

Sonoma County Office of Education
Business Services

EXTERNAL PAYROLL AND FINANCE UPDATES

DBUG MEETING: *January 26, 2023*

Updates:

Forms updated on the SCOE website

- ❖ Multiple forms have been updated on the SCOE website. Please go to the website to make sure you are using the most up to date forms
 - <https://www.scoe.org/pub/htdocs/fiscal-forms.html>

Mileage Increase – January 1, 2023

- ❖ 65.5 cents per mile, *up from 62.5 cents in 2022*

CalSTRS – Assembly Bill 1667

- ❖ Signed into law September 29, 2022. ***Effective January 1, 2023***
 - Requires that when a benefit is overpaid, the party responsible for the error that caused the overpayment must pay CalSTRS the full amount of the resulting overpayment
 - Provides relief for CalSTRS retirees affected by benefit overpayments resulting from errors that were not their own
 - ***Effective July 1, 2023*** - Requires CalSTRS to provide advisory letters on the proper reporting of compensation
 - Mandates that CalSTRS annually provide resources to interpret and clarify creditable compensation
 - https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202120220AB1667
 - <https://www.calstrs.com/files/08ab9cdf6/AB1667-amended-8-25-22.pdf>
 - <https://www.calstrs.com/files/00641ea22/EICVolume38Issue4.pdf>
- ❖ Frequently Asked Questions Page
 - <https://www.calstrs.com/assembly-bill-1667-member-faq>

CalSTRS – Compensation Limits – (Based on fiscal year)

- ❖ **CalSTRS 2% at 60 members**
 - July 1, 2022 – June 30, 2023 - \$305,000
- ❖ **CalSTRS 2% at 62 members**
 - July 1, 2022 – June 30, 2023 - \$166,617

CalPERS – Circular Letter 200-001-23 - Compensation limits for Classic and PEPRA members – 2023 (Based on calendar year)

Classic Members

The compensation limit for classic members for the **2023 calendar year is \$330,000**. Employees with membership dates prior to July 1, 1996, are not impacted by these limits.

The compensation limits for classic members during calendar years 2019 through 2022 are:

2022	2021	2020	2019
\$305,000	\$290,000	\$285,000	\$280,000

PEPRA Members

The compensation limit for PEPRA members for the 2023 calendar year is:

Year	Social Security Participants	Non-Social Security Participants
2023	\$146,042	\$175,250

The compensation limits for PEPRA members during calendar years 2019 through 2022 are:

Year	Social Security Participants	Non-Social Security Participants
2022	\$134,974	\$161,969
2021	\$128,059	\$153,671
2020	\$126,291	\$151,549
2019	\$124,180	\$149,016

CalPERS New Projected Rates

Year	Prior Adopted Rates per CalPERS	New Projected Rates per CalPERS Actuarial Report¹
2022-23	25.37%	25.37%
2023-24	25.20%	27.00%
2024-25	24.60%	28.10%
2025-26	23.70%	28.80%
2026-27	22.60%	29.20%
2027-28	22.60%	30.70%

CalSTRS Defined Benefit Supplement(DBS) Refunds Explained

- ❖ In the year 2000 CalSTRS law determined that extra duty work for certificated staff was now creditable. However, no one in the CalSTRS pension can earn more than one year of service credit, so the DBS (Defined Benefit Supplement) account was set up to place the extra contributions from those assignments that were over and above the full year of service that benefit the retirement formula.
 - At the time that these were established, the contribution rate was 8% for all employees and that was written into the law. Now that the contribution rate fluctuates, we have to collect the full contribution rate (10.25%, or 10.205% depending on the retirement formula) up front for that pay, and after CalSTRS determines what should go into the DBS account they provide refunds for the extra 2.25% or 2.205% that we are responsible for distributing to the respective employees.
- ❖ The refunds are given to employees/employers in December each fiscal year

Reminders:

California's 2022 COVID-19 Supplemental Paid Sick Leave (SPSL) Expired 12/31/2022

- ❖ We recommend removing the SPSL leave balances from the employee's pay stub
- ❖ If you need assistance with this process, please contact helpdesk@scoe.org
- ❖ If your district/charter extended SPSL voluntarily, please make sure to note when it expires so you can update this in the future

Important dates/Information:

- ❖ W-2s available for pick-up starting Wednesday, January 25th, ***Reminder – due to employees January 31, 2023***
- ❖ 1099s were mailed by SCOE on **January 24, 2023**
- ❖ EDD Quarterly Taxes delinquent if not processed by **January 31, 2023**
- ❖ Supplemental Payroll Due – **Tuesday, February 7th**
- ❖ HR/Payroll User Group – **Thursday, February 9th, 9:00AM – 11:00AM TLC**
- ❖ Manual Payroll Due – **Wednesday, February 15th at 4:00PM**
- ❖ Regular Payroll Due – **Tuesday, February 21st**

FISCAL REPORT

PUBLIC EDUCATION'S POINT OF REFERENCE FOR MAKING EDUCATED DECISIONS

IRS Announces Standard Mileage Rates for 2023



BY CAROL WOLFE, CPA

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posted January 3, 2023

Beginning January 1, 2023, the mileage reimbursement rate for business travel will be 65.5¢ per mile (up from 62.5¢ in 2022).

For more information, please see [Notice](#) 2023-03, posted by the Internal Revenue Service (IRS) on December 29, 2022.


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AB-1667 State Teachers' Retirement System: administration. (2021-2022)

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Date Published: 10/03/2022 02:00 PM

Assembly Bill No. 1667

CHAPTER 754

An act to amend Sections 24616 and 24617 of, to add Sections 22132.5, 22206.1, 22206.2, 22206.3, 22206.4, 22206.5, 22325, 22326, 23012, and 24616.2 to, and to repeal Section 24616.5 of, the Education Code, and making an appropriation therefor, relating to teachers' retirement.

[Approved by Governor September 29, 2022. Filed with Secretary of State September 29, 2022.]

LEGISLATIVE COUNSEL'S DIGEST

AB 1667, Cooper. State Teachers' Retirement System: administration.

The California Constitution grants the retirement board of a public pension or retirement system plenary authority and fiduciary responsibility for investment of moneys and administration of the system, as specified. Existing law, the Teachers' Retirement Law, establishes the State Teachers' Retirement System (STRS) and creates the Defined Benefit Program of the State Teachers' Retirement Plan, which provides a defined benefit to members of the program, based on final compensation, credited service, and age at retirement, subject to certain variations. STRS is administrated by the Teachers' Retirement Board (board). Existing law also creates the Cash Balance Benefit Program, which is administered by the board, to provide a retirement plan for the benefit of participating employees who provide creditable service for less than 50% of full time. Existing law authorizes the board to audit, or cause to be audited, the records of any public agency as often as it deems necessary.

This bill would prescribe various requirements and duties in connection with audits of public agencies by the board. The bill would require the board to provide written notice of an intended audit to the affected public agency and to the exclusive representative of the members affected by the audit. The bill would require this notice to apprise the public agency and the exclusive representative of the purpose and scope of the intended audit. The bill would define "exclusive representative" for purposes of STRS. The bill would require the public agency to provide information requested by the board in a timely manner and, at that time, to also provide the information to the exclusive representative of the members affected by the audit. The bill would authorize an audited public agency and the exclusive representative of affected members to provide the board information relevant to the audit, and would require the board to consider this information in preparing its audit findings. The bill would require the board to provide to the audited public agency and the exclusive representative of the affected members the preliminary audit findings, the statutes being addressed by the audit, and a list of every member known to be affected. The bill would authorize recipients to provide the board written responses to the preliminary audit findings and would require the board to consider the responses in preparing its final audit report. The bill would require the public agency to provide, as specified, the board and the exclusive representative a list of the names of any member affected by the audit not included in the board's list.

This bill would require the board to provide the final audit report to an audited public agency, to the exclusive representative or representatives of members affected by the audit, and to the affected members, with an explanation of their appeal rights. The bill would authorize the public agency and the affected members to request administrative hearings if they disagree with the final audit and would prescribe a process for this purpose. The bill would require STRS to make all final employer audit reports available on its internet website, as specified.

Existing law prescribes various rights and duties of the board to administer STRS. Existing law generally prohibits adjustments in new rates of contribution adopted by the board on the basis of an investigation, valuation, and determination or because of an amendment to the Teachers' Retirement Law with respect to the Defined Benefit Program, for time prior to the effective date of the adoption or amendment. Existing law prohibits an action of the board, other than for correction of errors in calculating the allowance or annuity at the time of retirement, disability, or death of a member, from changing the allowance or annuity payable to a retired member or beneficiary prior to the date the action is taken.

This bill would require STRS to provide resources, at least annually, that interpret and clarify the applicability of creditable compensation and creditable service laws. The bill would prohibit new interpretations, including those that would modify prior interpretations, from taking effect until after notice is issued to employers and exclusive bargaining representatives and would prohibit retroactive application to compensation reported prior to that notice, unless that is expressly required by state or federal law, or an executive order of the Governor, and would generally require application on July 1, following the notice. The bill would state that for audits and other actions, including actions and penalties relating to disallowed compensation reporting, employers are responsible for the rules in effect at time the compensation is reported, except when specified. If compensation reported in accordance with these provisions is later determined by the system to have been reported in error, the bill would require the resulting overpayment to be recovered, as specified.

The bill, beginning July 1, 2023, would authorize an employer or an exclusive representative to submit to STRS a request for an advisory letter, which would be defined as a written determination relating to compensation that is included or proposed for inclusion in a publicly available written contractual agreement for review by the system in order to provide formal written guidance for the proper reporting of such compensation, as specified. The bill would prescribe a process in this regard, which would include requiring the system to provide an advisory letter within 30 days of the receipt of all information requested by the system, except as specified. The bill would specify that an advisory letter may be superseded by state or federal law, an executive order of the Governor, or a system rule. If compensation reported in accordance with a system advisory letter given pursuant to these provisions is later determined by the system to have been reported in error, as specified, the bill would require any resulting overpayment or penalty to be deemed an error by the system and would require that it be recovered, pursuant to a specified process. The bill would limit the use, as specified, of an advisory letter to the employer or the member to whom an advisory letter expressly relates.

Existing law requires an employer to deduct from the creditable compensation of members who are employed by the employer the member contributions required by the Teachers' Retirement Law and to remit them to the system plus required employer contributions. Existing law requires a county superintendent of schools, among others, that reports directly to the system to draw requisitions for required contributions, as specified, in favor of STRS, and the requisitions, when allowed and signed by the county auditor, are a warrant against the county treasury. Existing law requires the board to assess penalties if required contributions are not paid or if specified monthly reports are not made or are made in an improper form. Existing law creates the county school service fund and prescribes the expenses to which it may be applied. Existing law generally prohibits expending moneys in the fund for any purpose in excess of the latest proposed expenditures for a purpose as approved by the Superintendent of Public Instruction, as specified. Existing law generally requires a county auditor to approve warrants drawn on the service fund for expenses approved in the county school service fund budget.

This bill would authorize the county superintendent of schools to draw requisitions against the county school service fund and the funds of the respective employing agencies for the purpose of making certain payments to STRS, as specified, in amounts equal to employing agency payments or for the purpose of recovering specified amounts paid that are the responsibility of employers.

Existing law generally authorizes the board, in its discretion and upon any terms it deems just, to correct the errors or omissions of a member or beneficiary of the Defined Benefit Program, and of any participant or beneficiary of the Cash Balance Benefit Program, if specified facts exist. Under existing law, the failure by a member, participant or beneficiary to make an inquiry that would be made by a reasonable person in like or similar circumstances does not constitute an error or omission. Existing law requires that any overpayment made

to, or on behalf of, any member, former member, or beneficiary be deducted from any subsequent benefit that may be payable, except as specified.

This bill would revise the requirement to deduct, as described above, to except from its application amounts overpaid in a variety of situations and instead require that overpaid amounts be recovered from the member, participant, former member, former participant, or beneficiary, subject to specified exceptions. The bill would prescribe requirements for the recovery of these amounts. Commencing July 1, 2024, the bill would require that amounts overpaid due to an error by the system be recovered pursuant to a continuous appropriation from the General Fund and from employers reporting to the system, as specified. In this regard, the bill would require that 85% of the amounts resulting from benefit adjustments that take place in the fiscal year ending in the immediately preceding calendar year, the specific amount of which would be determined by the board, be made as a continuous appropriation from the General Fund for transfer to the Teachers' Retirement Fund. The bill would require that the remaining 15% of these amounts be collected from all employers that report directly to the system in amounts proportionate to their share of contributions, as specified, including the contributions of those employers for whom a county superintendent of schools reports. The bill would authorize a county superintendent of schools to recover certain funds from employers, as specified. The bill would require the amounts recovered to include regular interest, which is defined for purposes of the Teachers' Retirement Law. The bill would require the Controller, in certain circumstances, upon the order of the board, to reduce payments from the State School Fund to a county for deposit in the county school service fund or, upon the request of a county superintendent of schools to the county auditor. The bill would require the Controller to reduce payments to a school district for deposit in the district general fund by the amount owed. The bill would require the Controller to then pay specified amounts owed for deposit in the Teachers' Retirement Fund. The bill would except certain recoveries and benefit adjustments from these requirements.

Existing law requires STRS, if an employer reports erroneous information, to calculate the actuarial present value of the expected payments from the member, the former member, or beneficiary, as specified, and requires the employer to pay the difference between the total amount of the overpayment and the calculation of the actuarial present value of expected payments.

This bill would delete that provision.

Existing law limits the amounts by which STRS may reduce retirement allowances and benefit payments to recover an amount overpaid under the Defined Benefit Program, the Defined Benefit Supplement Program, or the Cash Balance Benefit Program to no more than 5% if the overpayment was due to an error by the system. In this context, existing law limits reductions to 15% for errors due to inaccurate information or nonsubmission of information by the recipient of the allowance or benefit.

This bill would delete the above-described limitation on reductions for overpayments due to errors by the system. The bill would also make various changes in these provisions to conform with other revisions the bill would make, as described above.

Existing constitutional provisions require that a statute that limits the right of access to the meetings of public bodies or the writings of public officials and agencies be adopted with findings demonstrating the interest protected by the limitation and the need for protecting that interest.

This bill would make legislative findings to that effect.

Vote: 2/3 Appropriation: yes Fiscal Committee: yes Local Program: no

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. Section 22132.5 is added to the Education Code, to read:

22132.5. "Exclusive representative" means an exclusive representative as defined in subdivision (e) of Section 3540.1 of the Government Code.

SEC. 2. Section 22206.1 is added to the Education Code, to read:

22206.1. (a) Before auditing, or causing to be audited, the records of a public agency pursuant to Section 22206, the board shall provide written notice of the intended audit to the affected public agency as well as to the exclusive representative or representatives, if any, of members that may be affected by the audit, and this notice shall apprise the public agency and the exclusive representative or representatives, if any, of the purpose and

scope of the intended audit. For purposes of carrying out the provisions of this section and Section 22206.2, the public agency shall be responsible for providing the board with the name and contact information for all applicable exclusive representatives.

(b) An audited public agency shall cooperate in good faith with the board and provide all information requested by the board in a timely manner. The public agency, at the time it provides information to the board, shall also provide all the information to the exclusive representative or representatives, if any, of the members affected by the audit.

(c) An audited public agency and the exclusive representative or representatives, if any, of the members affected by the audit may provide the board with additional information relevant to the audit, and the board shall consider this information in preparing its audit findings.

(d) Prior to issuing its final audit report, the board shall provide to the audited public agency and to the exclusive representative or representatives, if any, of the members affected by the audit, the preliminary audit findings, the statutes being addressed by the audit, and a list of every member then known by the board to be affected by the audit. Within a period to be specified by the board, which shall not be less than 60 days, the recipients may provide the board their written responses to the preliminary audit findings and the board shall consider their responses in preparing its final audit report.

(e) Within a period specified by the board of not less than 60 days, the public agency shall provide the board and the exclusive representative a list of the names of any members affected by the audit not included in the list provided by the board pursuant to subdivision (d).

(f) Except as provided in this section, this section does not confer additional rights upon the exclusive representative, including, but not limited to, due process rights.

SEC. 3. Section 22206.2 is added to the Education Code, to read:

22206.2. (a) The board shall provide the final audit report to the public agency audited pursuant to Section 22206 and to the exclusive representative or representatives, if any, of the members affected by the audit, and shall provide the audited public agency with an explanation of its appeal rights pursuant to Section 22206.3.

(b) Following the notification by the public agency of the members affected by the audit pursuant to subdivisions (d) and (e) of Section 22206.1, the board shall provide the final audit report, with an explanation of appeal rights pursuant to Section 22206.4, to each member affected by the audit.

(c) If a member is later known to have been affected by an audit, the board shall provide a copy of the final audit report and an explanation of appeal rights pursuant to Section 22206.4 to that member or former member, or their beneficiaries if the member or former member is deceased.

(d) Except as provided in this section, this section does not confer additional rights upon the exclusive representative, including, but not limited to, due process rights.

SEC. 4. Section 22206.3 is added to the Education Code, to read:

22206.3. (a) If the public agency audited pursuant to Section 22206 disagrees with the final audit report, it may request an administrative hearing pursuant to Section 22219. The request shall be made in writing and be mailed or emailed to the address identified in the final audit report within 90 days of the board's transmission of the final audit report to the public agency as provided in Section 22206.2.

(b) If the audited public agency fails to request an administrative hearing within the time provided in subdivision (a), the right to an administrative hearing shall be deemed waived, and the findings of the final audit report shall be deemed the board's final determination as to that public agency.

SEC. 5. Section 22206.4 is added to the Education Code, to read:

22206.4. (a) If a member affected by an audit disagrees with the final audit report, the member may request an administrative hearing pursuant to Section 22219. The request shall be made in writing and be mailed or emailed to the designated address identified in the final audit report within 90 days of the board's transmission of the final audit report to the member, as provided in Section 22206.2.

(b) If a member affected by the audit fails to request an administrative hearing within the time provided in subdivision (a), the member's right to an administrative hearing shall be deemed waived, and the findings of the

final audit report shall be deemed the board's final determination as to that member.

SEC. 6. Section 22206.5 is added to the Education Code, to read:

22206.5. The system shall make all final employer audit reports available on its internet website. Personal information regarding members shall be excluded to the extent necessary to protect their privacy.

SEC. 7. Section 22325 is added to the Education Code, to read:

22325. (a) The system, at least annually, shall provide resources that interpret and clarify the applicability of creditable compensation and creditable service laws in this part and regulations promulgated pursuant to this part.

(b) (1) New or different interpretations, including those that would modify the application of prior interpretations, whether in the resources described in subdivision (a) or regulations or an employer information circular or similar means, shall not take effect until after notice is issued to employers and exclusive representatives and shall not be applied retroactively to compensation reported prior to that notice, unless a retroactive interpretation is expressly required by state or federal law or an executive order of the Governor.

(2) The changes described in paragraph (1) shall not be applicable before the next July 1, unless changes to state or federal law, an executive order of the Governor, an advisory letter provided pursuant to Section 22326, or programs require application of revision of the creditability of compensation on an earlier basis.

(c) For purposes of audits or any other actions by the system, employers are responsible for the rules in effect at the time the compensation is reported, except when expressly superseded by state or federal law or an executive order of the Governor. If compensation reported in accordance with the system's rules pursuant to this section is later determined by the system to have been reported in error, the resulting overpayment shall be deemed an error by the system and shall be recovered pursuant to paragraph (4) of subdivision (a) of Section 24616.2.

SEC. 8. Section 22326 is added to the Education Code, to read:

22326. (a) For the purposes of this section:

(1) "Advisory letter" means a written determination issued to an employer or an exclusive representative in response to the employer's or exclusive representative's submission relating to compensation that is included, or is proposed to be included, in a publicly available written contractual agreement in order for the system to provide formal written guidance for the proper reporting of such compensation consistent with the laws governing creditable compensation and the administrative regulations of the system.

(2) "Material facts" means facts that would have changed the determination made in an advisory letter.

(b) An employer or an exclusive representative may submit to the system a request for an advisory letter.

(c) (1) A submission to the system under subdivision (b) shall be in writing on a form provided by the system and shall include the compensation language, a description of the facts related to the compensation language and the basis of the requesting party's inquiry, including, but not limited to, specific questions about the reporting of the compensation, and any other supporting documents or requirements the system deems necessary to complete its review.

(2) A submission to the system may be denied if it involves an issue that is in litigation with the system and the employer or a member to whom the advisory letter would expressly relate.

(3) A submission to the system may be withdrawn by the employer or exclusive representative at any time before an advisory letter is provided.

(d) (1) The system shall provide an advisory letter regarding the submission to the employer or exclusive representative within 30 days of the receipt of all information requested by the system, unless an extended period of time is necessary for good cause.

(2) An advisory letter may be superseded by state or federal law, an executive order of the Governor, or a rule pursuant to Section 22325.

(e) If compensation reported in accordance with the system's advisory letter provided pursuant to this section is later determined by the system to have been reported in error by the employer or on behalf of a member to whom the advisory letter expressly relates, the resulting overpayment shall be deemed an error by the system and shall be recovered pursuant to paragraph (4) of subdivision (a) of Section 24616.2.

(f) Only the employer or a member to whom an advisory letter expressly relates may use and rely upon, or offer as evidence of an error by the system, the advisory letter in an action brought by the system. The use and reliance upon, or the offering in evidence of, an advisory letter shall be contingent on a system determination that all material facts related to the compensation were disclosed in the submission and the employer reported compensation in reliance on the advisory letter.

(g) This section shall become operative on July 1, 2023.

SEC. 9. Section 23012 is added to the Education Code, to read:

23012. (a) For the purpose of remitting contributions, assessments, or any other payment required by the system, the county superintendent of schools that reports directly to the system may, on an annual basis or as otherwise directed by the system, draw requisitions against the county school service fund and the funds of the county's respective employing agencies in amounts equal to the total required to be paid by the employing agency.

(b) Additionally, the county superintendent of schools may draw requisitions against the county school service fund and the funds of the county's respective employing agencies, as applicable, in amounts necessary for recovering payments made pursuant to Section 24616.2.

SEC. 10. Section 24616 of the Education Code is amended to read:

24616. Any overpayment made to or on behalf of any member, former member, or beneficiary, including, but not limited to, contributions, interest, benefits of any kind, federal or state tax, or insurance premiums, shall be deducted from any subsequent benefit that may be payable under either the Defined Benefit Program, the Defined Benefit Supplement Program, or the Cash Balance Benefit Program, except as provided in Section 24616.2. These deductions shall be permitted concurrently with any suit for restitution, and recovery of overpayment by adjustment shall reduce by the amount of the recovery the extent of liability for restitution.

SEC. 11. Section 24616.2 is added to the Education Code, to read:

24616.2. (a) Except as limited pursuant to Section 22008:

(1) All amounts that have been overpaid due to inaccurate information, untimely submission, nonsubmission of information, or on the basis of fraud or intentional misrepresentation by, or on behalf of, a recipient of a benefit, annuity, or refund shall be recovered, as applicable, from the member, participant, former member, former participant, or beneficiary. This paragraph excludes amounts overpaid pursuant to paragraph (2), (3), or (4).

(2) All amounts that have been overpaid due to inaccurate information, untimely submission, or nonsubmission of information by an employer that reports directly to the system shall be recovered, as applicable, from that employer.

(3) All amounts that have been overpaid due to inaccurate information, untimely submission, or nonsubmission of information by a county superintendent of schools that reports directly to the system on behalf of an employer shall be recovered, as applicable, from that county superintendent of schools. If the overpayment resulted from an error of an employer, the county superintendent of schools may recover the amounts required from that employer pursuant to Section 23012.

(A) If the county superintendent of schools provided notice to, and received consent from, an employer to submit that employer's monthly report, inclusive of any modifications by the county superintendent of schools on behalf of the employer, an overpayment due to inaccurate information shall be considered an error of that employer.

(B) If the untimely submission or nonsubmission of information was the result of the employer's untimely submission or nonsubmission of information, the overpayment shall be considered an error of the employer.

(4) (A) All amounts that have been overpaid due to an error by the system shall be recovered, with interest as specified in subparagraph (B), as follows:

(i) Commencing July 1, 2024, 85 percent of this amount resulting from benefit adjustments that take place within the fiscal year ending in the immediately preceding calendar year, the specific amount of which shall be determined by the board, shall be made as a continuous appropriation from the General Fund to the Controller each July 1 for transfer to the Teachers' Retirement Fund.

(ii) Commencing July 1, 2024, 15 percent of this amount resulting from benefit adjustments that take place within the fiscal year ending in the immediately preceding calendar year, the specific amount of which shall be determined by the board, shall be recovered from all employers that report directly to the system in amounts proportionate to their share of contributions for that fiscal year, including the contributions of those employers for whom a county superintendent of schools reports. A county superintendent of schools that reports directly to the system on behalf of employers may recover amounts proportionate to each employer's share of contributions for that fiscal year from those employers pursuant to Section 23012.

(B) The amount to be recovered in accordance with subparagraph (A) shall be calculated to include regular interest from the date of the overpayment to the date of recovery.

(b) (1) An employer shall remit any amount required to be paid to the system pursuant to this section within 30 days of the date of the invoice. If the system does not receive payment within 30 days, the amount owed to the system shall be recalculated to include regular interest from the initial due date.

(2) If a payment pursuant to paragraph (1) is not received within 30 days of the date of invoice, the Controller shall, upon the order of the board, reduce subsequent payments from the State School Fund to the county for deposit in the county school service fund by the amount owed or, upon the request of a county superintendent of schools to the county auditor, the Controller shall reduce payments to a school district for deposit in the district general fund by the amount owed. The Controller shall then pay to the system the amount owed for deposit in the Teachers' Retirement Fund.

(c) This section shall not apply to a recovery made under Section 24015, 24016, or 24017 or to a benefit or allowance reduction required pursuant to Section 24010, 24109, 24114, 24201.5, 24214, or 24214.5.

(d) Except as explicitly provided by its provisions, this section shall not be interpreted to limit the system's authority to correct benefits.

SEC. 12. Section 24616.5 of the Education Code is repealed.

SEC. 13. Section 24617 of the Education Code is amended to read:

24617. (a) To recover an amount overpaid under this part or Part 14 (commencing with Section 26000), as determined pursuant to Section 24616.2, the system shall correct the benefit, annuity, or refund, and the corrected monthly allowance payable under the Defined Benefit Program or the corrected annuity benefit payable under the Defined Benefit Supplement Program or the Cash Balance Benefit Program may be reduced by no more than 15 percent if the amount overpaid was due to inaccurate information or nonsubmission of information by, or on behalf of, a recipient of the allowance or annuity benefit, not including an error by the system, a county superintendent of schools, or an employer.

(b) This section does not apply to the collection of overpayments due to fraud or intentional misrepresentation of facts by the recipient of the allowance or benefit.

SEC. 14. The Legislature finds and declares that Section 6 of this act, which adds Section 22206.5 to the Education Code, imposes a limitation on the public's right of access to the meetings of public bodies or the writings of public officials and agencies within the meaning of Section 3 of Article I of the California Constitution. Pursuant to that constitutional provision, the Legislature makes the following findings to demonstrate the interest protected by this limitation and the need for protecting that interest:

This act strikes a balance between providing transparency concerning compensation reporting rules and the privacy of individuals.

BILL NUMBER: [AB 1667](#) (Cooper) as amended August 25, 2022

SUMMARY

Among other provisions, AB 1667 requires that when a benefit is overpaid, the party responsible for the error that caused the overpayment must pay CalSTRS the full amount of the resulting overpayment, except in instances of CalSTRS error, in which case the overpayment must be recovered with interest on an annual basis from the General Fund and employers, as specified. AB 1667 also requires CalSTRS to provide advisory letters on the proper reporting of compensation to specified parties and states that if compensation reported consistent with such a letter is later deemed to be reported in error, any resulting overpayment is deemed an error of the system and must be recovered as specified. AB 1667 prescribes various processes for employer audit notifications and appeals and requires final audit reports to be published on the CalSTRS website. The bill mandates that CalSTRS annually provide resources to interpret and clarify the applicability of creditable compensation and creditable service laws, specifies when new interpretations may be applied and provides that if compensation reported consistent with such resources is later deemed to be reported in error, any resulting overpayment is deemed an error of the system and must be recovered as specified.

BOARD POSITION

Support. It is the board's policy to take a support position on bills that improve the delivery of benefits and services and provide more effective and efficient administration of the retirement plan. AB 1667 improves benefit reporting through additional resources for employers and addresses equity issues in CalSTRS' audit appeals process by ensuring all members affected by an audit have the opportunity to request an appeal. AB 1667 improves the retirement security of our members by reducing the burden of paying back inadvertent overpayments. While the bill adds significant complexity and administrative costs for CalSTRS, staff has worked with the author's office and bill sponsors to make AB 1667 more feasible to administer and to provide prudent sources of funds to cover the cost of overpayments and protect the plan's tax-qualified status.

REASON FOR THE BILL

According to the author, AB 1667 will protect retirees by ensuring they are not held liable for prior overpayments, except in cases of member error. AB 1667 is intended to reduce future employer mistakes by requiring CalSTRS to provide timely, consistent and accurate compensation reporting guidance. In addition, AB 1667 will create a more transparent and accountable audit process that will work for all stakeholders.

ANALYSIS

Existing Law:

CalSTRS Benefits

CalSTRS administers a hybrid retirement system, including a traditional defined benefit plan (the Defined Benefit Program) and a supplemental cash balance plan (the Defined Benefit Supplement Program). CalSTRS also provides disability and survivor benefits. Members do not contribute to or receive Social Security for their CalSTRS service, so they rely on their CalSTRS' pension as their primary source of income in retirement.

CalSTRS' Defined Benefit (DB) Program provides monthly lifetime retirement benefits to eligible educators based on years of service, age at retirement and final compensation. Under current law, final compensation is based on the highest average annual compensation earnable over a one- or three-year consecutive period, depending on the number of years of service provided and a member's benefit formula. Compensation earnable is determined using a member's average full-time pay rate plus any remuneration in addition to salary earned during the same school year.

The Teachers' Retirement Law delineates what is, and is not, creditable compensation and whether such compensation should be reported to the to the DB Program or the Defined Benefit Supplement (DBS) Program. Compensation for regular salary and ongoing remuneration in addition to salary, as specified, are reported to the DB Program and included in a member's final compensation. Compensation for creditable service that exceeds one year in a school year, or is paid a limited number of times for CalSTRS 2% at 60 members, is credited to the DBS Program and is not included in final compensation. Other types of compensation, such as compensation for unused accumulated leave or fringe benefits, is not creditable compensation and does not count toward any CalSTRS benefit.

Existing law requires employers to report all creditable compensation for a member's creditable service to CalSTRS and to specify the compensation type and full-time pay rate so that it may be appropriately credited to either the DB Program or DBS Program. Accurate reporting of compensation is critical to determining correct benefits and ensuring contributions are predictable and sufficient to pay those benefits. To help employers accurately report, CalSTRS developed regulations to clarify statute regarding creditable compensation.

Recoupment of Overpayments

The Internal Revenue Code (IRC) specifies requirements for maintaining qualified plan status, which allows the plan, employers and members to receive tax-deferred benefits. One requirement for defined benefit plans, such as those provided by CalSTRS, is to pay members a "definitely determinable" benefit that is specified in the plan rules and is adhered to in operation.¹ Payments that exceed what should have been paid under the plan's "definitely determinable" benefit formula must be recovered to avoid disqualification and loss of a plan's tax-advantaged status. This is because the member receiving the extra payment was not entitled to it under the terms of the plan.

Internal Revenue Service guidance provides various permitted methods for correcting overpayments, including recoupment from the recipient of the payments or another entity, in addition to adjusting the benefit to the correct amount going forward. Congress is currently deliberating on further changes to the corrections process that provide more flexibility for plans not to recoup overpayments from any party and still maintain tax-qualified status as part of the "SECURE 2.0" retirement reform package.

In addition, Section 17 of Article XVI of the California Constitution establishes that the board has a fiduciary duty over the administration of the plan and its assets, which "shall be held for the exclusive purposes of providing benefits" to members and their beneficiaries. Therefore, CalSTRS must correct overpayments.

¹ Treasury Regulation section 1.401-1(b)(1)(i) states that a defined benefit plan must "provide systematically for the payment of definitely determinable benefits" to employees. Benefits are "definitely determinable" if "the benefits on behalf of each participant are determined in accordance with a stipulated formula that is not subject to the discretion of the employer." (Revenue Ruling 74-385; 1974-2 C.B. 130).

Furthermore, current law limits CalSTRS' right to recover overpaid amounts from members and beneficiaries. When an overpayment results from correcting a system error, CalSTRS is prohibited from collecting all incorrect payments made more than three years prior to commencing recovery. When an overpayment results from employer error, member error or fraud, CalSTRS must commence collection within three years of discovering the incorrect payment to collect the full amount from the member or beneficiary. Additionally, current law limits reduction of future benefit payments to recover overpaid amounts to 5% in the case of system or employer error and to 15% in the case of inaccurate information or nonsubmission of information by the benefit recipient. Current law also provides that if the full amount of the overpayment is not expected to be collected over the lifetime of the member or beneficiary, CalSTRS may collect the difference between the actuarial value of the expected payments and the total amount overpaid from the employer.

Employer Audits and Appeals

Current law authorizes CalSTRS to conduct employer audits as the board determines necessary. The purpose of the audits process is to promote accurate reporting of payroll information, which ensures correct benefits are paid and the fund is protected for our members. CalSTRS makes findings on the employer's reporting practices based on a review of sampled reporting transactions. As part of the draft and final audit reports, CalSTRS identifies employer reporting errors and communicates those findings to the employer as well as the sampled members. If an audit finds that a reporting error is potentially more widespread, the finding is identified as appearing to be systemic in nature. At that point, CalSTRS requests the employer determine whether it misreported for any additional members beyond those in the audit sample, identify those additional members (also known as the systemic population) and make corrections for all affected members.

Existing regulations outline the administrative remedy process available for the audited employer and sampled members as follows:

- An applicant (defined as a member, former member, participant, former participant or beneficiary) or entity affected by the preliminary findings of an audit may provide a written response to the preliminary audit findings.
- CalSTRS will inform the applicant or entity of their right to an administrative hearing.
- If an applicant or entity disagrees with the final audit report, they may request an administrative hearing within 90 days from the date of the final audit report.
- If a request for administrative hearing is not made timely, the final audit report is finalized, and the right to hearing is waived.

Only the sampled members are known to CalSTRS and identified in a final audit report's confidential appendix. Any other members whose reporting may be changed as a result of the audit findings and subsequent reporting corrections are generally unknown to CalSTRS, unless the employer specifically identifies those systemic members and communicates them to CalSTRS. Since CalSTRS does not know which members are part of the systemic population, the system cannot notify those members of the finding or of their right to request an administrative hearing in a timely manner. Therefore, members in the systemic population typically do not know that their benefits were impacted because of an audit finding until after the window of time to request an administrative hearing has passed. This creates inconsistency in the treatment of members and their ability to appeal benefit changes stemming from employer audits and employer re-reporting.

This Bill:

Specifically, AB 1667:

- Defines “exclusive representative” as an employee organization recognized or certified as the exclusive negotiating representative of public school employees in an appropriate unit of a public school employer.
- Requires CalSTRS to provide prior written notice of an intended audit, as specified, to the affected public agency and the exclusive representative or representatives of the members that may be affected by the audit. The public agency is responsible for providing CalSTRS with the name and contact information of the exclusive representative.
- Requires the public agency being audited to cooperate in good faith and provide all information to CalSTRS and the exclusive representative in a timely manner.
- Allows the public agency and the exclusive representative to provide additional information relevant to an audit, which CalSTRS is required to consider in preparing the audit findings.
- Requires CalSTRS, prior to issuing the final audit report, to provide the public agency and exclusive representative: the preliminary audit findings, the statutes being addressed by the audit and a list of every member then known by CalSTRS to be affected by the audit.
- Requires CalSTRS to:
 - Specify a period of at least 60 days during which the recipients of the preliminary audit findings may provide a written response to those findings.
 - Consider the responses in preparing the final report.
 - Specify a period of at least 60 days during which the public agency must provide CalSTRS and the exclusive representative a list of any members affected by the audit that were not included in the list provided by CalSTRS.
- Requires CalSTRS to provide the final audit report to the public agency, the exclusive representative and each member known to be affected by the audit, with an explanation of either the public agency’s or member’s appeal rights, which include a 90-day period to request an administrative hearing.
- In the case of a member that is later found to be affected by an audit, requires CalSTRS to provide the final audit report to the member, former member or their beneficiaries, with an explanation of their appeal rights.
- Specifies the right to an administrative hearing is waived and the findings of the final audit report are deemed the board’s final determination if the public agency or member fails to request an administrative hearing within the 90-day period provided.
- Requires all final employer audit reports to be published on the CalSTRS website, excluding personal information regarding members.
- Requires CalSTRS to annually provide resources to interpret and clarify the applicability of creditable compensation and creditable service, prevents new or different interpretations of those applications from taking effect until after notice is provided to employers and exclusive representatives, and specifies that new interpretations do not apply retroactively, except as specified.
- Specifies that changes to interpretations of creditable compensation and creditable service must not take effect before the next July 1, except as specified.
- Clarifies that employers are responsible for the rules in effect at the time compensation is reported, except when expressly superseded, and if compensation reported in accordance with the system’s rules is later determined to have been reported in error, the resulting overpayment is deemed an error of the system.

- Effective July 1, 2023, permits an employer or an exclusive representative to submit a request to CalSTRS, as specified, for an “advisory letter,” which is defined as a written determination issued to an employer or an exclusive representative in response to the requestor’s submission relating to compensation that is included, or is proposed to be included, in a publicly available written contractual agreement in order for CalSTRS to provide formal written guidance for the proper reporting of such compensation.
- Permits a submission for an advisory letter to be denied by CalSTRS if it involves an issue that is in litigation with the affected employer or member and permits the submission to be withdrawn by the requestor at any time before an advisory letter is provided.
- Requires CalSTRS to provide an advisory letter within 30 days of the receipt of all information requested by the system, unless an extension is necessary for good cause, and specifies when an advisory letter may be superseded.
- Specifies that if compensation reported in accordance with an advisory letter is later determined to have been reported in error by the employer or on behalf of a member to whom the letter expressly relates, the resulting overpayment is deemed an error of the system.
- Permits only the employer or a member to whom an advisory letter expressly relates to use and rely upon or offer as evidence of an error by the system, the advisory letter in an action brought by the system if the system determines all material facts related to the compensation were disclosed in the submission and the employer reported compensation in reliance on the advisory letter. “Material facts” are facts that would have changed the determination made in an advisory letter.
- Permits county superintendents of schools to draw requisitions against the county school service fund and the funds of employing agencies for purposes of remitting contributions, assessments or any other payment required by the board, including any overpayments deemed to be an error of an employing agency.
- Requires all amounts overpaid to be recovered as follows:
 - Amounts overpaid due to inaccurate information, untimely submission, nonsubmission of information or on the basis of fraud by or on behalf of a benefit recipient are recovered from that recipient.
 - Amounts overpaid due to inaccurate information, untimely submission or nonsubmission of information by an employer that reports directly to CalSTRS are recovered from that employer.
 - Amounts overpaid due to inaccurate information, untimely submission or nonsubmission of information by a county superintendent that reports directly to CalSTRS on behalf of an employer are recovered from that county superintendent, and if the overpayment is a result of an employer error, as specified, the county superintendent may recover the applicable amounts from that employer.
 - Amounts overpaid due to an error by the system are recovered with regular interest from the date of the overpayment as follows beginning July 1, 2024:
 - 85% of this amount resulting from benefit adjustments that take place within the fiscal year ending in the immediately preceding calendar year are made as a continuous appropriation from the General Fund to the Controller each July 1 for transfer to the Teachers’ Retirement Fund.
 - 15% of this amount resulting from benefit adjustments that take place within the fiscal year ending in the immediately preceding calendar year are recovered from all employers that report directly to the system in amounts proportionate to their share of contributions for that fiscal year, including the contributions of those

employers for whom a county superintendent of schools reports. A county superintendent of schools that reports directly to the system on behalf of employers may recover amounts proportionate to each employer's share of contributions for that fiscal year from those employers.

- If employers do not pay required amounts within 30 days, includes regular interest from the initial due date of the amount owed and allows the board or the county superintendent to request the State Controller to reduce subsequent payments to the county or school district, as appropriate, by the amount owed in order to pay CalSTRS.
- Clarifies that CalSTRS' ability to correct benefits is not limited by these overpayment recovery provisions.
- Repeals the requirement that, in instances of employer error, CalSTRS must collect the difference between the actuarial value of the expected payments and the total amount overpaid from the employer.
- Makes other various technical and conforming changes, as required.

Discussion

AB 1667 addresses the denial of due process rights to members in the systemic population affected by employer audit findings by providing a mechanism for CalSTRS to know which members those are. Under the bill, all members affected by an audit receive the final audit report and notice of the window period to request an administrative hearing if they disagree with the final audit report. By extending due process rights to these systemic population members, AB 1667 helps to ensure equity for members in CalSTRS' audit appeals process.

In addition, the bill places new responsibilities on CalSTRS to include the exclusive representative in the audit process and post final employer audit reports online, requiring CalSTRS to modify existing practices. CalSTRS typically provides an opportunity to submit responses to preliminary audit findings during a 15- or 30-day window. This bill requires a minimum window of 60 days, lengthening the overall audit timeline and making it more challenging to meet the audit standard of timeliness. CalSTRS staff are already preparing to post final employer audit reports to CalSTRS.com as part of a continuing effort to improve communications about the audit process with members, employers and stakeholders.

While CalSTRS staff currently provide training and informal guidance to employers on a regular basis, the new formal process for advisory letters is expected to significantly increase workload for benefits and legal staff. Given the numerous factors that contribute to how compensation is reportable, each request for an advisory letter will need to be reviewed for the unique circumstances of the compensation in question. Employers may be incentivized by the bill to submit requests for formal advisory letters on numerous compensation questions to avoid liability for reporting errors. As such, the volume of advisory letters resulting from the bill, while unknown, is expected to be high. Notably, however, the new advisory letter process, in combination with enhanced resources to interpret and clarify the applicability of creditable compensation and creditable service laws, is expected to improve employer understanding of CalSTRS reporting requirements and improve consistency of guidance provided by staff, both of which are expected to improve the accuracy of benefits for CalSTRS members.

For occasional instances when benefit overpayments continue to occur, AB 1667 assigns the cost to the party responsible for the error that caused the overpayment, except in instances of CalSTRS error, in which case the overpayment must be recovered from the General Fund and employers, as

specified. While this reduces the burden of overpayments on retired members for errors that were not their fault, it also increases costs and legal risks. The bill is likely to increase litigation over the proper assigning of liability for reporting errors. At the same time, if AB 1667 is successful in reducing the number of benefit errors, CalSTRS may also experience decreased costs associated with processing benefit adjustments and collecting overpayments.

Overall, despite the challenges and additional costs and responsibilities created by AB 1667, there are several aspects of the bill that improve clarity and understanding of compensation reporting and transparency around the audit process for members, employers and exclusive representatives. As such, AB 1667 builds on CalSTRS ongoing efforts to improve benefit reporting, build trust and ensure the accuracy of our member's retirement benefits.

LEGISLATIVE HISTORY

SB 278 (Leyva, Chapter 331, Statutes of 2021) provided that, when a CalPERS pension is reduced postretirement, due to the inclusion of compensation agreed to under a collective bargaining agreement that is later determined to be disallowed, the employer must cover the difference between the pension as originally calculated and as reduced by CalPERS.

AB 2260 (Assembly PER&SS, Chapter 207, Statutes of 2010) brought CalSTRS into compliance with federal law that requires members to be paid a "definitely determinable" benefit by requiring overpayments above the "definitely determinable" benefit that could not be collected from the member to be collected from the employer when the overpayment was made due to employer error.

SB 627 (Assembly PE&R, Chapter 859, Statutes of 2003) extended CalSTRS' authority to recover overpayments from subsequent benefits and the associated limitations on recovery of overpayments to the Cash Balance Benefit Program.

AB 2700 (Lempert, Chapter 1021, Statutes of 2000) extended CalSTRS' authority to recover overpayments from subsequent benefits and the associated limitations on recovery of overpayments to the DBS Program.

SB 2682 (Green, Chapter 739, Statutes of 1988) set a three-year statute of limitations on actions by or against CalSTRS for adjustments of errors or omissions for purposes of payments into or out of the retirement fund and provided for the application of that period to erroneous payments.

AB 62 (Elder, Chapter 1006, Statutes of 1986) restricted the collection of overpayments from subsequent benefits to no more than 5% if the overpayment was due to system or employer error and no more than 15% if the error was due to inaccurate or nonsubmission of information by a benefit recipient. The bill also required a report to the board with specified information regarding overpayments and underpayments.

AB 3191 (Bannai, Chapter 314, Statutes of 1978) authorized the board to assess penalties and interest on employers for late or improper adjustments and required employers to reimburse the system for any disbursements that resulted from erroneous employer information.

AB 1481 (Bannai, Chapter 659, Statutes of 1977) required CalSTRS to recover overpayments made to or on behalf of a benefit recipient or former member to be collected from subsequent

benefits instead of from the death benefit and permitted that recovery to occur simultaneously with any suit for restitution by the system.

SB 854 (Marler, Chapter 742, Statutes of 1973) required CalSTRS to collect overpayments not recovered before or immediately following the death of a benefit recipient or former member from a death benefit payable by the system. The bill also provided that losses or gains resulting from overpayments or underpayments must be debited or credited to the appropriate reserve in the Teachers' Retirement Fund.

PROGRAM BACKGROUND

Employer Reporting

Compensation is negotiated and structured in a variety of ways by more than 1,700 CalSTRS employers statewide. For example, an agreement used by one employer might include payments for years of experience and educational attainment as part of the salary schedule, while another employer may pay a flat stipend explicitly in addition to salary for the same purpose. The manner in which compensation is structured, described and paid, and not just its purpose, is important in assessing proper reporting for CalSTRS purposes.

Due to the volume of reporting CalSTRS receives from employers, it is impossible to review all reported pay for accuracy. Therefore, CalSTRS relies on employers to provide accurate reporting. To help employers apply the creditable compensation laws and regulations and clarify reporting requirements, CalSTRS staff regularly provide Employer Directives, Employer Circulars, training and point-in-time assistance on these topics. Additionally, CalSTRS has embarked on a pension administration system modernization effort, which has a primary goal of ensuring the most accurate reporting from employers. Once the pension administration system is complete, it is expected to reduce errors and the need for benefit adjustments.

Recoupment of Overpayments

After a member's or beneficiary's benefit effective date, CalSTRS may receive additional information or discover an error that reduces the benefit for the remainder of the member's or beneficiary's lifetime. Although benefit overpayments affect a very small portion of CalSTRS' total benefit recipients, these types of errors can be difficult for those affected because, in addition to the reduced benefit, CalSTRS reduces the monthly allowance by an additional percentage in order to recoup overpaid amounts. For each fiscal year from 2016-2017 through 2020-2021, between 0.4% and 1.2% of members receiving an unmodified service retirement benefit from CalSTRS experienced a decrease in their benefit that then resulted in an overpayment. Additionally, most benefit adjustments are made within the first year following a benefit effective date. For the same timeframe, the median estimated overpayment was less than \$250, and the median reduction to a member's unmodified monthly allowance was less than \$5.

FISCAL IMPACT

Program Costs/Savings – From the 2016-17 through 2020-21 fiscal years, at least some portion of approximately 50% of the total number of overpayments made to members retired more than three years was written off indicating that the overpayment was likely a result of system error and

uncollectable based on CalSTRS' statute of limitations.² Based on the time period analyzed, if 50% of the all overpaid amounts were determined to be system error, under AB 1667, CalSTRS would have been required to annually collect approximately \$225,000 to \$450,000 proportionately from all employers and approximately \$1.28 million to \$2.55 million from the state. An average annual amount of approximately \$500,000 would have continued to be uncollectable due to the statute of limitations, and the remaining \$2 million to \$3.5 million would have been collected annually from employers, mainly K-12 school districts and community college districts, due to a determination that the overpayment was the result of employer error.

Administrative Costs/Savings – Increased upfront and ongoing costs, including a need for additional staff, to create a process and work units to review and provide advisory letters on compensation, implement changes to the audit resolution and appeals processes, and collect overpayments from employers and the state. This includes hiring approximately 12 additional benefits program staff, seven additional legal staff, three additional audit services staff and 13 additional financial services staff at a cost of approximately \$5.1 million annually. Required administrative system changes would create unknown, but likely significant, costs and delays for the new pension administration system and additional costs for the accounting and legacy pension administration systems.

SUPPORT

California Teachers Association (Sponsor)
California Retired Teachers Association (Sponsor)
California County Superintendents Educational Services Association (Sponsor)
Amador County Unified School District
Association of California Community College Administrators
Association of California School Administrators
Association of California Suburban School Districts
California Alliance for Retired Americans
California Association of School Business Officials
California Association of Suburban School Districts
California Federation of Teachers, AFL-CIO
California Labor Federation, AFL-CIO
California School Employees Association
County Departments of Education: Orange and Tehama
County Offices of Education: Alameda, Calaveras, Colusa, Contra Costa, El Dorado, Fresno, Humboldt, Imperial, Kern, Lake, Lassen, Los Angeles, Madera, Marin, Mariposa, Mendocino, Merced, Mono, Monterey, Napa, Placer, Plumas, Riverside, Sacramento, San Benito, San Diego, San Joaquin, San Mateo, Santa Barbara, Santa Clara, Solano, Tehama, Trinity, Ventura, Yolo and Yuba

² The 2016-17 through 2020-21 fiscal years included fairly significant data clean-up efforts to prepare for the new pension administration system. In addition, these years captured an instance of delayed legislative implementation that created a number of overpayments that were written off by some amount. With data clean-up efforts removed from the analysis, approximately 24% of the overpayments were written off by some amount. With both data clean-up and the delayed legislative implementation removed, that proportion would be reduced to approximately 4%. Therefore, the fiscal years included in the analysis may include a higher proportion of overpayments deemed to be system error than a "typical" fiscal year.

County Superintendents of Schools: Fresno, Kern, Nevada, Riverside, San Bernardino and Tuolumne
Delta Kappa Gamma California
Faculty Association of California Community Colleges
Plumas Unified School District
School Employers Association of California
Small School Districts' Association

OPPOSITION

Department of Finance

ARGUMENTS

- Pro: Reduces the burden of benefit overpayments for members.
- Provides appeal rights to members that are part of the systemic population for an employer audit finding.
- Increases transparency and access to employer audits.
- Provides a process for employers and exclusive representatives to obtain written guidance from CalSTRS.
- Con: Results in increased costs to the system, employers and the state and requires additional CalSTRS staffing resources.

LEGISLATIVE STAFF CONTACT

Meredith Bartles
Plan Design Specialist,
CalSTRS Governmental Relations,
(916) 414-1982
mbartles@calstrs.com

John Maradik-Symkowick
Manager,
CalSTRS Governmental Relations,
(916) 414-1977
jmaradik-symkowick@calstrs.com

Joycelyn Martinez-Wade
Director,
CalSTRS Governmental Relations,
(916) 414-1980
jmwade@calstrs.com

Limits

Learn more about these limits in the [Member Handbook](#).

Compensation cap for the Defined Benefit and Cash Balance Benefit programs

CalSTRS 2% at 60 members

Internal Revenue Code section 401(a)(17) limits the amount of compensation CalSTRS can base a retirement benefit on. You and your employer do not contribute to CalSTRS for pay you receive above these fiscal year compensation caps:

- July 1, 2021–June 30, 2022: \$290,000
- July 1, 2022–June 30, 2023: \$305,000

CalSTRS 2% at 62 members

You and your employer do not contribute to CalSTRS for pay you receive above fiscal year compensation caps that are adjusted each July based on changes in the Consumer Price Index for All Urban Consumers: U.S. City Average:

- July 1, 2021–June 30, 2022: \$154,418
- July 1, 2022–June 30, 2023: \$166,617

Section 415(b)

International Revenue Code section 415(b) limits the dollar amount CalSTRS can pay for a retirement benefit, indexed for inflation.

- For calendar year 2022, the dollar limit is \$245,000 at age 60
- For calendar year 2023, the dollar limit is \$265,000 at age 60

The limit is lower below age 60 and higher above it.

Postretirement earnings limit

If you work while receiving a CalSTRS retirement benefit, you're subject to fiscal year earnings limitations:

- July 1, 2022–June 30, 2023: \$49,746
- July 1, 2023–June 30, 2024: \$50,655

Learn about other important limitations when working after retirement on the [Working After Retirement](#) fact sheet.

Disability earnings limit: Coverage B

You can earn income after receiving a Coverage B disability benefit but earnings from all your employment, including self-employment, are subject to this limit unless you're participating in an approved CalSTRS rehabilitation plan.

The calendar year earnings limit is determined each year.

- For 2022, the limit is \$34,350
- For 2023, the limit is \$37,200

If you're receiving a disability benefit under Coverage A, [contact us](#) for your current year limits.



California Public Employees' Retirement System
P.O. Box 942715 | Sacramento, CA 94229-2715
888 CalPERS (or 888-225-7377) | TTY: (877) 249-7442
www.calpers.ca.gov

Payroll

Circular Letter

January 3, 2023
Circular Letter: 200-001-23
Distribution: IV, V, VI, X, XII, XVI

To: All CalPERS Employers
Subject: 2023 Compensation Limits for Classic and PEPRAs Members

Purpose

The purpose of this Circular Letter is to inform you of the 2023 compensation limits for classic and Public Employees' Pension Reform Act (PEPRA) members and provide guidelines for how to report payroll when Internal Revenue Code (IRC) or PEPRA limits have been reached in a calendar year. IRC section 401(a)(17) provides an annual compensation limit considered under a qualified retirement plan for some classic members. Government (Gov.) Code section 7522.10 of the PEPRA law provides the authority for the earnings limit for all PEPRA members.

You should notify all classic or PEPRA members who are subject to the compensation limit requirements.

Compensation Limits

Classic Members

The compensation limit for classic members for the **2023 calendar year is \$330,000**. Employees with membership dates prior to July 1, 1996, are not impacted by these limits.

The compensation limits for classic members during calendar years 2019 through 2022 are:

2022	2021	2020	2019
\$305,000	\$290,000	\$285,000	\$280,000

PEPRA Members

The compensation limit for PEPRA members for the 2023 calendar year is:

Year	Social Security Participants	Non-Social Security Participants
2023	\$146,042	\$175,250

The compensation limits for PEPRA members during calendar years 2019 through 2022 are:

Year	Social Security Participants	Non-Social Security Participants
2022	\$134,974	\$161,969
2021	\$128,059	\$153,671
2020	\$126,291	\$151,549
2019	\$124,180	\$149,016

Reporting Guidelines

Compensation limits for both classic and PEPRA members do not limit the salary an employer can pay; they limit the amount of compensation that can be considered under the defined benefit plan.

For classic members, report compensation earnable to the California Public Employees' Retirement System (CalPERS); for PEPRA members, report pensionable compensation to CalPERS. For classic and PEPRA members, contributions should not be made on compensation that exceeds the limit for each calendar year. All contributions should be reported as earned and **not** when paid¹. In addition, exclude items such as overtime, automobile allowances, and lump-sum payouts for all compensation reported.

You are responsible for monitoring when an employee meets or exceeds the limit. Once an employee reaches the compensation limit, you must continue reporting compensation as earned; however, employer and employee contributions should not be reported for the remaining calendar year. myCalPERS will track classic and PEPRA member earnings over multiple CalPERS contracting agencies. Therefore, if a member is hired in the middle of the year from another CalPERS agency, myCalPERS will notify the current employer when the member reaches or exceeds the compensation limit. Monitoring and contribution reporting begin on January 1 of the calendar year. The end date of the payroll earned period determines which calendar year the period falls.

¹ Pursuant to Gov. Code section 20630, when compensation is reported to the board, the employer shall identify the pay period in which the compensation was earned regardless of when reported or paid.

Federal law does not permit CalPERS to refund over-reported contributions to an active CalPERS member. You must report these adjustments and refund the money to the employee once the adjustments have posted.

Impact on Final Compensation

For classic members, final compensation is the highest average annual compensation earnable for a 12- or 36-consecutive month employment period, depending on your contract.

Classic members' retirement allowances are subject to final compensation limits under IRC section 401(a)(17). The calculation of each 12-month period will be subject to the annual compensation limit in effect for the calendar year in which the 12-month period begins. If final compensation exceeds 12 months, each 12-month period is calculated based on the applicable annual compensation limit for that 12-month period.

For PEPRA members, final compensation is the average annual pensionable compensation for a 36-consecutive month employment period.

PEPRA members' retirement allowances are subject to pensionable compensation limits under Gov. Code section 7522.10. The pensionable compensation limit — used to calculate final compensation — is calculated based on the limit in effect for each calendar year and the number of days per year included in the final compensation period.

Online Training & Resources

The myCalPERS Payroll: Reporting Earnings Over the Compensation Limit online class is available for employers. This class provides instruction on how to report payroll information when the compensation limit has been reached. To enroll in the class, log in to your [myCalPERS](#) account and select the **Education** tab.

The Reported Compensation by Calendar Year Cognos reports can be used to identify and track employees nearing the compensation limits.

Questions

If you have any questions, call our CalPERS Customer Contact Center at **888 CalPERS** (or **888-225-7377**).

Renee Ostrander, Chief
Employer Account Management Division

FISCAL REPORT

PUBLIC EDUCATION'S POINT OF REFERENCE FOR MAKING EDUCATED DECISIONS

CalPERS Rates Projected to Increase



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The California Public Employees’ Retirement System (CalPERS) revised its projected out-year employer contribution rates as of June 30, 2021, and has again adjusted its estimates for future employer contribution rates with increases beginning in 2023-24 as follows:

Year	Prior Adopted Rates per CalPERS	New Projected Rates per CalPERS Actuarial Report ¹
2022-23	25.37%	25.37%
2023-24	25.20%	27.00%
2024-25	24.60%	28.10%
2025-26	23.70%	28.80%
2026-27	22.60%	29.20%
2027-28	22.60%	30.70%

¹[CalPERS Schools Pool Actuarial Valuation Report](#)

The employer contribution rates are influenced by the CalPERS amortization and smoothing policy, which spreads rate changes over a five-year period, as well as changes in actuarial assumptions such as retirement rates, termination rates, mortality rates, rates of salary increase, and inflation.

The CalPERS Board is set to adopt the 2023-24 employer contribution rate at its Board meeting in April. Meanwhile, School Services of California Inc. (SSC) recommends that the above updated rates should be used for local educational agency Second Interim reporting. These rates have been included in our 2023-24 Governor’s Budget SSC Financial Projection Dartboard.