

INITIAL STATEMENT OF REASONS

Problem Statement

Sections 23004 and 26301 of the Education Code require employers to submit a report monthly to the system containing information as the Teachers' Retirement Board may require in the administration of the plan. That monthly report must be submitted electronically in an encrypted format provided by CalSTRS that ensures the security of the transmitted member and participant data.

The Secure Employer Website (SEW) provides the channel for transmittal of data from employers to CalSTRS. Two documents incorporated by reference in the California Code of Regulations (the CalSTRS F496 File and Voluntary Deduction File [VDF] specifications) specify the format for employer reports for the Defined Benefit (DB) and Cash Balance (CB) Benefit programs. Each document describes file specifications, layouts, integrity checks and business rules for submitting data under its respective program. Both also include troubleshooting considerations and recommended steps to resolve errors. The F496 File Specification includes variance rules and warning messages that will flag inconsistent information or data that exceeds certain parameters in an employer's report, and it describes whether or not each business rule may be overridden at an employer's discretion.

Both file specifications periodically require updates when rules and parameters must be added, adjusted or clarified in response to legislation or changing business practices. With the implementation of the Public Employees' Pension Reform Act of 2013 (PEPRA), a new benefit structure (CalSTRS 2% at 62) was established. CalSTRS 2% at 62 members are subject to separate reporting rules that required the addition and adjustment of business rules. With the enactment of the CalSTRS 2014 Full Funding Plan (AB 1469–Bonta), contribution rate changes were introduced. In addition, Chapter 703, Statutes of 2011 (SB 349–Negrete McLeod), prompted changes to the VDF Specification. In response to these legislative changes, or to provide clarification to employers, business rules were added or changed.

Included as part of this regulatory package are nonsubstantive corrections to typographical or grammatical errors in the two file specification documents. In addition, CalSTRS proposes to correct an error in section 27004 of the California Code of Regulations. Section 27004 specifies information CalSTRS will provide when notifying employers of late reporting of adjustments of incorrect contributions. Due to a clerical error following the board's adoption of the regulations, that section of the law names form fields that are specific to DB Program members rather than CB participants. These regulations would change "member" to "participant" and remove the references to fields not relevant to CB reporting (specifically, member code, assignment code, pay rate, pay code, contribution rate, contribution code and beginning and ending dates of the service period). Instead, the regulations would refer to the pay schedule date and pay period end date. This change restores the text that was originally adopted by the board.

Benefits Anticipated

These amendments are expected to result in improved readability of the regulations for county offices of education and school and community college district employers that report directly to CalSTRS by incorporating the most up-to-date file specifications reflecting current law and best practices in reporting identified by CalSTRS, as well as fixing grammatical and typographical errors. The amendments provide

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employers with the tools to properly submit and modify reports for members and participants, helping to ensure that retirement and other benefits payable to educators are based on properly reported data. Through these improvements, they broadly benefit the state as a whole.

Purpose

This rulemaking package incorporates the most up-to-date CalSTRS F496 File and VDF specification documents, as amended. The amendments to the F496 File Specification document predominantly add or amend business rules in compliance with statutory changes. The amendments to the VDF Specification document provide warning messages when compensation is reported outside legal timeframes, prompting employers to validate and reconcile the data. In addition, changes in response to CalSTRS experience are made to ensure greater accuracy of data submitted and to avoid the need for excessive employer review of submitted data.

This rulemaking package also includes edits to grammatical and typographical errors in those documents and in section 27004 of the California Code of Regulations:

- Various minor grammatical edits to the F496 File and VDF specifications are without regulatory effect. For example, throughout both documents, “the SEW” is changed to “SEW” because it is an acronym, and the links to “EmployerHelp@CalSTRS.com” are updated to include consistent hyperlinks.
- The edit to section 27004 is a correction to an error. Between the date the board adopted the original regulations and the filing with the Secretary of State, a typographical error was introduced to the text: Paragraphs (1) of subdivisions (c) of two different sections, 27003 and 27004, should each contain different language. The language in 27003 is specific to the DB Program, whereas the language in the 27004 should be specific to the CB Benefit Program. Instead, the same DB-specific language is found in both sections in the chaptered version of the text.

Rationale

The following business rules are added to the VDF Specification: VD-B033, VD-B034 and VD-B035. These changes relate to section 26813 of the Education Code, enacted by Chapter 703, Statutes of 2011(SB 349–Negrete McLeod). That provision clarified that a member retired for service under the DB Program cannot contribute to the CB Benefit Program. The new rules ensure employers cannot report service performed by a retired member as creditable to the CB Benefit Program.

The following business rules, integrity checks and warnings are added to the F496 File Specification:

<i>Business rule</i>	<i>Change</i>	<i>Rationale</i>
MO-B021 and MO-B094	Added assignment code 72 to the list of acceptable assignment codes for the referenced business rules.	These sections contain a listing of valid assignment codes for member service, and 72 is added as one such code.

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<i>Business rule</i>	<i>Change</i>	<i>Rationale</i>
MO-B021, MO-B022, MO-B040, MO-B052, MO-B053, MO-B054, MO-B072, MO-B073, MO-B078, MO-B079, MO-B080, MO-B094 and MO-B100	Updated the Error Resolution section with clarification about what does not generate service credit.	There are two updates to these sections: <ul style="list-style-type: none"> • Correcting text that implied contributions lines that did not generate service credit were not creditable. • Adding assignment code 72 to comply with PEPRA. The business rules, variance rules and warnings listed apply to assignment code 72 precipitated by PEPRA.
MO-B060 and MO-B063	Altered edits to be employer approvable effective July 1, 2012.	Previously, these edits prevented employers from submitting data that created a negative contribution or service credit balance for members who were receiving a benefit, refunded, died or had closed accounts. This alteration provides employers with the ability to validate and approve an accurate negative adjustment without intervention from CalSTRS. This alteration is effective concurrent with implementation of the Penalties and Interest regulations in order to allow employers to submit adjustments without potentially incurring a penalty or interest by delaying their submission.
MO-B067	Altered edit to no longer be employer approvable.	CalSTRS observed inaccurate reporting as a result of allowing retroactive pay increase adjustments that are inconsistent with previously reported data to be submitted with employer approval. By making this rule fully enforced, employers must fix the inconsistency before submitting the data.
MO-B078	Altered edit to allow a one cent tolerance with contributions <i>excessive</i> for creditable earnings.	Previously, CalSTRS allowed up to a one dollar tolerance. This was adjusted to be consistent with a complementary software program and because CalSTRS experience showed a one dollar tolerance allowed opportunities for errors in reporting.
MO-B079	Altered edit to allow a one cent tolerance with contributions <i>insufficient</i> for creditable earnings.	
MO-B083	Added a business rule to prevent service periods prior to account effective dates.	This logic was added because CalSTRS 2% at 62 members, by definition, must be first hired on or after January 1, 2013.

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<i>Business rule</i>	<i>Change</i>	<i>Rationale</i>
MO-B103	Increased service credit thresholds effective July 1, 2013.	<p>CalSTRS experience showed that the prior threshold for maximum service credit earned in a single service period, which prompts an employer-approvable edit, was leading to a great amount of reporting requiring employer approval. The threshold was adjusted upward in line with CalSTRS experience.</p> <p>The threshold specified in the proposed regulations (0.25 for community college and 0.20 for non-community college employers) remains a significant source of edits requiring employer approval. However, the proposed threshold is the most appropriate identified to date, balancing CalSTRS' objectives to provide a reasonably efficient process for employers and CalSTRS staff while continuing to serve the function of this edit to require employers to review and validate reports of unusually high service credit.</p>
MO-B114	Required that assignment code 72 must be used when reporting special compensation for 2% at 62 members.	Assignment code 72 was added as a result of PEPRA because recurring special compensation is creditable to the DB Program for 2% at 62 members (DBS Program compensation is only credited for service in excess of one year and is not directly reported to CalSTRS by employers).
MO-B115	Added to prevent assignment code 72 for 2% at 60 members.	Assignment code 72 was established for reporting recurring special compensation payments for 2% at 62 members as a result of PEPRA. Separate codes exist for 2% at 60 members.
MO-B116, MO-B117, MO-B118, MO-B119	Added to comply with the creditable compensation cap in PEPRA.	These rules prevent employers from remitting contributions on earnings above the cap for 2% at 62 members.
MO-B120	Added to prevent reporting contribution code 2 for a non-Reduced Workload Program assignment code.	Section 22713 of the Education Code allows employers to remit contributions for members working under the Reduced Workload Program. This change prevents employers from reporting contributions without service for anyone other than members who are participating in that program. There is no reason to report contributions without service outside of this provision.

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<i>Integrity check</i>	<i>Change</i>	<i>Rationale</i>
MO-I009	Restored integrity check that had been removed in error.	This integrity check allows employers to acknowledge missing unit level data without preventing them from submitting the report. In the file specification document, the notation dated July 1, 2012, should have stated that the integrity check was modified and not removed. That notation was left as-is in the “Summary of Changes” section for the record of the file specification document history; however, the business rule actually remained in effect in the software.
MO-I044	Added to prevent reporting of any contribution line that crosses fiscal years. This is a replication of a separate business rule (MO-B086).	This preexisting business rule was added as an integrity check to prevent submission of data that crosses fiscal years because creditable compensation is accounted for by fiscal year. The business rule was retained for periods prior to the introduction of the integrity check.
MO-I045	Added to prevent reporting of any contribution lines that precede July 1, 1945.	This logic was added because years prior to this date are not in the database and, therefore, cannot be reported.

<i>Warning</i>	<i>Change</i>	<i>Rationale</i>
MO-W004, MO-W011 and MO-W016	Added text to the Error Resolution section: “NOTE: Earnings over the creditable compensation cap are not counted towards creditable earnings.”	This notation was added to remind employers of the creditable compensation cap for 2% at 62 members as a result of PEPRA.
MO-W005, MO-W007, MO-W008, MO-W012, MO-W014, MO-W015 and MO-W016	Added text to the Error Resolution section: “NOTE: Contributions are not due for earnings that are over the creditable compensation cap.”	This notation was added to remind employers that contributions should not be remitted for compensation above the creditable compensation cap for 2% at 62 members as a result of PEPRA.
MO-W004, MO-W011 and MO-W016	Updated Error Resolution section with clarification about what does not generate service credit.	There are two updates to these sections: <ul style="list-style-type: none"> • Correcting text that implied contributions lines that did not generate service credit were not creditable. • Adding assignment code 72 to comply with PEPRA. The rules, variance rules and warnings listed apply to assignment code 72 precipitated by PEPRA.
MO-W017	Removed a warning code.	This warning was never programmed into SEW as this function was served by a separate integrity check (MO-I009).

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<i>Variance Rule</i>	<i>Change</i>	<i>Rationale</i>
MO-V001, MO-V002, MO-V003 and MO-V004	Added text to the Error Resolution section: “NOTE: Earnings over the creditable compensation cap are not counted towards creditable earnings.”	This notation was added to remind employers of the creditable compensation cap for 2% at 62 members as a result of PEPRA.
MO-V001, MO-V002, MO-V003 and MO-V004	Updated Error Resolution section with clarification about what does not generate service credit.	There are two updates to these sections: <ul style="list-style-type: none"> • Correcting text that implied contributions lines that did not generate service credit were not creditable. • Adding assignment code 72 to comply with PEPRA. The rules, variance rules and warnings listed apply to assignment code 72 precipitated by PEPRA.

<i>Other</i>	<i>Change</i>	<i>Rationale</i>
N/A	Updated member contribution rates for 2014–15 and 2015–16.	With the enactment of the CalSTRS 2014 Funding Plan (AB 1469–Bonta), contribution rate changes were introduced.
Section 6.3	References to the Creditable Compensation Guide and F496 Coding Matrix are removed.	Employers must rely on the law and regulations to determine creditable service.

Studies, Reports or Other Documents Relied Upon

None.

Economic Impact Analysis

CalSTRS has considered the proposal’s impact on business, with consideration of industries affected and information supplied by interested parties, including the ability of California businesses to compete with businesses in other states. These amendments solely affect school employers (including school districts, community college districts and county offices of education), and their implementation is not expected to result in any cost to those employers. CalSTRS has determined that the regulations proposed do not constitute a major regulation as the total economic output in the first 12 months is not expected to exceed \$50 million. There is no economic impact expected as a result of these amendments. These regulations are not anticipated to have any effect on California businesses. Specifically:

- The action will not affect the creation or elimination of jobs within the state.
- The action will not affect the creation of new businesses or the elimination of existing businesses within the state.
- The action will not affect the expansion of businesses currently doing business within the state.
- The action will have no effect on the health and welfare of California residents and no effect on worker safety and the state’s environment.

Evidence Supporting Finding of No Significant Statewide Adverse Economic Impact Directly Affecting Business

These regulations do not place any additional licensing, record keeping or compliance requirements on businesses. These regulations solely affect school districts, community college districts, county offices of education and other employing agencies, and no direct, indirect or induced economic impact is anticipated. Therefore, the proposed regulations will not have a significant statewide adverse economic impact on businesses.

Conferring with Interested Persons

Pursuant to Government Code Section 11346.45, CalSTRS staff provided information and solicited input regarding this proposed action with stakeholder groups, including representatives of the California Teachers Association, the Faculty Association of California Community Colleges, the California Federation of Teachers, the Small School Districts' Association, the Association of California School Administrators and other representative groups, and the CalSTRS Employer Advisory Committee.

CalSTRS staff has provided information to the Department of Finance regarding the proposed amendments and their economic and fiscal impact.

Alternatives Considered

These amendments promote legal compliance by providing employers tools that enable consistent implementation of the law. The alternative identified to updating the file specifications is to allow employers to implement the law independently or to communicate the law changes solely through other channels. However, no other mechanism has been identified that would serve this function as well as the file specification documents currently do, so updating these file specifications was deemed by staff to be the only viable alternative.

CalSTRS has not identified any alternative that would lessen any adverse impact on small businesses. No alternative has been proposed that would be less burdensome and equally effective in achieving the purposes of the regulation in a manner that accomplishes the purposes of the statute being implemented.