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Special:

**TO: COUNTY SUPERINTENDENT OF SCHOOLS AND
INDIVIDUAL SCHOOL DISTRICTS**

**SUBJECT: IMPLEMENTATION OF CHAPTER 1030 (AB 2177, Statutes of
2000)**

This Circular Letter is designed to assist you in implementing Chapter 1030 (AB 2177, Statutes of 2000), which will become effective January 1, 2001.

In part, this bill will (1) clarify and standardize reporting of compensation and retirement service of school employees, (2) hold school employers accountable for failure to report as required, and (3) eliminate the \$133.33 contribution and benefit offset for those school members who are covered by social security.

SERVICE CREDIT AND CONTRIBUTION

A member's service retirement benefit is calculated based on the member's age, service credit, and final compensation. Service credit and final compensation are both derived from the payrate and earnings reported by the employer. Generally, each employee's "payrate" – the amount per hour, day or month the employee is paid – is compared to actual reported earnings to determine the amount of service credit the employee has earned. A full year of service is credited for services rendered and compensated on a full time basis pursuant to Government Code Section 20962, which states in part "... (b) Ten months of service for persons employed on a monthly basis; (c) Two hundred fifteen days of service after June 30, 1951, and 250 days prior to July 1, 1951, for persons employed on a daily basis; (d) One thousand seven hundred twenty hours of service after June 30, 1951, and 2,000 hours prior to July 1, 1951, for persons employed on an hourly basis...". The reported payrate for the highest consecutive twelve or thirty-six months is used to determine the member's final compensation.

Existing law provides that "overtime" is not to be reported as compensation. Compensated work in excess of the hours considered normal for employees on a full-time basis is considered overtime work pursuant to Government Code Section 20635.

As a result of Chapter 1030, Government Code Sections 20635.1 and 20636.1 will be added to the Public Employees' Retirement Law effective January 1, 2001. These government code sections may alter the way you report payroll to CalPERS. In part, this

bill specifies that for school members of CalPERS, overtime is the service performed by the employee in excess of 40 hours of work per week for which compensation is received. It also provides clarification that payments received by part-time school members for additional services rendered, not to exceed 40 hours per week, will be reportable; and compensation earnable shall be reported for all months of the year in which work is performed. Please note that Section 45102 of the Education Code has no authority to determine what is reportable compensation for CalPERS purposes. School employers should not rely on the Education Code to continue previous reporting practices that are in conflict with the Public Employees' Retirement Law, CalPERS policies and procedures.

Effective 1/1/01, school employers will be required to report all earnings up to 40 hours per week. Hours in excess of 40 hours per week are considered overtime and are not reportable to CalPERS.

School employers, who had considered a "normal work schedule" as less than 40 hours per week and considered additional hours worked above the "normal work schedule" as overtime, must begin reporting additional hours worked (not to exceed 40 hours) as compensation.

FAILURE TO REPORT AS REQUIRED

Government Code Section 20831.1 imposes a \$500 per member administrative charge, if a school employer fails or refuses to report an employee's compensation earnable as required.

ELIMINATION OF SOCIAL SECURITY OFFSET

Under current law, school members who are also covered by Social Security pay 7% of their monthly earnings in excess of \$133.33 as their retirement contribution. When a school member retires, the retirement allowance is based upon the member's length of service, a percentage rate based on the member's age at retirement, and the member's average monthly salary over the 12 months preceding retirement, less \$133.33.

This bill will eliminate the social security offset for retirement contributions and benefit payments for school members of CalPERS, **who are coordinated with social security**, for service rendered on and after January 1, 2001. School members coordinated with social security will continue to be subject to the social security contributions, and will remain subject to the 25% Post Retirement Survivor Allowance. School members **not coordinated with social security** will not be impacted by this change.

Implementation of AB 2177 will require the creation of a new coverage group for all school members who are coordinated with Social Security **and** are in employment on or after January 1, 2001.

All transactions for such employees submitted with effective dates of 1/1/2001 or later must use the new coverage group. Coverage group 60004 has been established for these employees (i.e., currently 60002).

For payroll reporting purposes, the new coverage group (60004) must be used for all pay

periods **ending on or after January 1, 2001** and should be based on a flat 7% employee contribution rate **without** the \$133.33 modification. Any payroll transactions or adjustments for periods **prior to January 1, 2001** will need to be reported under the previous coverage group (60002) and contributions will be based on a 7% employee contribution rate **with** the \$133.33 modification, if possible. CalPERS will allow employers to use the new coverage group (60004) for retroactive salary adjustments (contribution codes 05/15) and prior period adjustments (contribution codes 03/13) with effective dates prior to January 1, 2001 if the employer is unable to systematically report these transactions using the 60002 coverage group.

Employers anticipating difficulty in changing/modifying their current payroll reporting systems and processes before the first pay period ending on or after January 1, 2001 should contact Olivia Castro at (916) 558-4062 to arrange for special handling. Please contact us no later than January 31, 2001 if you anticipate any difficulty in implementing these changes.

REPORTING MEMBER TRANSACTIONS

For your **current** employees, it will **not** be necessary for you to submit a "Coverage Group Change" to CalPERS (with the one exception noted below). CalPERS will perform the Coverage Group conversion (in mid to late February 2001) for all school members that, as of the date of conversion, have one of the following statuses on CalPERS' databases:

- Active;
- Temporary Separation; or
- Leave of Absence (i.e., Military Leave, Worker's Comp Leave, Sabbatical Leave, or Maternity/Paternity Leave)

Therefore, you will **not** need to submit AESD-1¹ forms to change the Coverage Group for any employees in such status as of the conversion date.

For all transactions effective 1/1/2001 or later, you must use the new Coverage Group (60004). This will include reemployments of persons who are separated from CalPERS covered employment for other reasons (e.g., "Permanent Separation", or participation in a Section 20306 Alternate Retirement Plan) than those listed above.

Exception:

CalPERS **cannot** perform the coverage group conversion for employers who submit retroactive changes to CalPERS **after** the conversion has been done.

Example: A full-time permanent employee was hired effective 12/15/2000, and CalPERS did not receive an AESD-1¹ prior to the February conversion. In this case, the employer will need to:

- (1) Submit an "Appointment/Membership" AESD-1¹ effective 12/15/2000, using Coverage Group

60002, then

(2) Submit a "Coverage Group Change" AESD-1¹ effective 1/1/2001, using Coverage Group 60004.

MEMBER IMPACT

As a result of these legislative changes, school members may notice the following changes beginning January 1, 2001:

- An increase in the amount of member contributions being withheld due to the elimination of the social security offset. In most situations, this will result in an increased retirement allowance because the offset will no longer be used in the calculation of retirement benefits for service on or after January 1, 2001.
- Members whose normal work schedules are less than 40 hours per week and were previously reported as full time may notice a reduction in service credit and an increase in payrate. This increase in payrate increases the final compensation used in the calculation of retirement benefits. In most situations, this will result in an increased retirement allowance.

MEMBER EDUCATION

For your convenience, we have prepared the attached letter for distribution to all affected members.

We hope you find this information helpful to you and your employees. Questions regarding member and payroll reporting should be directed to the Actuarial and Employer Services Division at 888 CalPERS (or 888-225-7377).

Kenneth W. Marzion, Chief
Actuarial and Employer Services Division

¹Authorized school employers using either of CalPERS' electronic methods (Corporate Registration/COMET, or ACES), rather than sending in AESD-1 forms, will be provided instructions in a separate Circular Letter.