February 26, 2015

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

FROM: Jack Ehnes
   Chief Executive Officer

SUBJECT: Employer Directive 2015-01 (Amended)
Supersedes Employer Directive 2014-03
Postretirement Earnings Limit and Legislative Changes for the 2014-15 Fiscal Year, 2015-16 Fiscal Year, and 2015 Calendar Year

PURPOSE:
This employer directive is intended to inform and remind employers of:

- Legislative changes and impact on postretirement.
- The application of the earnings limit for retired CalSTRS members.
- The postretirement annual earnings limit for the 2014-15 fiscal year.
- The postretirement annual earnings limit for the 2015-16 fiscal year.
- The disability retirement earnings limit for the 2015 calendar year.
- The disability allowance earnings limit for the 2014-15 and 2015-16 fiscal years.
- Requirements for requesting an exemption from the annual postretirement earnings limit to assist schools that are in financial or academic distress. This exemption will sunset on June 30, 2017.
- The postretirement separation-from-service requirement for members during the first 180 calendar days from their retirement date with CalSTRS.
- Requirements for requesting an exemption from the separation-from-service requirement.
- Restrictions on hiring retired CalSTRS members in classified positions.
- Retirement Incentive Restrictions.
- Requirements for employer communication regarding the earnings limits and, if applicable, the retirement incentive restrictions when hiring CalSTRS members. Also, the employer requirements regarding maintaining accurate records and reporting postretirement earnings to CalSTRS.
- The CalSTRS postretirement excess earnings notification process.

Our Mission: Securing the Financial Future and Sustaining the Trust of California's Educators
Examples of financial consequences of exceeding the earnings limit.

**SCOPE:**

This directive contains information for county superintendents of schools, school districts, charter schools, community college districts, and any agency that employs retired members of the Defined Benefit (DB) Program (referred to in this directive as “retired CalSTRS members”) or the Cash Balance (CB) Program to perform creditable service.

**DISCUSSION:**

**Legislative Changes Effective June 20, 2014**

Chapter 32, Statute of 2014 (Senate Bill 858) has created a change to the Education Code that affects the postretirement employment exemption for certain appointments to assist schools that are in financial or academic distress.

This legislation change extends the sunset date of the first occurrence of Education Code section 24214 from June 30, 2014, to June 30, 2017, which in turn extends the postretirement earnings limit exemption until June 30, 2017.

**Application of Earnings Limit**

Sections 24214 and 24214.5 of the Education Code impose limitations on retired CalSTRS members who return to work and perform creditable service as either an employee of an employer, an employee of a third party (except under certain circumstances), or as an independent contractor within the California public school system. Activities considered to be creditable service and, therefore subject to the earnings limit are listed in section 22119.5 and subdivision (a) or (b) of section 26113.

**2014-15 Postretirement Earnings Limit**

The postretirement earnings limit for Defined Benefit members for the 2014-15 fiscal year is $40,173. The earnings limit for 2014-15 is $270 more than the previous fiscal year. As previously indicated, this earnings limit applies to compensation paid for creditable service performed on behalf of the California public school system. The limit is adjusted annually by CalSTRS and is equal to one-half of the median final compensation amount for members who retired for service during the fiscal year ending in the previous calendar year.

**2015-16 Postretirement Earnings Limit**

The postretirement earnings limit for Defined Benefit members for the 2015-16 fiscal year is $40,321. The earnings limit for 2015-16 is $148 more than the previous fiscal year. As previously indicated, this earnings limit applies to compensation paid for creditable service performed on behalf of the California public school system. The limit is adjusted annually by CalSTRS and is equal to one-half of the median final compensation amount for members who retired for service during the fiscal year ending in the previous calendar year.
2015 Disability Retirement Earnings Limit
The disability retirement earnings limit for the 2015 calendar year is $28,500. The limit applies to all earnings regardless of whether the earnings are from the public or private sectors. The limit is adjusted annually by the Teachers’ Retirement Board, if necessary, by the amount of change in the California Consumer Price Index.

2014-15 and 2015-16 Disability Allowance Earnings Limit
The disability allowance earnings limit for the 2014-15 and 2015-16 fiscal years is calculated individually for each member. The limit applies to all earnings regardless of whether the earnings are in the public or private sectors. The limit is based on the member’s indexed final compensation amount. Members receiving a disability allowance benefit are also subject to individual monthly and continuous six-month earnings limits.

Exemption to the Postretirement Earnings Limit
There is a narrow exemption available through June 30, 2017, for certain appointments to assist schools that are in financial or academic distress. There are four specific appointments that are exempt:

- Appointment by the State Superintendent of Public Instruction as a trustee for a school district that has received an emergency apportionment.
- Appointment by a county superintendent of schools as a fiscal adviser or fiscal expert for a school district that must revise its budget or that may or will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year(s).
- Appointment by the State Board of Education as a trustee or a receiver for a local educational agency that has been identified for corrective action under the federal No Child Left Behind Act of 2001.
- Appointment by the Board of Governors of the California Community Colleges as a special trustee for a community college district that fails to achieve fiscal stability or that fails to comply with Board of Governors recommendations.

In order to qualify for this exemption, the appointing authority must certify the following:

- The position was advertised to active or inactive members and no qualified person was available to be appointment.
- The appointing authority made a good faith effort to hire a retired member who would reinstate.
- The salary being paid does not exceed what was advertised or is currently paid for that position.

When applying for the postretirement earnings limit exemption, employers must complete the Request for Postretirement Earnings Limit Exemption form which is available in “Reference Items” on the Secure Employer Website. In order for CalSTRS to consider an application for an exemption, we must receive the Request for Postretirement Earnings Limit Exemption form and required documentation prior to the retired member performing creditable service as identified in Education Code section 22119.5 or 26113. If CalSTRS does not receive the Request for
Postretirement Earnings Limit Exemption form and required documentation prior to the beginning of a member’s postretirement service for that position, CalSTRS will not accept the form for consideration.

If an exemption for the postretirement earnings limit, as outlined in Education Code section 24214, is approved, the member will only be exempt from the annual postretirement earnings limit. The separation-from-service requirement will still apply unless a member previously received a separation-from-service requirement exemption. In order to be exempt from the separation-from-service requirement, a separate exemption request must have been submitted by the employer and approved by CalSTRS.

The postretirement earnings limit exemption provisions set forth in Education Code section 24214 will become inoperative as of July 1, 2017.

Separation-from-Service Requirement
Pursuant to Education Code section 24214.5, there is a 180 calendar day separation-from-service requirement for all retired CalSTRS members, regardless of age, who retire on or after January 1, 2013. All retired CalSTRS members are subject to a restriction if they return to CalSTRS-covered employment during the first 180 calendar days after their most recent retirement. If the retired CalSTRS member returns to work during this period, CalSTRS will reduce his or her retirement benefit dollar-for-dollar.

We will reduce a member’s retirement by an amount equal to his or her earnings up to the benefit payable during that period. This restriction is in addition to the annual earnings limit. Any amount the retired CalSTRS member receives during the first 180 calendar days of retirement will also count against the annual postretirement earnings limit for the appropriate fiscal year.

Pursuant to Education Code section 26812, the 180 calendar day separation-from-service requirement applies to Cash Balance Program participants who retired on or after January 1, 2014, no matter their age.

Exemption to the Separation-from-Service Requirement
There is an exemption from the 180 calendar day separation-from-service requirement for a member who retires on or after January 1, 2013, and is at or above normal retirement age. In order to qualify for this narrow exemption, the employer must appoint the retired member to a critically needed position that has been approved by the governing body of the employer in a public meeting as reflected in a resolution. A resolution of the appointment must be adopted before the member begins performing creditable service under the exemption. The resolution must specify the following:

- The intent to seek an exemption from the 180 calendar day separation-from-service requirement.
- The nature of the employment.
- The appointment is needed to fill a critical need before the 180 calendar day separation-from-service requirement is fulfilled.
• The member did not receive a retirement incentive or any financial inducement to retire from any public employer.
• By retiring the member did not create the vacancy the member is now filling.

When applying for the separation-from-service requirement exemption the Superintendent, the county superintendent of schools, or the chief executive officer of a community college must complete the Request for Separation-from-Service Requirement Exemption form which is available in “Reference Items” on the Secure Employer Website. CalSTRS must receive the Request for Separation-from-Service Requirement Exemption form and the aforementioned resolution indicating the above information to substantiate the eligibility of the retired member for the exemption before the member begins performing service under the exemption. CalSTRS has an obligation to notify the employer and the retired member within 30 days of receipt of the resolution and all required documentation whether the service performed will be subject to or exempt from the 180 calendar day separation-from-service requirement.

If the separation-from-service requirement exemption is approved, the member will only be exempt from the separation-from-service requirement. The earnings during the 180 calendar day period will still be subject to the annual postretirement earnings limit. In order to be exempt from the postretirement earnings limit, a separate exemption request would need to be submitted by the employer and approved by CalSTRS.

Education Code section 24214.5 clarifies what constitutes a “financial inducement to retire” which would affect a retired member from being eligible for an exemption from the separation-from-service requirement.

Classified Position Restrictions
Education Code section 45134 precludes retired CalSTRS members from employment in classified positions in the California public school system. However, this section is outside of the Teachers’ Retirement Law and therefore outside the purview of CalSTRS.

Retirement Incentive Restrictions
For members who retired with a CalSTRS retirement incentive under section 22714, they will lose the increased service credit attributable to the retirement incentive if he or she returns to employment in any job within five years of receiving the incentive with the school district, community college district, or county office of education that granted the member’s retirement incentive. Education Code section 22461 requires employer to notify retired members of employment restrictions set forth in Education Code section 22714 upon retaining services of a retired member.

Exclusion When Working for a Third Party
Retired members employed by a third party are excluded from the postretirement earnings limit and related provisions provided they meet all of the following criteria:
• The retired member is employed by a third party that does not participate in a California public pension system;
• The activities performed by the retired member are not normally performed by the employees of an employer; and
• The activities are performed by the retired member for a limited term of 24 months or less.

Employer reporting of retired members who are employed by a third party under the narrow conditions above is no longer required. CalSTRS has not identified any example of service that would meet these criteria.

Employer Requirements-Notification of Postretirement Earnings and Employment Restrictions, and Required Reporting of Postretirement Earnings
教育法典第22461条要求雇主通知CalSTRS成员，在服务期内或在超出年后的服务期间，将退休成员的补偿作为雇员，或作为第三方的雇员（除特殊情况外），或作为独立承包商，即在加利福尼亚公共学校系统内。教育法典第24214(g)条和第24214.5(h)条要求CalSTRS在退休金的限额内，按一美元一美元的金额，将超出的补偿金额减至零。CalSTRS可以按当期退休支付的退休金的减半额，不超过180日历天，或在财政年度内，超出的年度限额。任何因服务期的减少，或因超出的支付要求。

CalSTRS Postretirement Excess Earnings Notification Process
CalSTRS在退休后通知成员，如果退休后通知成员，即为初审退休后通知。The Initial Postretirement Earnings Letter states information regarding both earnings limits and what occurs if they are exceeded. When the employer reports postretirement earnings equal to one-half of the annual postretirement earnings limit, CalSTRS sends a second letter, called the Postretirement Earnings Mid-Limit Letter notifying the member of the dollar amount reported to date, and reminding the member of the consequences of exceeding the earnings limits.

When a member exceeds either earnings limit, CalSTRS sends the member another letter notifying him or her that the excess earnings will be withheld from his or her monthly retirement benefit. CalSTRS gives at least 30 days’ notice before commencing collection. If the earnings were reported to CalSTRS in error by a member’s employer, the employer is responsible for correcting the previous reporting and notifying CalSTRS that corrected contribution lines were submitted.
Examples of Financial Consequences of Exceeding the Earnings Limit

Below are three scenarios of retired CalSTRS members who have exceeded one or both of the earnings limits.

Example I:
Annual Postretirement Earnings Limit

Mr. Jones, age 65, retired June 30, 2013. He receives $5,500 per month in retirement from CalSTRS. He returns to employment for two school districts in the California public school system on September 1, 2014. By March 2015, he earns $20,000 from District 1 and $30,000 from District 2, for a total of $50,000. He exceeds the earnings limit by $9,827 ($50,000 - $40,173 = $9,827). CalSTRS will collect the excess earnings dollar-for-dollar from his gross monthly retirement benefit.

CalSTRS will collect Mr. Jones’ $9,827 of excess earnings for fiscal year 2014-15 from his $5,500 gross monthly retirement benefit as follows:

<table>
<thead>
<tr>
<th></th>
<th>Monthly Benefit Amount</th>
<th>Outstanding Earnings Limit Overage to Collect</th>
<th>Deduction From Monthly Benefit</th>
<th>Net Monthly Benefit Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Month</td>
<td>$5,500</td>
<td>$9,827</td>
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<tr>
<td>2nd Month</td>
<td>$5,500</td>
<td>$4,327</td>
<td>$4,327</td>
<td>$1,173</td>
</tr>
</tbody>
</table>

Example II:
Separation-from-Service Requirement - Restriction for all Retired Members who Retired January 1, 2013 or later

Ms. Garcia, age 61 and 2 months, retires June 30, 2014. She receives $7,500 per month in retirement from CalSTRS. After her retirement, she returns to employment in the California public school system on July 1, 2014. She returns to work prior to the 180-day separation-from-service requirement being met.

Ms. Garcia earns $3,500 each month in postretirement earnings for a total of $42,000 by June 30, 2015. During the first 180-days after her retirement, Ms. Garcia earns $21,000 in postretirement earnings. She is restricted from earning any amount for the first 180-days after her retirement date. In addition, she exceeds the annual earnings limit by $1,827 ($42,000 - $40,173 = $1,827). CalSTRS is required to collect $22,827 ($21,000 + $1,827 = $22,827).
CalSTRS will collect the $22,827 of excess earnings from her $7,500 gross monthly retirement benefit as follows:

<table>
<thead>
<tr>
<th></th>
<th>Monthly Benefit Amount</th>
<th>Outstanding Earnings Limit Overage to Collect</th>
<th>Deduction From Monthly Benefit</th>
<th>Net Monthly Benefit Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Month</td>
<td>$7,500</td>
<td>$22,827</td>
<td>$7,500</td>
<td>$0</td>
</tr>
<tr>
<td>2nd Month</td>
<td>$7,500</td>
<td>$15,327</td>
<td>$7,500</td>
<td>$0</td>
</tr>
<tr>
<td>3rd Month</td>
<td>$7,500</td>
<td>$7,827</td>
<td>$7,500</td>
<td>$0</td>
</tr>
<tr>
<td>4th Month</td>
<td>$7,500</td>
<td>$327</td>
<td>$327</td>
<td>$7,173</td>
</tr>
</tbody>
</table>

**Example III: Working for a Third Party**

Mr. Smith, age 63, retires June 30, 2014. He receives $10,000 per month in retirement from CalSTRS. He returns to employment for Party of Three, Inc., a third-party employer, and works as an interim superintendent for a school district in the California public school system seven months later on February 1, 2015. By May 31, 2015, he earns $108,000. He exceeds the earnings limit by $67,827 ($108,000 - $40,173 = $67,827). CalSTRS will collect the excess earnings dollar-for-dollar from his gross monthly retirement benefit.

CalSTRS will collect Mr. Jones’ $67,827 of excess earnings for fiscal year 2014-15 from his $10,000 gross monthly retirement benefit as follows:

<table>
<thead>
<tr>
<th></th>
<th>Monthly Benefit Amount</th>
<th>Outstanding Earnings Limit Overage to Collect</th>
<th>Deduction From Monthly Benefit</th>
<th>Net Monthly Benefit Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Month</td>
<td>$10,000</td>
<td>$67,827</td>
<td>$10,000</td>
<td>$0</td>
</tr>
<tr>
<td>2nd Month</td>
<td>$10,000</td>
<td>$57,827</td>
<td>$10,000</td>
<td>$0</td>
</tr>
<tr>
<td>3rd Month</td>
<td>$10,000</td>
<td>$47,827</td>
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<td>$0</td>
</tr>
<tr>
<td>4th Month</td>
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<td>$37,827</td>
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<td>$0</td>
</tr>
<tr>
<td>5th Month</td>
<td>$10,000</td>
<td>$27,827</td>
<td>$10,000</td>
<td>$0</td>
</tr>
<tr>
<td>6th Month</td>
<td>$10,000</td>
<td>$17,827</td>
<td>$10,000</td>
<td>$0</td>
</tr>
<tr>
<td>7th Month</td>
<td>$10,000</td>
<td>$7,827</td>
<td>$7,827</td>
<td>$2,173</td>
</tr>
</tbody>
</table>
ACTIONS:
In accordance with Education Code section 22461, upon retaining the services of a retired CalSTRS member as an employee of an employer, an employee of a third party, or as an independent contractor within the California public school system, the employer is required to:

- Notify the retired member of all earnings limits and also the retirement incentive employment restrictions, if applicable.
- Maintain accurate records of the retired member’s earnings.
- Report those earnings to the retired member and to CalSTRS monthly, using Member Code 2 and Assignment Code 61, regardless of the method of payment or the fund from which the payments were made.

To learn more about postretirement limitations, please visit CalSTRS.com/general-information/working-after-retirement. If you have questions regarding the postretirement earnings limit, you may contact Postretirement by email at postretirement@calstrs.com or leave a voicemail at (916) 414-5967.
### Postretirement Earnings Limit Exemption Matrix

- Exemption forms AND additional required documentation must be received by CalSTRS prior to the retired member beginning service.
- Qualification for an exemption is subject to CalSTRS approval. After review is complete, CalSTRS sends a letter to the member and their employer approving or denying the exemption request.

<table>
<thead>
<tr>
<th>Details</th>
<th>Narrow Exemption for Working in Distressed Schools</th>
<th>Exemption from the Separation-from-Service Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Four specific appointments are exempt:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Appointment by the State Superintendent of Public Instruction as a trustee for a school district that has received an emergency apportionment.</td>
<td></td>
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<td>- Appointment by a county superintendent of schools as a fiscal adviser or fiscal expert for a school district that must revise its budget or that may or will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year(s).</td>
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<td>- Appointment by the State Board of Education as a trustee or a receiver for a local educational agency that has been identified for corrective action under the federal No Child Left Behind Act of 2001.</td>
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<td>- Appointment by the Board of Governors of the California Community Colleges as a special trustee for a community college district that fails to achieve fiscal stability or that fails to comply with Board of Governors recommendations.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Education Code</th>
<th>§24214</th>
<th>§24214.5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Required CalSTRS Form</td>
<td>Request for Postretirement Earnings Limit Exemption form</td>
<td>Request for Separation-from-Service Requirement Exemption form</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Additional Required Documentation</th>
<th>The appointing authority must certify that:</th>
<th>The resolution must specify the following:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- The position was advertised to active or inactive members and no qualified person was available to be appointed.</td>
<td>- The intent to seek an exemption from the 180 calendar day separation-from-service requirement.</td>
</tr>
<tr>
<td></td>
<td>- The appointing authority made a good faith effort to hire a retired member who would be reinstated.</td>
<td>- The nature of the employment.</td>
</tr>
<tr>
<td></td>
<td>- The salary being paid does not exceed what was advertised or is currently paid for that position.</td>
<td>- The appointment is needed to fill a critical need before the 180 calendar day separation-from-service requirement is fulfilled.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expiration of Exemption and Additional Restrictions</th>
<th>This exemption only applies to the annual earnings limit. If applicable, the retired member will still be subject to the separation-from-service requirement. To exempt a member from both limitations, you must apply for both exemptions separately.</th>
<th>This exemption only applies to the separation-from-service requirement. The retired member will still be subject to the annual earnings limit. To exempt a member from both limitations, you must apply for both exemptions separately.</th>
</tr>
</thead>
<tbody>
<tr>
<td>This exemption will become inoperative as of July 1, 2017.</td>
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</tbody>
</table>