer's decision is subject to review by CalSTRS through the compliance and/or audit processes. Once the type of compensation is identified, report it in accordance with the guidelines provided for that type.

Note: General reporting guidelines cannot be provided for many specific types of stipends due to the variety of ways compensation is structured in the bargaining and employment agreements. For example, stipends for consulting teachers participating in the Peer Assessment and Review (PAR) Program may be negotiated as time-based stipends (see page 10), non time-based stipends (see page 11), or as part of additional duties for a PAR class of employees (see page 12). Each of those would be reported in a different manner. So identifying a payment as a PAR stipend will not provide sufficient information to determine how to report it.

Summer School and Intersession Service

Beginning with service performed on July 1, 2002, summer school and intersession must be reported as creditable service and appropriate member and employer contributions must be remitted on the related compensation. This service can no longer be reported as overtime without contributions. (See also Alternative Retirement Plans, page 16.)

- Summer school service performed in June 2002 is not creditable and must be reported as overtime in conformance with the current law.
- Summer school or intersession service performed July 1, 2002 and later must be reported as creditable to comply with the provisions of AB 2700. If the service is performed during July and August 2002 it must be reported as creditable with the 2002-03 reports, even if the summer school or intersession segment began in the prior school year.
- Summer school and intersession service performed by non-members will be considered for purposes of mandatory membership qualification.

Reporting: Report a member's earnings for summer school or intersession as a separate reporting line. Report the earnings as a part-time assignment with an annual pay rate based on the same base hours or days as the conventional or year-round school position in the district where the summer school is performed. Use part time Assignment Codes 45, 55 or 58, or if applicable, substitute Assignment Codes 44 or 54, to report the earnings with an annual Pay Code, and the appropriate Contribution Code. Report the non-member earnings with the appropriate hourly or daily pay rate and the corresponding Pay Code.

Do not report compensation for summer school and intersession service performed July 1, 2002 and later using Assignment Codes 49 and 59 or with overtime Contribution Code 9. These codes will be valid only for service performed on or before June 30, 2002.

Other Additional Duties

Many members perform duties in addition to the duties required for their full-time or part-time position. Examples are teaching extra periods or extra days, taking assignments as department chairs, coaches, band directors and science fair coordinators, and participating in staff development days under the Instructional Time and Staff Development Program. If these additional duties meet the definition of "creditable service" and the related compensation **for these duties is payable to everyone in the same class of employees who meets the criteria established by the employer**, the compensation will be creditable and employer and member contributions must be remitted.

- Under AB 2700, the requirement for an employer to grant release time from the member's regular duties for additional duties to be creditable is eliminated. However,

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release time and class of employees are factors in determining how to report compensation for additional duties.

- Additional duties that increase the total time assigned by the employer to some, but not all members of the class of employees without providing release time, must be considered to be duties in a separate assignment for purposes of reporting the compensation. Compensation for additional duties that are assigned to an entire class of employees or for which the employer provides release time will be considered salary.
- Additional duties performed by non-members will be considered for purposes of mandatory membership qualification. Report the non-member earnings with the appropriate hourly or daily pay rate and the corresponding pay code.
- Do not report compensation for additional duties performed July 1, 2002 and later as overtime with a Contribution Code 9. Contribution Code 9 will only be valid for service performed on or before June 30, 2002.

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The following four scenarios describe various ways in which members may receive compensation for additional duties and additional responsibilities.

1) *Time-Based Stipend Without Release Time*

Scenario: If the member receives compensation based on the number of hours or days required for the additional duty assignment, CalSTRS refers to the compensation as a “time-based stipend.” For example, compensation paid to a yearbook editor based on the number of hours required for that assignment would be considered to be a time-based stipend. Often a bargaining agreement will specify the hourly rate(s) of compensation for additional time-based duties.

Examples: Stipends for service beyond the full-time requirement (e.g., teaching a 7th period when the normal requirement is six periods), for additional duties compensated on an hourly basis (e.g., school event, testing administration, curriculum development, for after school meetings, or for overload assignments for community college instructors).

Reporting: Additional duties will be considered a part-time assignment if release time is not granted and the member performs additional duties that are required of some, but not all, persons in a class of employees. Report the stipend as a separate reporting line. Develop an annual pay rate for the additional duties using the number of base days or hours from the bargaining or employer agreement as determined appropriate by the employer similar to other part-time service.

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Hourly or Daily Pay Rate X Base Hours or Days = Annual Pay Rate

Report the stipend using a part-time Assignment Code 45, 55, or 58, or if applicable, substitute Assignment Code 44 or 54, with the annual pay rate, an annual Pay Code, and the appropriate Contribution Code.

2) *Non Time-Based Stipend Without Release Time*

Scenario: When a stipend is paid for additional duties without regard to the time required for performing the additional duties, CalSTRS refers to the payment as a “non time-based stipend”. Often, compensation for such additional duties is specified as a flat dollar amount in the applicable bargaining agreement.

Examples: Stipends paid to coaches, band directors, and club advisors for the extra duties that they perform without regard to the time required to perform the additional duties.

Reporting: For reporting purposes, the additional duty should be reported as a separate part-time assignment if release time is not granted and the additional duties are required of some, but not all, individuals in a class of employees. For example, a member may perform department chair duties in addition to the full-time requirement for the position and may be paid a flat dollar amount. If the employer does not grant release time and does not establish a separate class of employees for department chairpersons, the department chair duties should be reported as a separate part-time assignment.

- Report the stipend as a separate reporting line with a full-time equivalent (FTE) pay rate. Use part-time Assignment Code 45, 55, or 58, or if applicable, substitute Assignment Code 44 or 54, with an annual pay rate, an annual Pay Code, and the appropriate Contribution Code.
- Here are additional reporting guidelines on developing the annual pay rate for specific situations:
 - Member has a full-time or part-time position(s) with the same employer:
If the member has a full-time or part-time position(s) with the same employer for whom the additional duties are performed, report the stipend for the additional duties using the **annual** FTE pay rate for the member’s full-time or part-time position with the same employer appropriate to the additional duties being performed.
 - Member has a full-time or part-time position(s) with a different employer:
If the member does not have a full-time or part-time position with the same employer for whom the additional duties are performed but does have a full-time or part-time position(s) with another employer, report the stipend using an **annual** pay rate consistent with the member’s experience and training, or the median annual salary on the stipend employer’s salary schedule.

- Member has no other position with any employer:

If the position for which the member is hired **meets the definition of “creditable service”**, the stipend paid to the member is creditable compensation. However, the employer needs to carefully review this situation before reporting the compensation as creditable. (Refer to page 6). If the employer determines that the after-school activities position **meets the definition of “creditable service”** as a part-time position under another subdivision of that section, then report the earnings accordingly. If the stipend is non time-based, the employer has the option to establish hours for this assignment so an **annual** pay rate can be developed.

3) *Stipend With Release Time*

Scenario: The employer provides release time for the member to perform the additional duty within the time established by the employer for the full-time requirement of the position.

Examples:

- A department chair is provided release time to perform this additional duty during one period of the day in exchange for another period that he/she was previously assigned.
- A PAR-consulting teacher is provided release time to perform PAR activities in exchange for another period that he/she was previously assigned.

Reporting: The stipend may be included with the salary for the member’s other service if it is pro-rated appropriately across the reporting periods. Alternatively, for administrative ease, report the stipend as special compensation with a Contribution Code 6 and the pay rate equal to the earnings, an annual Pay Code, and the appropriate Assignment Code.

4) *Stipend For Additional Duties Assigned to an Entire Class of Employees*

Scenario: The employer increases the full-time requirement for a class of employees to perform additional duties assigned to the entire class. The stipend for the additional duties should be included in the pay rate reported for the regular duties performed by that class of employees.

Examples:

- An employer designates department chairs as a separate class of employees and extends the number of base days or hours required for this class of employees to perform their full-time position and department chair duties.

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- An employer designates a separate class of employees for agricultural teachers and extends the number of hours or base days for the agricultural teachers to perform their full-time position and additional agricultural duties.

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Reporting: The stipend for the additional duties may be included with the salary for other duties performed by that class of employees if it is pro-rated appropriately across the reporting periods. Alternatively, for administrative ease, the stipend may be reported as special compensation with pay rate equal to the earnings with a Contribution Code 6 and the appropriate Assignment Code.

Additional Compensation When No Additional Service Is Performed

Employers may pay bonuses, allowances or other special types of compensation that do not require the member to perform additional duties. This compensation will be creditable compensation under the provisions of AB 2700 provided the compensation meets the criteria under Education Code Section 22119.2 and the compensation is not specifically excluded under subdivision (c) of that section.

The scenarios below describe ways in which members may receive additional compensation without performing additional service.

1) *Special Compensation Creditable Only to the DBS Program*

Scenario 1a: Compensation that is payable for a specified number of times as limited by law, a collective bargaining agreement, or an employment agreement is creditable only to the DBS Program pursuant to Education Code Section 22905. CalSTRS refers to this type of compensation as a limited term enhancement.

Example: If the bargaining agreement provides a bonus that is payable for members in their twentieth year of service or for members when they attain the National Board Certification or bilingual certification, these bonuses would be limited by the agreement and as such would be reportable to CalSTRS as a special compensation that is creditable only to the DBS Program. (If compensation is permanently increased for members who have attained board or bilingual certification or have achieved twenty years of service, that compensation would be reported as salary.)

Scenario 1b: Compensation paid for the principal purpose of enhancing a member's benefits under the DB Program is creditable only to the DBS Program. (Note that under Education Code Section 22119.2(b), the Board's presumption that compensation is paid for the principal purpose of enhancing the member's benefits under the Plan may be rebutted by the member or the employer on behalf of the member.)

Examples:

- If a retirement incentive is paid only to employees who agree to retire within a specified period of time and the compensation is paid prior to the member's retirement, the incentive is considered to be compensation paid to increase the retirement benefit payable from CalSTRS. Thus the retirement incentive is creditable only to the DBS Program. Incentives paid to a member after retirement are not creditable.
- If a fringe benefit is converted to salary for the purpose of enhancing a member's DB benefit, this compensation must be reported as compensation creditable only to DBS.

Reporting: Compensation paid under scenarios 1a and 1b should be reported on separate lines using Assignment Code 71 to ensure that the related contributions are credited to the member's DBS account. Report the pay rate equal to the earnings with an annual Pay Code and a special compensation Contribution Code 6. Member and employer contributions are required on these payments.

2) **Special Compensation Creditable to the DB Program**

a) **Bonuses**

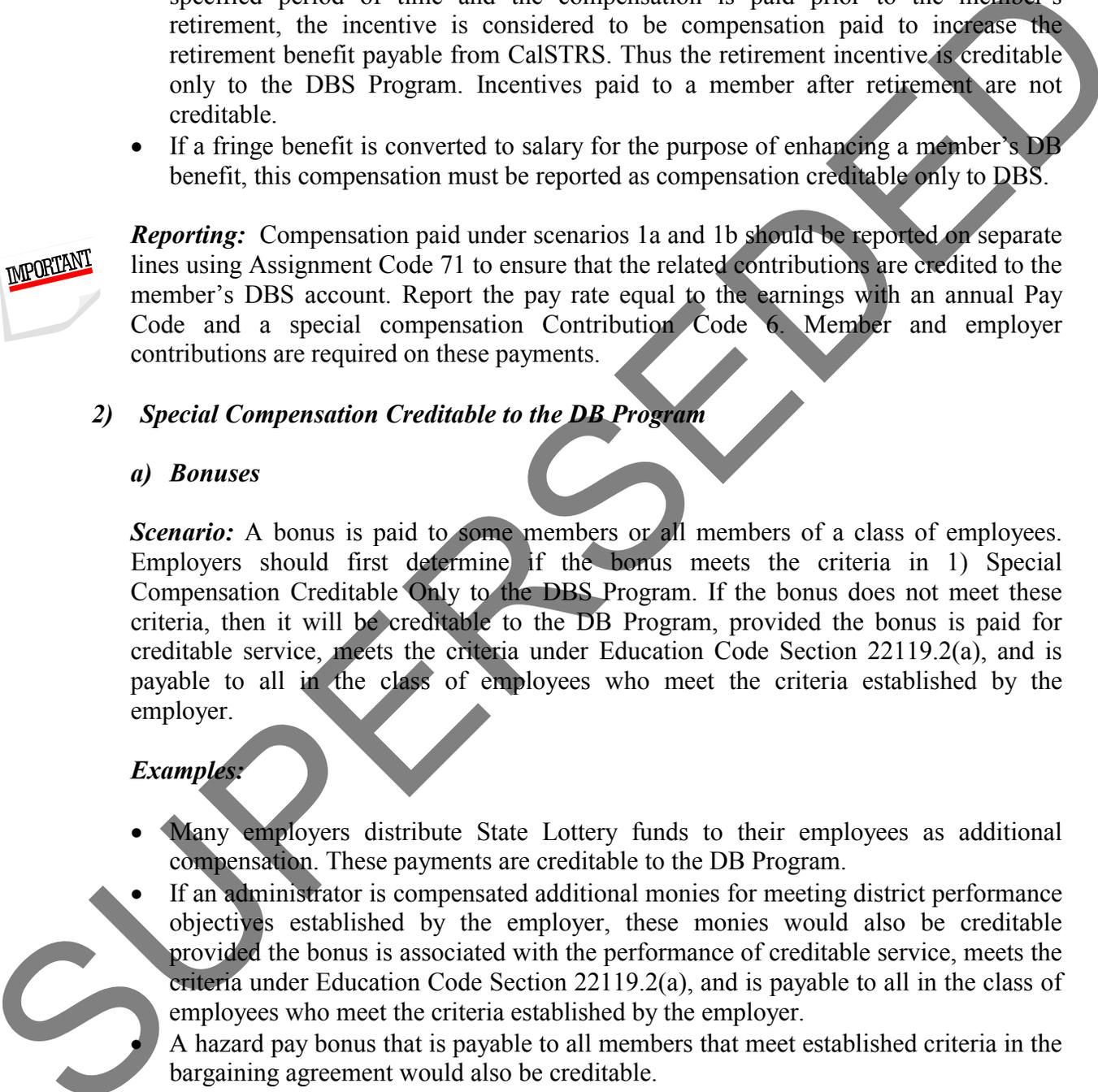
Scenario: A bonus is paid to some members or all members of a class of employees. Employers should first determine if the bonus meets the criteria in 1) Special Compensation Creditable Only to the DBS Program. If the bonus does not meet these criteria, then it will be creditable to the DB Program, provided the bonus is paid for creditable service, meets the criteria under Education Code Section 22119.2(a), and is payable to all in the class of employees who meet the criteria established by the employer.

Examples:

- Many employers distribute State Lottery funds to their employees as additional compensation. These payments are creditable to the DB Program.
- If an administrator is compensated additional monies for meeting district performance objectives established by the employer, these monies would also be creditable provided the bonus is associated with the performance of creditable service, meets the criteria under Education Code Section 22119.2(a), and is payable to all in the class of employees who meet the criteria established by the employer.
- A hazard pay bonus that is payable to all members that meet established criteria in the bargaining agreement would also be creditable.

Note: Financial awards paid to members who achieve improvement in their school's Academic Performance Index (API) are not creditable. **API awards are expressly excluded from being creditable compensation under Education Code Section 44654.**

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Reporting: Member and employer contributions must be remitted on bonuses that are creditable compensation. Report these payments as special compensation using Contribution Code 6 with the pay rate equal to the earnings, an annual Pay Code, and the appropriate Assignment Code.

b) Compensation for Special Skills

Scenario: An employer may provide a stipend to employees who have additional skills that are required for performance of the duties to which the employees are assigned. These stipends are creditable to the DB Program.

Examples: Stipends paid to Miller-Unruh certified reading specialists and members with bilingual certifications are examples of these stipends.

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Reporting: The stipend may be included with the pay rate and salary for the member's other service if it is pro-rated appropriately across the reporting periods. For administrative ease, stipends paid for additional skills may be reported separately as special compensation with a Contribution Code 6 and pay rate equal to the earnings, an annual Pay Code, and appropriate Assignment Code.

c) Allowances

Scenario: An employer may provide an allowance for a variety of purposes. They include allowances for cars, housing or purchase of benefits. Several criteria must be met in order for an allowance to be creditable compensation.

- The allowances must be associated with the performance of creditable service. Typically such allowances are paid to administrators and/or superintendents in association with creditable service under either the Education Code Section 22119.5(a) (9), the work of employees who are responsible for the supervision of persons or administration of duties, or 22119.5(b) the work of superintendents, or in connection with other instructional activities. (Note that allowances paid to members other than administrators or superintendents must also relate to creditable service in order to be creditable to the DB Program.)
- The employee must not be required to provide documentation in order to receive or retain all or a portion of the allowance and the allowance must be treated as taxable income. If the employer requires the employee to document or justify expenditures, the allowance is not creditable.
- The employee must have discretion over expenditure of the allowance. If the employer requires all or a portion of the allowance to be spent for a specific purpose, and the employee can receive the allowance only after satisfying the employer's requirement, the allowance is not creditable.

- The requirement for creditable compensation that was previously used to provide fringe benefits or job-related expenses to be restructured as a permanent change in the employer's business practice is eliminated. However, the compensation related to a restructure that is done for the principal purpose of enhancing benefits payable from the DB Program would now be creditable to DBS.

Examples: Car allowances, housing allowances, cash in lieu of benefits, and allowances to purchase benefits are examples.

Reporting: If the allowance is restructured into the member's salary, then report it as salary. If the allowance is not restructured into salary, report the allowance as special compensation with a Contribution Code 6 with pay rate equal to earnings, an annual Pay Code, and the appropriate Assignment Code.

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Compensation that Is Not Creditable

In addition to specifying the types of compensation that are creditable, Education Code Section 22119.2 also specifies the types of compensation that are not creditable. The following types of payments are not creditable and **should not be reported to CalSTRS**.

- Remuneration that is not payable in cash
- Remuneration that is not payable to all persons in the same class of employees
- Remuneration that is paid for service that is not "creditable service," as defined in Education Code Section 22119.5
- Remuneration that is paid for unused accumulated leave
- Annuity contracts, tax-deferred retirement programs, or insurance programs and contributions to plans that meet the requirements of Section 125, 401(k) or 403(b) of the United States Code when the cost is covered by an employer and is not deducted from the member's salary
- Fringe benefits provided by an employer
- Job-related expenses paid or reimbursed by an employer
- Severance pay or compensatory damages or money paid to a member in excess of salary as a compromise settlement.

In addition, any other payments the Teachers' Retirement Board determines to be non-creditable will not be creditable and should not be reported to CalSTRS.

Miscellaneous

Alternative Retirement Plans

- Previously members participating full-time in the DB Program who also performed creditable service for a second employer were covered by an alternative retirement plan, e.g., PARS, Apple, Social Security or Cash Balance. Now all compensation for all

creditable service performed by the member must be reported to CalSTRS and will be creditable to either the DB or DBS Program (depending on how much creditable service the member performs during the school year). The alternative retirement coverage is no longer optional.

- Previously some employers contributed to Social Security for CalSTRS members performing creditable service that was excluded from the definition of “creditable compensation” (e.g., summer school). Effective July 1, 2002, member’s service previously reported to Social Security will now become subject to the State Teachers’ Retirement Plan and must be reported to CalSTRS. Contributions must be remitted to CalSTRS, not to the Social Security Administration.
- Persons who are employed in a position that is not subject to coverage under the State Teachers’ Retirement Plan (such as CalPERS members) who are also employed in a part-time position to perform creditable service, can elect to have that latter service performed subject to coverage under the DB Program, Social Security, or an alternative retirement program such as the Cash Balance Benefit Program.
- No determination need be made whether to credit the DB program or the DBS Program with respect to service performed by a person who also is employed in a position that is not subject to CalSTRS retirement plan because such service is not reportable to CalSTRS.

Post Retirement Earnings Limitations

With additional types of compensation becoming creditable under the provisions of AB 2700, more earnings by retired members who are not eligible for an exemption will be subject to the post-retirement earnings limitations beginning July 1, 2002.

Lump Sum Payments

The approval process previously required for reporting special compensation paid in a lump sum or off schedule salary payments is eliminated for service performed July 1, 2002 and later.

Participation in Reduced Workload Program (RWP)

Compensation for summer school, intersession, or additional duties performed by members participating in the RWP will be creditable and the member will earn service credit for these duties. A member who fulfills their RWP contract will earn one year of service credit for the year. Contributions on compensation for service over 1.000 in that year will be credited to the member’s DBS account. Bonuses or allowances paid to RWP participants will not result in any additional service credit if the member fulfills their RWP contract. Use the appropriate Assignment Codes (e.g., 45, 55, or 58) to report additional compensation paid to RWP participants for other than their RWP service.

ACTION

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1. Employers must ensure that service and compensation are reported consistent with the provisions of AB 2700 and the information provided in this directive beginning July 1, 2002. As collective bargaining or other employment agreements are developed or renegotiated, employers must ensure that compensation is reported consistent with this Directive and AB 2700.
2. Employers must modify their local payroll systems to be in conformance with this employer directive effective with the July 2002, F496 Monthly Report of Retirement Contributions. Member and employer contributions will need to be deducted on the compensation that is creditable for service performed July 1, 2002 and later. Employers must establish the new Assignment Code 71 for reporting compensation creditable only to the DBS Program. Employers must make Assignment Codes 49 and 59 and Contribution Code 9 invalid codes for reporting any compensation for service performed July 1, 2002 and later.
3. Each additional duty compensated by the employer or additional compensation provided with no additional service performed will need to be reviewed to determine if the compensation is creditable and if so, how to report it. Use the Employers' Creditable Compensation Guide to assist you in making that determination. If you are uncertain whether or not a payment is creditable, contact your CalSTRS reporting technician for clarification or submit a question to the AB 2700 Coordinator using the form provided for that purpose on the DB Employers' Secure Area of the CalSTRS web site.
4. Employers must ensure that the information in this directive is communicated to all payroll, reporting, and human resource staff with responsibility for the determination, accounting, or reporting of compensation.

Direct questions on this directive to Diana Samuels, AB 2700 Coordinator, CalSTRS Membership Division at (916) 229-3895 or dsamuels@calstrs.ca.gov.

JAMES D. MOSMAN
Chief Executive Officer

Please Refer to Employer Directive 2003-04
REDEPOSIT PAYROLL RESOLUTION

WHEREAS, Internal Revenue Code (IRC) Section 414(h)(2) permits employer “pickup” of the employee portion of contributions to a retirement plan, thereby resulting in tax deferral of employee contributions; and

WHEREAS, under the (California) State Teachers’ Retirement System (CalSTRS) plan conditions, members may be allowed to redeposit contributions previously withdrawn plus interest and/or purchase permissive service credit;

NOW THEREFORE, BE IT RESOLVED, that in order to permit tax deferral for these additional amounts, an employee shall enter into a binding irrevocable payroll deduction authorization and such employee shall not have the option of choosing to receive the amounts directly instead of having them paid by the employer to CalSTRS:

BE IT FURTHER RESOLVED, that additional amounts herein specified, through payroll deduction from salary, are designated as being picked up by the employer and paid by the employer in accordance with CalSTRS retirement plan requirements.

DISTRICT: _____

Approved by the Governing Board

DATE: _____

Secretary of the Governing Board

SIGNATURE: _____

DATE: _____