CALSTRS

Regular Meeting

Item number 6 – Open session

Subject: Initiate Rulemaking Process for Noncreditable Compensation Clarification Regulations

Presenter(s): Joycelyn Martinez-Wade

Item type: Action

Date and time: November 5, 2026 – 10 minutes

Attachment(s): Proposed text of Noncreditable Compensation Clarification Regulations

PowerPoint presentation(s): None

Item Purpose

Staff is seeking approval to initiate the formal rulemaking process, pursuant to the Administrative Procedure Act, to adopt regulations to make a necessary clarification to help reduce potential confusion and ensure that employers correctly report compensation to CalSTRS.

Recommendation

Staff recommends that the board approve initiation of the formal rulemaking process and direct staff to schedule a public hearing to coincide with the February 2027 board meeting.

Executive Summary

The proposed regulatory text (Attachment 1) makes a necessary clarification to help reduce confusion and ensure that employers, including charter schools, correctly report compensation to CalSTRS. The proposed regulatory language clarifies that creditable compensation does not include any compensation that is paid to a person because they are employed in a position that, if it were performed on a full-time basis at a county office of education, school district or community college district, would be subject to coverage by another California public retirement system, such as CalPERS.

Background

AB 1997 addresses compensation reporting challenges and other concerns encountered by employers, members and CalSTRS staff by simplifying sections of the Teachers' Retirement Law relating to creditable compensation and creditable service, effective July 1, 2027. AB 1997 provides that creditable compensation is comprised exclusively of three pay types: "salary," "special pay" and "supplemental pay." The legislation intentionally does not include parameters for supplemental pay, and as a result, there may be some confusion about whether compensation earned in a classified position would need to be reported as supplemental pay when earned by a CalSTRS member. While the category of supplemental pay is intended to be very broad to simplify the analysis for those types of miscellaneous payments that present challenges for correctly reporting creditable compensation, the intent was not for compensation connected to classified positions to be included.

At the November 2024 meeting, staff presented an agenda item and received board approval for preliminary rulemaking activities to further clarify and make specific provisions of AB 1997.

Next Steps

With the board's approval, staff will initiate the formal rulemaking process. The board may elect to preschedule a public hearing, or it can direct staff to schedule one if it is requested by the public no later than 15 days before the close of the written comment period. The board may choose to conduct a hearing in person or delegate the hearing to the Chief Executive Officer. Delegation enables more flexibility in the timing of the hearing, which can shorten the timeline for adoption. However, in this instance, there is no scheduling advantage. Staff also notes that representatives from member organizations have communicated that they believe the board should conduct public hearings themselves as a best practice.

If the board elects to hold a hearing, it could be scheduled to coincide with its February 2027 meeting, and the board could adopt the regulations at its March 2027 meeting.

Under all scenarios, if staff determine additional changes are necessary, those changes will be brought to the board for approval prior to being noticed for an additional public comment period.

Strategic Plan linkage: Goal 2: Leading innovation and managing change—Innovate to grow resiliency and efficiency in service of our members.

Board Policy linkage: Board Governance Manual: Section 5A—Legislation—Sponsor or support legislation and regulations that: improve the delivery of benefits and services and provide more effective and efficient administration of the retirement plan.