

Reporting and Payment of Member and Employer Contributions *Supersedes 2011 Employer Information Circular Volume 27, Issue 5*

The purpose of this circular is to clarify the options available to employers regarding the reporting and remitting of contributions and the impact to members.

In October 2011, CalSTRS published Employer Information Circular Volume 27, Issue 5, informing employers that:

- Compensation is earned once an employee is entitled to receive the compensation; and
- Creditable compensation can be contractually earned, and payment for performing creditable service can be made, even when the service is not performed in the month.

The example given in the October 2011 Employer Information Circular was that if an employer has a contractual agreement to pay a member 12 equal monthly payments but performance of creditable service is not equally performed during the 12 months, i.e. winter and summer breaks, the compensation must be reported consistent with the contract terms. In other words, if a member only performed creditable service over a 10-month period, but there was a contractual agreement for the employer to pay the member over a 12-month period, the employer was required to report the creditable compensation to CalSTRS as contractually earned over the 12-month period.

Upon further review, CalSTRS has determined that a contractual agreement to pay a member over a 12-month period should not preclude an employer from reporting creditable compensation to CalSTRS consistent with the months in which the member performs creditable service.

Therefore, if a member performs creditable service over a 10-month period, but there is a contractual agreement to pay that member over a 12-month period, the employer can report the member's creditable compensation to CalSTRS in one of two ways:

- 1) Over the 12-month period, in line with the contractual agreement to pay the member over a 12-month period; or

Escape cannot accommodate 2) Over the 10-month period in which the member performs creditable service, despite the contractual agreement to pay the member over a 12-month period.

Reporting creditable compensation to CalSTRS based on the contractual agreement to pay or based on the months creditable service was performed has no impact to a member's service credit or the annual compensation earnable used to calculate final compensation for the school years prior to the year in which the member retires. However, because of current system limitations, reporting creditable compensation based on the contractual agreement to pay may reduce a member's annual compensation earnable and service credit during the school year in

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which the member retires. This is because creditable compensation earned after a member's retirement date cannot be considered in the benefit calculation.

If CalSTRS identifies that a member's benefit is impacted based on the current system's limitations when an employer reports creditable compensation based on the contractual agreement to pay, CalSTRS may request the employer re-report the creditable compensation in the member's last year based on the months in which the member performed creditable service so that the member receives an accurate benefit.

Existing system limitations are being reviewed and addressed through the Pension Solution Project.

Regardless of which reporting method an employer chooses to use, compensation must be reported in arrears and cannot have future service period dates. In addition, members performing creditable service on a part-time basis must be reported with an annual pay rate and may not be reported on an hourly or daily basis. To determine the annual pay rate, multiply the hourly or daily rate by the base days or hours required of a full-time employee. The annual pay rate for a part-time member is reported as pay code zero.

Under no circumstances does the reporting method chosen by an employer change or otherwise affect agreements between the employer and employees regarding the number of payments or number of service periods worked in a school year.

Pursuant to Education Code section 23002, penalties may be assessed if contributions are not received within five working days immediately following the month in which the compensation is earned, whether earned based on the performance of creditable service or based on an agreement to pay the member for the performance of creditable service over a specified period.

The monthly contribution reports are due to CalSTRS 30 calendar days immediately following the month compensation was earned. The reports become delinquent 15 calendar days past this initial 30-day due date per Education Code section 23005. If reporting is late, penalties may be assessed according to Section 23006 of the Education Code.

If you have any questions regarding this circular or how to report creditable compensation, please contact your CalSTRS Employer Services Representative.