



Please Refer to Employer Directive 2015-03
for Service AFTER January 1, 2015

California State Teachers'
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December 22, 2003

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

FROM: EXECUTIVE OFFICE

SUBJECT: EMPLOYER DIRECTIVE 2003-04
Creditable Compensation Changes (Supercedes Employer Directive 2002-03
and Administrative Directive 97-9 DB)

PURPOSE

The purpose of this directive is to provide employers with additional guidance regarding the service and compensation crediting changes resulting from Chapter 1021, Statutes of 2000 (Assembly Bill 2700) and set forth revised reporting procedures for employers that became effective July 1, 2002. This directive clarifies creditable compensation and the Cash Balance (CB) Benefit Program, modifies some instructions regarding reporting remuneration in addition to salary, and updates guidance on class of employees and restructure of compensation.

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 guidance in AD 97-9 for compensation for service performed July 1, 2002 and later and Employer Directive (ED) 2002-03 Creditable Compensation Changes which provided the initial guidance on AB 2700.

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 the Defined Benefit (DB) and Defined Benefit Supplement (DBS) Programs, and the CB Benefit Program. Employers providing the CB Benefit Program, or hiring employees who participate in CB with other districts, should refer to the Cash Balance Section of this directive for additional guidance.

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

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DISCUSSION

AB 2700 made 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 and all of the creditable compensation the member earns that is subject to the DB program.
- 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 amended or added 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

These provisions of AB 2700 became effective on July 1, 2002.

The Statutes of 2001 also amended the following section:

<u>Education Code Section</u>	<u>Description</u>
26402	Full-time DB member performing CB service for a different employer

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
22169	Definition of “school year” – no change

Overview of AB 2700 Reporting Changes

While the format of the F496 Monthly Report of Retirement Contributions to CalSTRS has not changed, Assignment Code 71 was established for reporting special compensation that is creditable only to the DBS Program. Assignment Codes 49 and 59 and Contribution Code 9 are not valid for service performed and compensation earned July 1, 2002 or later. Previous reporting structures are 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 or not compensation is creditable and how to report it, CalSTRS issued a related Employers’ Creditable Compensation Guide in conjunction with this directive. The guide will be updated periodically.

Reporting Compensation Earned Through June 30, 2002

Prior to July 1, 2002, the definition of “creditable compensation” under the DB Program specifically excluded compensation for overtime or summer school, compensation for service that exceeded 1.000 in a school year, and compensation that was not paid to everyone in the same class of employees. Such compensation was not included in the determination of final compensation for benefit calculation purposes.

- Summer school and intersession service was not creditable to the DB Program, even for part-time employees who accrue less than one year of service in a school year.
- Employees who perform duties in addition to the duties required for their full-time DB position did not earn service credit, or make contributions on the compensation earned for the additional duties unless the member performed the additional duties for an employer that offered the CB Benefit Program and the employee elected to participate in the CB Benefit Program with this employer.
- Remuneration in addition to salary was creditable only if it was 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 were creditable only if the employer granted release time from the member’s regular duties or if the stipend was paid for extra responsibility or skill that was part of the employee’s normal duties.

- Compensation for service that exceeded 1.000 in a school year was not creditable. CalSTRS notified employers when service exceeded 1.000 in a school year, and employers were notified to report adjustments for that excess service and return related member contributions to the employee.
- Summer school and intersession service or additional duties performed by non-members were not considered for purposes of mandatory membership qualification.

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

Compensation Crediting Principles Effective July 1, 2002

CalSTRS applies 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 since AD 97-9 was issued, although as of July 1, 2002 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 except in the case of a charter school.
- The employer must apply a uniform standard for full time to everyone in the same class of employees. Classroom teachers in general would be the same class of employees. However, the employer may consider a group of teachers, such as Title I teachers, to be a separate class because they work in a separate program or perform similar duties that are distinct from those of other classroom teachers. A class of employees may consist of only one person, such as one superintendent in a class.
- Persons who perform assignments which entail additional hours do not constitute a different class when a full-time equivalent has previously been established for similar duties which entail fewer hours or days during the year. For example, the requirement for some teachers to teach a longer day than other teachers performing similar duties is not sufficient to justify the establishment of a separate class of employees.

- While it is the employer's responsibility to establish classes of employees appropriate for the service performed for that employer, the statutory definition of "class of employees" provides the Teachers' Retirement Board with authority to override the employer's determination of a class solely for CalSTRS purposes. This authority is provided to the Board to avoid the artificial establishment of a "class" for the purpose of manipulating compensation or service credit for benefit purposes.

Creditable Service

- Compensation for summer school and intersession service is creditable to the DB Program along with compensation for 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. (CB employers – see the Cash Balance Section, page 22 for additional guidance.)
- 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 receive only one year of service credit per school year under the DB Program. If a member earns more than one year of service credit, CalSTRS credits 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 most cases, employment for an after-school activity without employment in another 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 (unless other rates are otherwise specified in the Teachers' Retirement Law) 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 is 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 that originates from an outside source such as Federal Title I funds and is paid by the employer, is creditable as long as the activities are eligible for state apportionment, the service otherwise meets the definition for creditable service, and the employer has discretion on the use of the funds.

Assuming payments meet the criteria stated above, the following types of compensation are creditable:

- Salary paid in accordance with a salary schedule in a bargaining agreement or employment agreement.
- Remuneration in addition to salary that is payable to the class of employees provided it is not specifically excluded from being creditable in subdivision (c) of Education Code Section 22119.2.
- Compensation for employer approved leave such as sick leave and vacation when used, but excluding pay for accrued unused accumulated leave.
- Member contributions picked up by an employer pursuant to Education Code Section 22903 or 22904.
- Amounts deducted from the member’s salary that reduce the member’s taxable income such as deductions for participation in a deferred compensation plan, for the purchase of annuity contracts, tax-deferred retirement plans, or other insurance programs; and deductions for participation in a plan that meets the requirements of Section 125, 401(k), or 403(b) of Title 26 of the United States Code.

- Any other payments the Board determines to be “creditable compensation.”

As previously mentioned, 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 is considered compensation for a separate assignment and is creditable.

Certain types of remuneration in addition to salary such as retirement incentives paid before retirement are creditable only to the DBS Program. The remaining types of compensation that are creditable to the DB Program are used in the determination of service credit and may increase the service credit earned by members who 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 at the highest pay rate(s) credited to the DB Program in the school year and includes special compensation credited to the DB Program that year. To determine the 12 consecutive months’ average annual compensation earnable for a mid-year retiree, CalSTRS uses a combination of the member’s current *average* school year earnable through the member’s last date of compensation and the prior *average* annual earnable for the previous school year. (This process of averaging for mid-year retirees often results in final compensation that is less than expected. Members who are considering a mid-year retirement are encouraged to visit a CalSTRS Benefits Counselor prior to their expected retirement date so that they may obtain a retirement benefit estimate.)
- The determination of final compensation does 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 credit in excess of 1.000. The contributions related to summer school service that exceed one year of service credit at the lower pay rate would be credited to the member’s DBS account and would not affect final compensation because the earnings were at a lower pay rate.
- 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 is determined as if all service credit for that school 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 is determined using a weighted average of the various pay rates reported for the member during that school year. Mid-year retirees will not benefit from the “.900 rule” if they earn .900 of a year at the highest pay rate across multiple *school years*.

Allocating Contributions Between the DB and DBS Programs

- CalSTRS credits 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; or before the end of the school year, if the service exceeds 1.000 and the member applies for a DB benefit. Service at the highest pay rate is retained in the member’s DB account.
- Member and employer contributions on creditable compensation paid for the principal purpose of enhancing a member’s benefits under the DB Program is credited to the member’s DBS account. (See page 17.)
- 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 is credited to the member’s DBS account. (See page 17.)
- The employer contribution rate on compensation for creditable service continues to be 8.25 percent of the member’s creditable compensation (unless otherwise specified in the law). However, when contributions are to be credited to the DBS Program, the employer’s 8 percent of compensation is credited to the member’s DBS account and the remaining .25 percent continues to be credited to the DB Program.

Restructure of Compensation

A restructure of compensation into salary that was formerly used to provide fringe benefits or job-related expenses is permissible. The restructure will not have an adverse impact on the integrity of the Teacher’s Retirement Fund if it meets the following conditions:

- The restructure is implemented for an entire class of employees.
- The class of employees for whom the restructure is implemented is not age or service biased; that is the group consists of individuals who share job similarities and persons are included in the group without regard to age or length of service on an individual basis.
- A restructure of creditable compensation that was previously used to provide fringe benefits or job-related expenses should be intended as a permanent change in the employer’s business practice. However, this would not necessarily preclude a reversal should circumstances change or a different arrangement is bargained.

- The restructure is not done for the principal purpose of enhancing the benefits payable from the DB Program. However, if the compensation related to a restructure is done for the principal purpose of enhancing benefits payable from the DB Program that compensation would now be creditable to DBS.

While the conditions listed above must be met in order to restructure a previously paid fringe benefit or job related expense to creditable compensation, the conditions are not all-inclusive of the criteria that CalSTRS may apply when determining the validity of a restructure for creditable compensation purposes. The System retains the right to review a restructure of compensation along with other employer practices through the usual audit process, and to determine whether or not a particular payment to a member is creditable compensation.

An increase in the salary of a member who is the only employee in a class pursuant to Education Code Section 22112.5 that arises out of a restructuring of compensation during the member's final compensation period will be presumed to have been done for the principal purpose of enhancing DB benefits and the amount of the increase will be creditable to DBS consistent with Education Code Section 22119.2(b). If the Board determines sufficient evidence is provided to the System to rebut this presumption, the increase in salary may be deemed creditable to 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 previously creditable that became 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 special 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 employment 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 13), non time-based stipends (see page 14), or as part of additional duties for a PAR class of employees (see page 16). Each of those would be reported in a different manner. So identifying a payment as a PAR stipend does 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 Social Security and Alternative Retirement Plans and Cash Balance, pages 21 and 22 respectively.)

- Summer school service performed in June 2002 is not creditable and must be reported as overtime in conformance with the law in effect at the time the service was performed.
- 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 on 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 persons who are not members of the DB Program is considered for purposes of determining mandatory membership qualification except when the individual is employed by a CB provider or covered by another alternative retirement program. For example, a member who is employed part-time during the school year and teaches summer school, may exceed the 60 hours of creditable service minimum and mandatorily qualify for membership in the DB Program by teaching summer school.



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 or 59 or with overtime Contribution Code 9. These codes are 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 or 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 is 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, 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 part-time or, if applicable, substitute assignment for purposes of reporting the compensation.
- Additional duties that are assigned to an entire class of employees, or for which the employer provides release time, are not separate assignments. Compensation for such duties should be reported as salary or special compensation.
- Additional duties performed by DB non-members are considered for purposes of determining mandatory membership qualification except when the individual is employed by a CB provider. 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 is valid only for service performed on or before June 30, 2002.

IMPORTANT

The following four scenarios describe various ways in which DB 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 specifies 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 are 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 on 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 employment agreement as determined appropriate by the employer similar to other part-time service.

$$\text{Hourly or Daily Pay Rate} \times \text{Base Hours or Days} = \text{Annual Pay Rate}$$

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 for the department chair duties. 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 on a separate reporting line with a 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:
In this case, the school activities do not qualify as creditable service as related to, and an outgrowth of, another full-time position with the employer. However, if the position for which the member is hired **meets the definition of "creditable service" on its own**, the stipend paid to the member is creditable compensation. The employer needs to carefully review this situation before reporting the compensation as creditable. (Refer to page 6). If the employer determines that the activities in an after-school position **meet 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: 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. In the case that the employer pays a stipend for the additional duties rather than including it in the salary for that class of employees, the stipend should be reported as special compensation.

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.
- 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.



Reporting: If not already included in salary, 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.

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 is creditable compensation under the provisions of AB 2700 provided the compensation meets the criteria specified in 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: Special 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 and would be creditable under the DB Program.

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 reportable to CalSTRS unless the member must perform creditable service in order to receive the retirement incentive.
- 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 the 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 one or more members of a class of employees. Employers should first determine if the bonus meets the criteria in number 1 (**Special Compensation Creditable Only to the DBS Program**) as listed on pages 16 and 17. If the bonus does not meet these criteria, then it is 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 the service for which the compensation was paid was creditable to the DB Program.
- If an administrator receives a bonus for meeting district performance objectives established by the employer, this payment also would 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 who meet criteria specified in the bargaining agreement also would be creditable.

Note: Financial awards paid to members who achieve improvement in their school’s Academic Performance Index (API) under the Certificated Staff Performance Incentive Award are not creditable. **These awards are expressly excluded from being creditable compensation under Education Code Section 44654. However, other teacher awards that are based on API scores may be creditable under other provisions of the Education Code.**

A red stamp with the word "IMPORTANT" in black, slanted text, on a white background with a drop shadow.

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.

A red stamp with the word "IMPORTANT" in black, slanted text, on a white background with a drop shadow.

Reporting: Report stipends paid for additional skills 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 such as allowances for cars, housing or cash in lieu of health benefits.

Several criteria must be met in order for an allowance to be creditable compensation as remuneration in addition to salary.

- 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 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. Allowances paid to members other than administrators or superintendents must also relate to creditable service in order to be creditable.
- 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. A requirement to substantiate health benefit coverage in order to receive cash in lieu of health benefits is the only exception to this requirement.
- 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.

Allowances paid to members for the purchase of health benefits are also creditable if the member has deductions for the insurance through a Section 125 plan under Education Code Section 22119.2(a)(5). This applies to mandatory as well as voluntary participation in insurance programs.

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

Reporting: 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.

IMPORTANT

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 Board determines to be non-creditable should not be reported to CalSTRS.

Miscellaneous

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 the Reduced Workload Program (RWP)

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

Post Retirement Earnings Limitations

With additional types of compensation creditable under the provisions of AB 2700, more compensation earned by retired members who are not eligible for an exemption are subject to the post-retirement earnings limitations beginning July 1, 2002. For example, pay earned by retired teachers for summer school and intersession service will be when monitoring the post-retirement earnings limitation.

However, retirement incentives paid after retirement to retirees are not subject to the earnings limitation unless they are conditioned on the member performing creditable service in order to receive them.

Social Security and Alternative Retirement Plans

- Previously members who were employed full-time in a position covered by the DB Program who also performed creditable service for a second employer were covered by Social Security or an alternative retirement plan such as PARS, Apple, or the CalSTRS Cash Balance Benefit Program. Now, all compensation for all creditable service performed by a DB member who is employed full-time must be reported to CalSTRS and is creditable to either the DB or DBS Program (depending on how much creditable service the member performs during the school year). The Social Security or alternative retirement coverage is no longer an option for members employed on a full-time basis.
- Previously some employers contributed to Social Security for CalSTRS members performing creditable service since the compensation for that service was excluded from the definition of “creditable compensation” (e.g., summer school). Effective July 1, 2002, such service previously reported to Social Security is subject to coverage under the State Teachers’ Retirement Plan and must be reported to CalSTRS. Contributions must be remitted to CalSTRS, not to the Social Security Administration.
- Summer school and intersession service performed by persons who were not DB members for CB participating employers or under another alternative retirement program is not considered for purposes of determining mandatory DB membership qualification if the member has elected to participate in the CB Benefit Program or another alternative retirement program.
- 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 covered under the DB Program, Social Security, or an alternative retirement program such as the CalSTRS Cash Balance Benefit Program.

Cash Balance Benefit Program

Creditable Service and Compensation

If an employer offers both the DB and CB programs, the employer determines whether or not the employee is eligible for the Cash Balance Benefit Program using the basis of employment with that employer. Contributions related to compensation for creditable service are reported to the appropriate program in accordance with the DB and CB Benefit Program eligibility requirements.

- A DB member who is employed full-time and who performs any creditable service for a CB participating employer in any district must have all of their compensation reported to the DB Program. For example, a DB member working full-time takes a summer school assignment with a CB participating district. The compensation for the summer school assignment must be reported as creditable to DB.
- A DB member participating in the Reduced Workload Program (RWP) with one district who performs an additional assignment for a CB district is subject to the DB Program for all compensation earned. For example, a member on RWP with one district takes a 25 percent position with another CB employer. Because the member is considered full-time with one district, the compensation for the 25 percent position must be reported to DB.
- A DB member employed less than full-time for one district may elect to concurrently participate in CB with a CB participating district if the second position has a basis of employment of less than 50 percent of the FTE for the position. For example, a DB member has a 60 percent contract with one district takes a 40 percent position with a CB participating employer and elects to participate in CB. The second part-time assignment is creditable to CB. Similarly, a DB member with a 75 percent contract takes a summer school assignment with CB employer. The member may elect to participate in CB for the summer school service.
- A retired DB member who is subsequently hired by a CB participating employer is currently excluded from participating in CB even if the basis of employment is less than 50 percent.

IMPORTANT

Reporting: Any creditable service performed July 1, 2002 and later should be reported consistent with the instructions for reporting compensation earned July 1, 2002 and later.

For any service that a DB member elects to have covered under the CB Benefit Program, the CB district should report using Member Code 2 and Assignment Codes 45, 55, or 58, and if applicable, substitute Assignment Codes 44 or 54, and no contributions on the monthly F-496 report. The earnings for the CB service must also be reported on the CB Benefit Program Voluntary Deduction File (VDF) Report of Contributions with contributions.

ACTION

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, F-496 Monthly Report of Retirement Contributions and for CB participating employers, the CB Benefit Program VDF Report of Contributions. Member and employer contributions must 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 must 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 DB or CB reporting technician for clarification or submit a question to the AB 2700 Response Team using the form provided for that purpose on the DB Employers' Secure Area of the CalSTRS Web site or send your e-mail to ab2700responseteam@calstrs.com
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 service and compensation.

Please direct questions on this directive to your assigned CalSTRS DB or CB reporting technician.

Jack Ehnes
Chief Executive Officer