



Santa Clara County Office of Education

Jon R. Gundry  
County Superintendent of Schools

## Informational Bulletin

*For Santa Clara County Districts*

### District Business & Advisory Services

Kolvira Chheng: Director- DBAS: 408-453-6599

Bulletin: 15-016

Date: November 12, 2014

To: District Chief Business Officers  
District Fiscal Directors  
Human Resource and Payroll Staff

From: Nghia Do, Advisor, DBAS

Re: Circular Letters: 200-062-14, 200-063-14, 200-064-14 and 200-065-14

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The purpose of this bulletin is to distribute the circular letters from California Public Employees' Retirement Systems (CalPERS)

- **Circular Letter 200-062-14:** Governmental Accounting Standard Board (GASB) Statement 68 Update
- **Circular Letter 200-063-14:** AB 2472 Legislative Changes to Government Code 20533 Related to Employer Contribution Rates for Payroll Adjustments and Arrears
- **Circular Letter 200-064-14:** Common Misreported Items of Compensation
- **Circular Letter 200-065-14:** Common Membership Findings Found in CalPERS Public Employer Reviews

*Please distribute this information within your District as deemed appropriate.*



California Public Employees' Retirement System  
P.O. Box 942709  
Sacramento, CA 94229-2709  
(888) CalPERS (or 888-225-7377)  
TTY: (877) 249-7442  
[www.calpers.ca.gov](http://www.calpers.ca.gov)

Reference No.:  
Circular Letter No.: 200-062-14  
Distribution: VI, X, XII, XVI  
Special:

## Circular Letter

October 22, 2014

**TO: PUBLIC AGENCY EMPLOYERS, CALIFORNIA STATE UNIVERSITIES,  
SCHOOL EMPLOYERS, AND SCHOOL DISTRICTS**

**SUBJECT: GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)  
STATEMENT 68 UPDATE**

The purpose of this Circular Letter is to provide employers with an update, and request information related to the Governmental Accounting Standards Board (GASB) Statement No. 68. In June 2012, the GASB issued Statement No. 68, which revises and establishes new financial reporting requirements for governments that provide their employees with pension benefits.

GASB 68 is effective for financial statements for fiscal years beginning after June 15, 2014. For Public Employees' Retirement Fund (PERF), GASB 68 classifies employers as cost-sharing and agent. A cost-sharing multiple-employer plan (cost-sharing plan) is one in which the participating employers pool their assets and their obligations to provide defined pension benefits, such as school employers and employers participating in public agency risk pools. An agent multiple-employer plan (agent plan) is one in which the assets of the employers are pooled for investment purposes but separate accounts are maintained for each individual employer. These plans at CalPERS are usually referred to as non-pooled plans. CalPERS has identified each of these classification of employers within the PERF.

CalPERS administers agent multiple-employer, cost-sharing multiple-employer plans (PERF) and single employer pension plans (Judges' Retirement Fund, Judges' Retirement Fund II, Legislators' Retirement Fund). The new GASB standards apply to all three of these types of plans.

Prior to implementing GASB 68, employers participating in a cost-sharing multiple-employer defined benefit pension plan (cost-sharing plan) administered by CalPERS did not need any additional information beyond what was included in CalPERS' audited financial statements. Similarly, employers participating in an agent multiple-employer defined benefit pension plan (agent plan) administered by CalPERS used information from the CalPERS funding actuarial valuation reports for accounting and financial reporting purposes, and this was sufficient for their reporting purposes.

With the implementation of GASB 68, employers will be required to recognize a liability as employees earn their pension benefits (that is, as they provide services to the government). For the first time, employers will recognize their net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense.

Participating employers will need additional information from CalPERS beyond what is currently provided in the funding actuarial valuation reports and audited financial statements to determine their specific pension amounts and related note disclosures.

CalPERS intends to provide the additional information that will be needed by employers to meet financial reporting needs. Actuarial reports are scheduled to be available to employers in the spring of 2015 for fiscal years beginning after June 15, 2014. The information will be provided on a fee for service basis with the fee expected to be set in early 2015.

To assist employers in preparing for GASB 68, CalPERS has provided the following methods for communicating information pertaining to GASB 68:

- Refer to the following website for more detailed information and Frequently Asked Questions:  
<http://www.calpers.ca.gov/index.jsp?bc=/employer/actuarial-gasb/home.xml>
- Specific questions not addressed on the website can be e-mailed to:  
[CalPERS\\_GASB\\_68@calpers.ca.gov](mailto:CalPERS_GASB_68@calpers.ca.gov)
- A webinar will be scheduled in early 2015. The exact date and time will be posted on the website listed above.

We also urge each employer to begin having discussion with their auditors regarding GASB 68. To help CalPERS plan for GASB 68 work, CalPERS requests that each employer respond by December 1, 2014 with the following information via the e-mail address provided above:

1. Provide year end close dates. This information is necessary to understand the variety of reporting requirements that CalPERS will need to prepare.
2. Respond with the likelihood of requesting CalPERS to provide GASB 68 reporting information.

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

CHERYL EASON  
Chief Financial Office



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Reference No.:  
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Distribution: IV, V, VI, X, XII, XVI  
Special:

## Circular Letter

October 24, 2014

**TO: ALL CALPERS EMPLOYERS**

**SUBJECT: AB 2472: LEGISLATIVE CHANGES TO GOVERNMENT CODE § 20533  
RELATED TO EMPLOYER CONTRIBUTION RATES FOR PAYROLL  
ADJUSTMENTS AND ARREARS**

The purpose of this Circular Letter is to update you on AB 2472 (Chapter 237, Statutes of 2014) and the resulting changes to Government Code (GC) § 20533 relating to historical employer contribution rates for adjustments.

AB 2472 was chaptered into law on August 21, 2014, and becomes effective on January 1, 2015. The amended law will read:

### **§ 20533. Employer Contribution Rate Applied to Compensation**

The employer contribution rate adopted under this part, or because of amendments to the contract or to this part, apply to all compensation upon the basis of which member's contributions are deducted after those employer contribution rates became or become effective.

If correction of the amount of compensation reported is required, the employer contributions shall be computed using the employer contribution rate in effect at the time that the compensation requiring adjustment was earned.

GC § 20533 of the Public Employees' Retirement Law governs the employer rate to be used when processing an adjustment to a payroll record. This change will affect your payroll generated receivables and the method in which arrears contributions (per GC §§ 20163 and 20283) will be calculated.

### **Payroll Reporting**

Beginning January 1, 2015, payroll records reported as a Prior Period Adjustment (PPA), Retro-Active Salary Adjustment (RSA) or Retro-Active Special Compensation Adjustment (RSC) will use the employer rate in effect at the time service was earned. The manner for reporting payroll through my|CalPERS will not change.

It is recommended that prior fiscal year adjustments be submitted after the scheduled January 19, 2015 system update, to ensure the appropriate contribution rate is applied. The my|CalPERS system will continue to apply 2014-15 fiscal year employer rates to calculate the employer share on adjustments until the system changes are implemented.

**Arrears Calculations**

Arrears calculations will also be prospectively impacted by this legislative change. Effective January 1, 2015, arrears calculations, adjustments, and billing will be placed on hold until the my|CalPERS system has been updated. Upon implementation of the my|CalPERS system changes, the arrears adjustments will be calculating the receivables using employer rates at the time the service was earned.

**System Implementation**

The my|CalPERS system is scheduled to be updated on January 19, 2015. Should this date be postponed, Business Partners will be notified through our normal communication channels.

If you have any questions, please call our CalPERS Customer Contact Center at **888 CalPERS** (or **888-225-7377**) or visit our website at [www.calpers.ca.gov](http://www.calpers.ca.gov).

RENEE OSTRANDER  
Acting Division Chief  
Customer Account Services Division



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Reference No.:  
Circular Letter No.: 200-064-14  
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Special:

## Circular Letter

October 27, 2014

TO: **ALL CALPERS EMPLOYERS**

SUBJECT: **COMMON MISREPORTED ITEMS OF COMPENSATION**

The purpose of this Circular Letter is to proactively provide information on the most common misreported items of compensation in an effort to mitigate employer errors and provide guidance on how to correctly report special pay items on behalf of a CalPERS member.

Special compensation, a component of compensation earnable, is applicable for classic members and is defined by Government Code (GC) sections 20636 and 20636.1 and California Code of Regulations (CCR) 571. Pensionable compensation is applicable for new members, those typically hired on or after January 1, 2013, and must meet the requirements defined by GC section 7522.34(a). More information regarding these requirements can be found in Circular Letter No.: 200-062-12.

The following are some of the most common special compensation reporting errors found during reviews of classic and new member accounts.

### **Longevity Pay**

The most common misreporting of Longevity Pay is when agencies combine this item with other criteria, such as employee performance. Longevity Pay, as defined in CCR 571(a), should not specify additional requirements other than the length of service with an employer or the length of time worked in a specified job classification that exceeds a minimum period of five years. In cases where additional criteria is required by an agency, the item would not meet the definition of special compensation as outlined in CCR 571(a) and will be excluded when calculating retirement benefits.

### **Holiday Pay**

The most common misreporting of Holiday Pay is when agencies report this special compensation item for employees that are not scheduled to work without regard to holidays. Holiday Pay, as defined by CCR 571(a)(5), is a statutory item and reportable to CalPERS for the purpose of calculating retirement benefits.

CCR 571(5) defines Holiday Pay, in relevant part, as the following:

**“Additional compensation for employees who are normally required to work on an approved holiday because they work in positions that require staffing without regard to holidays. . . .** For those employees with written labor agreements providing holiday credit and allowing employees to cash out accumulated holiday credit, the cash out must be done at least annually and reported in the period earned. . . . If an employee utilizes the cash out option only during his/her final compensation period, it will be considered final settlement pay and excluded from reportable compensation. If the cash out option is also utilized near his/her final compensation period, it may still be excluded. . . .”

Additionally, floating holidays and holiday pay that is paid to an employee that volunteers to work, bids for the option to work, or elects to work on a holiday does not meet the definition of Holiday Pay and therefore is not reportable to CalPERS. This item of compensation will be excluded when calculating retirement benefits.

#### **Uniform Allowance**

There are two common situations of misreporting Uniform Allowance. The first common reporting error is when agencies do not report the monetary value of uniforms provided. The monetary value of uniforms meets the definition of Uniform Allowance as outlined in CCR 571(a), and should therefore be reported to CalPERS. Additionally, the agency's written labor policy or agreement must indicate the conditions for payment and the monetary value of the uniform. The second common reporting error regarding Uniform Allowance is when agencies report this special compensation for unqualified items. As stated in CCR 571(a), Uniform Allowance “excludes items that are solely for personal health and safety such as protective vests, pistols, bullets, and safety shoes.” If an item is found to be used solely for personal health or safety, that portion of compensation will be excluded from calculating any retirement benefits.

\* This item is not reportable for new members as defined by GC 7522.04(f).

#### **Bonus**

The most common misreporting of a Bonus is when agencies provide a bonus that is not available to a member's group or class or is based on criteria other than superior performance. Bonus, as defined by CCR 571(a)(1) is “compensation awarded to employees for ‘superior performance’ or ‘merit pay’”. Additionally, “a program or system must be in place to plan and identify performance goals and objectives”. If there is no clear plan in place, the compensation item would not meet the definition of Bonus and would be excluded in calculating a retirement benefit. If this pay is provided only during a member's final compensation period, it will be considered Final Settlement Pay, and excluded from the member's final compensation calculation.

\* This item is not reportable for new members as defined by GC 7522.04(f).

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### **Temporary Upgrade Pay**

The most common misreporting of Temporary Upgrade Pay is when agencies report this item for employees who are only taking on a portion of an upgraded position while continuing to do their current duties. Temporary Upgrade Pay, as defined by CCR 571(a)(3) is "compensation to employees who are required by their employer or governing board or body to work in an upgraded position/classification of limited duration." When an employee maintains their current duties and takes on additional duties of an upgraded position, the additional duties meet the definition of overtime as outlined in GC 20635, and are not be reportable to CalPERS.

### **Final Settlement Pay**

A common misreporting of compensation is when agencies report amounts in the form of severance packages or 'golden parachutes' that are typically paid in the member's final year of service prior to retirement. This compensation meets the definition of Final Settlement Pay. Final Settlement Pay in any form is not considered reportable to CalPERS in either pay rate or special compensation. Additionally, even if an employer's MOU specifically states that the compensation is not Final Settlement Pay, the compensation will still be excluded in calculating a retirement benefit.

### **Compensation Paid for Items not Listed in CCR 571**

A common mistake is when agencies report items of compensation that are not included in the exclusive list of special compensation as outlined in CCR 571. Special compensation items listed in CCR 571(a) must meet all requirements listed in subsection (b), in order for the compensation to be reportable. Furthermore, CCR 571(c) states "Only items listed in subsection (a) have been affirmatively determined to be special compensation. All items of special compensation reported to PERS will be subject to review for continued conformity with all of the standards listed in subsection (b)." Any items reported to CalPERS that are not contained in the "exclusive list of specifically defined items of special compensation" do not meet the definition of compensation earnable and should therefore not be reported to CalPERS.

### **Publicly Available Pay Schedules**

The California Code of Regulations (CCR) 570.5 as contained in the California Public Employees' Retirement Law (PERL), provides the Requirement for a Publicly Available Pay Schedule. (a) For purposes of determining the amount of "compensation earnable" pursuant to GC sections 20630, 20636, and 20631.1, pay rate shall be limited to the amount listed on a pay schedule that meets all of the following requirements:

- "(1) Has been duly approved and adopted by the employer's governing body in accordance with requirements of applicable public meeting laws;
- (2) Identifies the position title for every employee position;
- (3) Shows the pay rate for each identified position, which may be stated as a single amount or as multiple amounts within a range;
- (4) Indicates the time base, including, but not limited to, whether the time base is hourly, daily, bi-weekly, monthly, bi-monthly, or annually;



- (5) Is posted at the office of the employer or immediately accessible and available for public review from the employer during normal business hours or posted on the employer's internet website;
- (6) Indicates an effective date and date of any revisions;
- (7) Is retained by the employer and available for public inspection for not less than five years; and
- (8) Does not reference another document in lieu of disclosing the pay rate."

Whenever an agency does not provide a Publicly Available Pay Schedule as defined in CCR 570.5, CalPERS will determine that the pay amount reported fails to meet the definition of pay rate as provided in GC sections 20636 (b)(1), 20636.1(b)(1) and 7522.34(a), and will therefore be excluded when calculating a member's retirement benefit.

#### **Impact on Final Compensation**

Any compensation in question will not be used in a member's retirement calculation until all issues regarding that reported item of compensation have been resolved.

GC section 20160 requires CalPERS to correct errors made by an employer or by the system. Once an error is discovered, CalPERS must take action to correct it and pay only those benefits authorized under the PERL.

The Public Agency & Schools Reference Guide, which is located on **CalPERS On-Line**, contains additional information. If you have any questions, please call our CalPERS Customer Contact Center at **888 CalPERS** (or **888-225-7377**).

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Customer Account Services Division



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DISTRICT BUSINESS AND  
ADVISORY SERVICES

October 27, 2014

## Circular Letter

TO: **ALL CALPERS EMPLOYERS**

SUBJECT: **COMMON MEMBERSHIP FINDINGS FOUND IN CALPERS PUBLIC EMPLOYER REVIEWS**

The purpose of this Circular Letter is to mitigate the most common Membership reporting errors found during an employer review and to provide information on how to correctly report eligible employees into CalPERS membership pursuant to the Public Employees' Retirement Law (PERL).

Whether or not an employee's position is eligible for CalPERS membership is based upon several different factors such as the type of position the employee will be working, whether or not the new employee is already a member of CalPERS and whether or not the employee's position is excluded from the employer's retirement contract or by the PERL.<sup>1</sup> It is important to ask these questions in order to make the correct decision regarding an employee's status.

### **Not Enrolling Employees Into Membership When Eligibility Was Met**

Employees appointed to a permanent/full-time or permanent /part-time (at least half-time) position qualify for immediate membership. Immediate membership will also apply if the full-time appointment is termed to exceed six months or part-time appointment (at least half-time) is termed at least a year or more.

### **Not Enrolling Less Than Full-Time or Part-Time/Temporary Employees Into Membership When Eligibility Was Met<sup>2</sup>**

Membership eligibility for less than full-time employees is whether they work 1,000 hours (even if paid on an hourly basis) or 125 days (if paid on a daily or per diem basis) in a fiscal year (July 1 through June 30). Per Government Code Section 20305(a)(3)(B) of the PERL, 125 eight-hour days equals 1,000 hours.

<sup>1</sup> See the CalPERS Reference Manual for more information about excluded positions.

<sup>2</sup> It is also important to note that Government Code section 20305(b) superseded any contract provision excluding persons in any temporary or seasonal employment basis.

If you have an employee working less than full-time, their hours must be monitored to determine when and if they qualify for membership. An employee qualifies for membership when the following occurs:

- No term (length) of appointment is specified in the appointment/employment, but full-time employment continues longer than six months.
- The person works more than 125 days in a fiscal year if paid on a "per diem" basis (i.e., "per day"). For this purpose, "day" means each 8 hours of compensated service; (e.g. a firefighter working a 24-hour shift is working 3 "days" per shift).
- The person works 1,000 hours in a fiscal year if paid on other than a per diem basis.

Included in the accumulation of hours is overtime and used leave credits to reach the 1,000 hours or 125 days. Leave during which the member is excused from working and paid vacation, sick leave, etc., is included in the 1,000 hours. Also, the work hours or work days subjected to Mandatory Furlough leave must be applied toward the accumulation of hours for membership eligibility purposes.

Additionally, if you are an agency that hires temporary employees through a staffing or third party agency and you have the right to control and direct their daily duties, you are required to monitor their hours for membership eligibility. These employees are most likely considered employees of your agency and must be treated as if they were directly hired by your agency.

**Part-time Employees With Prior Membership Were Not Enrolled Upon Hire**

If a person is currently a member of CalPERS (i.e., has contributions/service on account that have not been refunded), the person cannot be excluded from membership due to her/his time base (e.g., working less than 20 hours per week) or appointment length (e.g., 90 days)<sup>3</sup>.

Therefore, persons who are currently members of CalPERS do not need to re-qualify for membership and must be brought into membership upon the date of hire at your agency provided they are not excluded under the PERL or your agency's retirement contract with CalPERS. This applies even if their membership was established through employment with another CalPERS agency, or if they are not currently working (i.e., are on inactive status).

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<sup>3</sup> Unless membership exclusion applies to the position by contract or statutory provision (See the CalPERS Reference Manual for more information.)

### **Optional Membership for Elected Officials**

Optional membership is for those people who are appointed or elected to office, such as city council members, county board of supervisors, or City Mayor positions. Optional members are defined in Government Code Sections 20320 – 20327 of the PERL.

Optional members are also appointive officers of a city or county but not of a special district who occupy a fixed term of office. In most of these types of cases, the optional members earn full-time service credit.

In order for membership to be established in CalPERS, elective/appointed officers must elect in writing by submitting a signed Optional Member election form to CalPERS. It is very important that your agency offers the Optional Member election form at the date of appointment to elected officials at the agency and that the form is submitted to CalPERS timely. The elective or appointed officer is excluded from membership until he/she files a signed election form to become a member of CalPERS.

The election for membership is effective the date of the signed election form. If an elective/appointed officer changes optional positions, a new election document is required.

### **Affiliated Entity Employees Were Improperly Enrolled Into CalPERS Membership**

Government Code Section 20028(b) of the PERL defines an employee as: "(b) Any person in the employ of a contracting agency." Government Code Section 20125 provides: "The Board shall determine who are employees and is the sole judge of the conditions under which persons may be admitted to and continue to receive benefits under this system."

The common law employment test is used by the courts and the CalPERS Board of Administration to determine "employee" status under the PERL. In determining whether one who performs services for another is an employee, the most important factor is the right to control the manner and means of accomplishing the desired result; whether or not that right is exercised. Only employees of the CalPERS agency can be enrolled into the system for membership. Employees of an affiliated entity shall not be reported through the CalPERS agency.

Penalties can apply when employees are improperly enrolled into membership. CalPERS agencies improperly enrolling employees can jeopardize their retirement contract status with CalPERS and can result in a loss of benefits for employees.

**Consequences For Failing to Enroll Eligible CalPERS Employees Into Membership**

Government Section 20283 of the PERL states in part that an employer that fails to enroll an employee into membership within 90 days of eligibility is required to pay all arrears, both member and employer contributions and a \$500 administrative fee per member to the system. The Section also states that employers cannot pass on the cost to the employee.

If it is discovered that the arrears have been reported through the payroll process, CalPERS has the right to instruct the agency to back out the contributions and to refund the contributions to their employee.

**Additional Resources**

For more information on these topics, please refer to the Public Agency & Schools Reference Guide or the State Reference Guide, which are located on CalPERS On-Line. If you have any questions, please call our CalPERS Customer Contact Center at **888 CalPERS** (or **888-225-7377**).

RENEE OSTRANDER  
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