

Employer Information Circular

Volume 23; Issue 8

July 31, 2007

Remuneration Paid for the Principal Purpose of Enhancing a Member's Benefit

The purpose of this circular is to remind employers that pursuant to Section 22119.2 of the Education Code, any salary or other remuneration determined by the Teachers' Retirement Board to have been paid for the principal purpose of enhancing a member's benefits shall not be credited to the Defined Benefit (DB) Program. Instead, that compensation will be credited to the Defined Benefit Supplement (DBS) Program.

Section 22119.2 of the Education Code defines "creditable compensation", and this definition reflects sound principles that support the integrity of the retirement fund. These principles include, but are not limited to, the following:

- Consistent treatment of compensation throughout a member's career,
- Consistent treatment of compensation among the entire class of employees,
- Prevention of adverse selection, and
- Excluding from compensation earnable remuneration that is paid for the principal purpose of enhancing a member's benefits under the plan.

Consequences of Erroneous Benefit Payments as a Result of Incorrect Reporting

Section 23008 of the Education Code requires the California State Teachers' Retirement System (CalSTRS) to be reimbursed by the employer for the full amount of the erroneous disbursement resulting from an employer inappropriately reporting compensation to the DB Program. Not only will the employer be responsible for any overpayment, but the member's monthly benefit paid in the future will also be reduced.

There is no statute of limitations on collecting the overpayment from employers, so the amount of the collection could be considerable. Furthermore, Section 22119.2(d) states that an employer, or individual, who knowingly or willfully reports compensation in a way to manipulate final compensation and inflate a benefit, shall reimburse the plan for benefit overpayments that occur as a result of the inconsistent reporting and ***may be subject to prosecution for fraud, theft, or embezzlement in accordance with the Penal Code.***

If you are uncertain about the coding structure of compensation, err on the side of caution and contact your County Office of Education retirement reporting coordinator or your CalSTRS Employer Representative.

Should you be aware of any questionable reporting practices, referrals can be made to CalSTRS' Audit Services at the address below, or telephone (916) 229-2080.