Sonoma County Office of Education
Business Services

EXTERNAL PAYROLL AND FINANCE UPDATES
DBUG MEETING: APRIL 18, 2019

UPDATES:

REQUIRED Addon Review and Clean-Up:

The best method to ensure creditable compensation is reported to CalSTRS and CalPERS in compliance with retirement law, is to review addons, comparing the set up in Escape to the LEA's Contract/Agreement/MOU and to snap the employee's pay each time employee's pay is changed.

In light of the recent CalSTRS and CalPERS audits and audit findings in Sonoma County, SCOE is requiring all LEAs review and clean-up of addons. IT has calendared 2-hour sessions in May, June and July in a google doc. This calendar will be shared with CBOs and Payroll Technicians. To sign up, add your name in the available session. SCOE IT will send out a list of the LEAs active addons that need to be reviewed and the google doc completed prior to the Addon Review Session. Both the Payroll Technician and the CBO are encouraged to attend.

GC 20630 Requires Reporting Compensation as Earned for CalPERS Purposes *(see attached CalPERS Circular Letters 200-204-05 and 200-006-07):*

Government Code Section 20630 requires employers to identify the pay period in which compensation is earned, regardless of when it is paid or reported to CalPERS. The method used in Escape to best meet the requirement for employees that work only a portion of the month either at the onset of the fiscal year or at the close of it (but not warranting a full monthly payment) is to set them up on a "Pay the Actual Days" calendar. This compensates the employees for the days worked in the partial month at the beginning or end of the fiscal year, reporting compensation earned in each month worked.

The reason this is so important is because the final compensation calculation is based on the average 12 consecutive months of **pay rate**. Circular Letter 200-006-07 provides an example of how not reporting an employee's compensation earned in a month actually lowers their final compensation. Final compensation is determined by adding all 12 consecutive months of pay rate data and dividing it by 12. .

Email the helpdesk and the IT team can assist with the calendar and pay cycle set up to bring the LEA into compliance and to provide a correct final compensation amount for employees.

Erin Graves, Director External Payroll and Finance

Reporting Member and Employer CalSTRS Contributions *(see attached CalSTRS Employer Information Circular Volume 34; Issue 3):*
"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."

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*
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 retirees."

CalSTRS New Pension Solution Project Update:
CalSTRS New Pension Solution Project is scheduled to soft launch in late 2019/early 2020. This will be a non-production environment for employers providing employer education and training. Full implementation scheduled for late 2021.

Over the next few months, CalSTRS Employer Readiness Team will be communicating with Escape to get tentative timelines on the systems changes and deployments. When there is additional information from Escape and CalSTRS that impacts the LEA, we will let you know.

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CalPERS 75 Years

Date: April 5, 2007
Reference No.:
Circular Letter No.: 200-006-07
Distribution: **XII, XVI**
Special:

Circular Letter

TO: COUNTY SUPERINTENDENT OF SCHOOLS AND INDIVIDUAL SCHOOL DISTRICTS

SUBJECT: EXAMPLE OF REPORTING COMPENSATION AS EARNED DURING JULY AND AUGUST

CalPERS provides school employers the following information regarding reporting compensation for July and August due to continued noncompliance in reporting methods. The purpose of this Circular Letter is to emphasize proper reporting of payroll for employees who work any days during July or August and illustrate how incorrect reporting can impact your employees' final compensation and the payment of retirement benefits.

The California Government Code Section 20630 requires that employers identify the pay period in which compensation was earned, regardless of when it is paid or reported to CalPERS. This means payroll must be reported for employees who are compensated for time worked in the summer months of July and August, even if they are paid for that time in another month.

For more information on the subject of reporting compensation as earned, please refer to Circular Letter 200-204-05, dated January 19, 2005 on our Web site, and *Government Code Section 20630.* This section states in part: "...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..."

Reporting compensation as earned impacts the calculation of retirement benefits. Final compensation is based on the average 12 consecutive months of payrate data received from the employer, irrespective of actual earnings. The final compensation is determined by adding all twelve consecutive months of payrate data and dividing by 12. Following are two examples of an employee that works two days in August, one of the "summer months."

Example #1 demonstrates the employer correctly reporting the two days of compensation earned in August on the August payroll. This employee's final compensation calculation will include reported payrates for 11 months due to the payrate reported in the month of August.

Example #1 – Correct Reporting of Compensation as Earned:

Month	Payrate	Earnings	Service Credit
July	$0.00	$0.00	0.000
August	$2,600.00	$236.00	0.090
September	$2,600.00	$2,484.00	0.955
October	$2,600.00	$2,484.00	0.955
November	$2,600.00	$2,484.00	0.955
December	$2,600.00	$2,484.00	0.955
January	$2,600.00	$2,484.00	0.955
February	$2,600.00	$2,484.00	0.955
March	$2,600.00	$2,484.00	0.955
April	$2,600.00	$2,484.00	0.955
May	$2,600.00	$2,484.00	0.955
June	$2,600.00	$2,484.00	0.955
Totals	**$28,600.00**	**$25,076.00**	**.964**

Final Compensation $28,600.00 divided by 12 = $2,383.00

Example #2 shows the employer incorrectly reporting the two days of compensation earned by combining the two days worked in August on the September payroll. This employee's final compensation calculation will not include the payrate that should have been reported in the month of August and will result in a final compensation amount that is $216.00 lower than the correct reporting method.

Example #2 – Incorrect Reporting of Compensation as Paid:

Month	Payrate	Earnings	Service Credit
July	$0.00	$0.00	0.000
August	$0.00	$0.00	0.000
September	$2,600.00	$2,720.00	1.040
October	$2,600.00	$2,484.00	0.955
November	$2,600.00	$2,484.00	0.955
December	$2,600.00	$2,484.00	0.955
January	$2,600.00	$2,484.00	0.955
February	$2,600.00	$2,484.00	0.955
March	$2,600.00	$2,484.00	0.955
April	$2,600.00	$2,484.00	0.955
May	$2,600.00	$2,484.00	0.955
June	$2,600.00	$2,484.00	0.955
Totals	**$26,000.00**	**$25,076.00**	**.964**

Final Compensation $26,000.00 divided by 12 = $2,167.00

As illustrated by the two examples, correctly reporting compensation in the pay period in which it was earned will result in a correct final compensation amount for this employee, because payrate is reported for 11 months of the final compensation period instead of ten. We hope you find this clarification helpful. If you have questions, please call our Employer Contact Center toll free at **888 CalPERS** (or **888**-225-7377).

Lori McGartland, Chief
Employer Services Division

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Date: January 19, 2005
Reference No.:
Circular Letter No.: 200-204-05
Distribution: I, IV, V, VI, X, XII, XVI, XIX
Special:

Circular Letter

TO: STATE AGENCIES, CONTRACTING EMPLOYERS, CALPERS-AFFILIATED EMPLOYEE AND RETIREE ASSOCIATIONS, AGRICULTURAL DISTRICTS, STATE COLLEGES AND UNIVERSITIES, COUNTY SUPERINTENDENTS OF SCHOOLS, AND INDIVIDUAL SCHOOL DISTRICTS

SUBJECT: REPORTING COMPENSATION AS EARNED

The California Government Code requires that employers identify the pay period in which compensation was earned, regardless of when it is paid or reported to the California Public Employees' Retirement System (CalPERS). This is true whether the compensation being reported is the member's base pay or special compensation. The Government Code also specifies that the payrate reported is the monthly rate of pay or the base pay of the member paid pursuant to publicly available pay schedules. Payrate cannot include special compensation.

CalPERS is finding that employers are reporting special compensation on a prospective basis, that is before it has actually been earned. Effective immediately all compensation reported to CalPERS is to be reported as earned. Special compensation must be reported separately as earned, without lump sums or prospective payments and is not to be included in payrate. The *CalPERS' Procedures Manual* and Web site are being updated to clarify these requirements.

CalPERS relies on the information reported by employers to provide services such as retirement estimates, benefit payments and for setting the employer contribution rates. Failure to properly report information to CalPERS can result in inflated benefit payments which would cause an adjustment to the retiree's benefits plus the need to recover the benefit overpayment. Please make sure that all information reported is complete, accurate and timely.

The California Government Code sections, in pertinent part, are attached. If you have questions please call our Employer Contact Center toll free at **888 CalPERS** (or **888**-225-7377).

Lori McGartland, Acting Chief
Actuarial and Employer Services Division

Attachment

CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

Employer Information Circular

Volume 34; Issue 3 **May 8, 2018**

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
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 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.