

May 5, 2014

TO: All County Superintendents of Schools
District Superintendents of Schools
Charter School Administrators
Community College Districts
County Offices of Education and
Other Employing Agencies

FROM: Jack Ehnes
Chief Executive Officer

SUBJECT: Employer Directive 2014-04
Compensation Reporting Requirement for Creditable Compensation that Exceeds
the Annual Creditable Compensation Cap

PURPOSE

The purpose of this employer directive is to inform employers of the new reporting requirements when reporting creditable compensation that is above the annual creditable compensation cap.

SCOPE

This directive contains information for county superintendent of schools, school districts, community college districts, charter schools, and any agency that employs any Defined Benefit (DB) CalSTRS 2% at 62 members or Cash Balance (CB) participants subject to PEPRA.

DISCUSSION

California Public Employees' Pension Reform Act of 2013 (PEPRA) limits creditable compensation that may be counted toward CalSTRS retirement benefits for DB CalSTRS 2% at 62 members or CB participants subject to PEPRA. Education Code sections 22119.3 and 26139.5 specify the compensation limit is 120 percent of the 2013 Social Security wage base and is adjusted annually based on changes to the Consumer Price Index for All Urban Consumers: U.S. City Average for the month of February, rounded to the nearest thousandth, to take effect on July 1, 2014.

The creditable compensation limits for the DB CalSTRS 2% at 62 members and CB participants subject to PEPRA are as follows:

- \$136,440.00 effective July 1, 2013 through June 30, 2014
- \$137,941.00 effective July 1, 2014 through June 30, 2015

In order to comply with the cap on creditable compensation requirements of PEPRA, new compensation reporting requirements and four new business edits (MO-B116, MO-B117, MO-B118, and MO-B119) have been introduced to facilitate and ensure proper reporting of compensation over the annual compensation cap, and the associated contributions.

ACTION

DB CalSTRS 2% at 62 Members:

When a DB CalSTRS 2% at 62 member's compensation is below or at the annual creditable compensation cap, report the member's full compensation earnable, actual creditable compensation earned, and member and employer contributions due based on the actual creditable compensation earned as usual.

When a CalSTRS 2% at 62 member's compensation exceeds the annual creditable compensation cap, the member's full compensation earnable and actual compensation earned are required to be reported to the DB plan in order for service credit to be accurately calculated. However, neither the member or employer contributions should be remitted to CalSTRS for creditable compensation that exceeds the annual creditable compensation cap.

Example:

For fiscal year 2013-14, the annual creditable compensation cap is \$136,440.00. A CalSTRS 2% at 62 member has an annual compensation earnable of \$180,000.00, which is paid \$15,000.00 per month for 12 months, and no additional assignments or creditable compensation paid. To ensure the member is credited the full service credit, the employer must report the full compensation earnable and the actual creditable compensation earned. However, reporting contributions is dependent on if the creditable compensation earned is below or exceeds the compensation cap.

A member being paid \$15,000.00 a month will yield a year-to-date total reported earnings of \$135,000.00 within nine months. Therefore, the member's monthly earnings of \$15,000.00, with 8 percent in member contributions and 8.25 percent in employer contributions is reported as normal, with a creditable earnings indicator of '*' to denote member creditable earnings, for each pay period from July 2013 to March 2014 as follows:

- Pay Rate: \$15,000.00;
- Creditable Earnings: \$15,000.00;
- Member Contributions: \$1,200.00 (8% of creditable earnings);
- Employer Contributions: \$1,237.50 (8.25% of creditable earnings); and
- Creditable Earnings Indicator (position 89 of the raw data file): '*'

The member's annual creditable compensation will exceed the compensation cap in April 2014; therefore, the reporting of the April service must be split in two reporting lines as follows:

Line 1: Report the member's full compensation earnable, with earnings and member and employer contributions up to the creditable compensation cap, with a creditable earnings indicator of '*' to denote member creditable earnings:

- Pay Rate: \$15,000.00;
- Creditable Earnings: \$1,440.00;
- Member Contributions: \$115.20 (8% of creditable earnings);
- Employer Contributions: \$118.80 (8.25% of creditable earnings); and
- Creditable Earnings Indicator (position 89 of the raw data file): '*'

Line 2: Report the member's full compensation earnable, with earnings above the creditable compensation cap with no contributions, with a creditable earnings indicator of 'C' to denote member creditable earnings are over the compensation cap.

- Pay Rate: \$15,000.00;
- Creditable Earnings: \$13,560.00;
- Member Contributions: \$0.00;
- Employer Contributions: \$0.00; and
- Creditable Earnings Indicator (position 89 of the raw data file): 'C'

All of the member's remaining creditable compensation for May 2014 and June 2014 exceeds the annual creditable compensation cap; therefore, all additional reporting should reflect the full compensation earnable, and the actual creditable compensation earned with no contributions associated, with a creditable earnings indicator of 'C' to denote member creditable earnings are over the compensation cap as follows:

- Pay Rate: \$15,000.00;
- Creditable Earnings: \$15,000.00;
- Member Contributions: \$0.00;
- Employer Contributions: \$0.00; and
- Creditable Earnings Indicator (position 89 of the raw data file): 'C'

If you submit contributions on creditable compensation above the cap, MO-B116 will be assessed in the Secure Employer Website (SEW), informing you that \$0.00 contributions are due.

If a portion of a member's creditable compensation reaches the cap and the rest of the creditable compensation exceeds the cap, business edit MO-B117 provides a resolution on how to properly report the data.

A creditable compensation indicator of 'C' is required in the Creditable Earnings Indicator field (position 89 of the raw data file) when no contributions are due because the creditable compensation is above the compensation cap. This allows reporting of compensation about the

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cap with \$0.00 contributions. MO-B118 will be assessed if the creditable earnings indicator is not 'C' and all the creditable compensation is about the cap. Additionally, MO-B119 will be assessed if the creditable earnings indicator is 'C' and the creditable compensation is at or below the cap for a CalSTRS 2% at 62 member OR if it is placed on a contribution line for a CalSTRS 2% at 60 member.

Please refer to the *SEW F496 File Specification* document in Reference Items section of SEW for further information about these and other edits.

CB Participants Subject to PEPRA:

If you have a CB participant who is subject to PEPRA who is about to reach the annual creditable compensation cap, please contact your CalSTRS Member Account Services Representative for further instruction.

If you have any questions regarding this employer directive, please contact your CalSTRS Member Account Services Representative.