

REGULATORY PROPOSAL: CalSTRS 2% at 62 Compensation Paid Each Pay Period

SUMMARY

The purpose of this regulatory proposal is to secure direction from the board to move forward in preparation for future initiation of the formal rulemaking process to adopt regulations that would further clarify and make specific the statutory requirement that compensation be paid “each pay period the creditable service is performed” in order to be creditable for CalSTRS 2% at 62 members of the Defined Benefit (DB) Program and participants subject to the Public Employees’ Pension Reform Act (PEPRA) in the Cash Balance (CB) Benefit Program.

RECOMMENDATION

Staff recommends that the board direct staff to begin drafting proposed regulations that further clarify and make specific the statutory requirement for creditable compensation described above for CalSTRS 2% at 62 DB members and CB participants subject to PEPRA. The board's policy is to support or sponsor regulations that improve the delivery of benefits and services and provide more effective and efficient administration of the retirement plan.

BACKGROUND

Education Code section 22119.3 requires that compensation be paid “each pay period the creditable service is performed” in order for it to be creditable for CalSTRS for 2% at 62 DB members and CB participants subject to PEPRA (those hired after 2012). Although this requirement is generally understood to ensure that regular and recurring contributions can be remitted to CalSTRS for creditable service, some clarity would be helpful for employers to achieve that intent, while allowing for additional flexibility necessary for CalSTRS’ unique population of educators and over 1,700 employers. For example, an employer may begin the school year on August 15, but its teachers do not receive the first of their 10 equal monthly salary payments until after the September pay period on October 1. Because the compensation for the service performed from August 15-31 is not paid until October 1, it is not clear whether such compensation would be considered to have been paid in each pay period in which the creditable service is performed in order to meet the definition of “creditable compensation” for CalSTRS 2% at 62 DB members and CB participants subject to PEPRA.

PROPOSED CHANGES

If directed to move forward, a drafting team would be formed to craft regulatory language to ensure that members’ compensation and service, for the situation described above, can continue to be credited to CalSTRS despite the fact that they were not paid for the pay period in which they commenced performing service for that school year.

NEXT STEPS

With the board’s approval, staff will engage with stakeholders and form an internal drafting team that will develop proposed regulations. Those proposed regulations will be presented to the board at a future meeting for direction to initiate the formal rulemaking process.