

## **INITIAL STATEMENT OF REASONS FORMAT FOR EMPLOYER REPORTS**

### **Introduction**

The California State Teachers' Retirement System (CalSTRS) has embarked on a pension administration system modernization effort, known as the Pension Solution project. CalSTRS' pension administration system plays an essential role in the organization's ability to fulfill its constitutional fiduciary responsibilities as well as its mission of securing the financial future and sustaining the trust of California's educators. The existing system is inflexible, increasingly expensive to maintain, and requires CalSTRS to undertake an increasing number of manual business processes.

As a key component of the Pension Solution project, CalSTRS will replace the electronic file formats current regulations require employers to use to report member data. As required by the Administrative Procedure Act, this initial statement of reasons further identifies this problem and specifies the purpose and necessity for the amendments to CalSTRS regulations that are required in order to implement the resulting new file format (NFF).

Under Article XVI, section 17 of the California Constitution, the Teachers' Retirement Board (board) has sole and exclusive authority to administer CalSTRS in a manner that will assure prompt delivery of benefits and related services to its members, participants and beneficiaries. In addition, California Education Code section 22207 authorizes the board to perform any acts necessary for the administration of the system and the plan in carrying into effect the provisions of the law. Education Code section 22305 provides that any rules and regulations adopted by the board have the force and effect of law. The board, whenever it exercises its regulatory authority, focuses on its fiduciary responsibility to the membership, and this proposal is consistent with that objective.

### **Problem Statement**

The CalSTRS Defined Benefit (DB) and Cash Balance (CB) Benefit programs are funded through contributions from members, employers and the state, and are supplemented by investment income. In order to effectively administer these programs, CalSTRS relies on the timely and accurate remittance of reporting and contributions from county offices of education and district employers that are authorized to report directly to CalSTRS. Late and inaccurate contributions and reports can result in inaccurate benefit payments to members and lost investment opportunities.

Sections 23004 and 26301 of the Education Code require employers to submit a report monthly or each pay period, respectively, (monthly report) to CalSTRS containing information the board may require in the administration of the Teachers' Retirement Plan. That monthly report must be submitted electronically in an encrypted format provided by CalSTRS that ensures the security of the transmitted member and participant data. In addition, section 22455 of the Education Code requires county superintendents and other employing agencies to furnish any information concerning any member or beneficiary the board may require in a form, including electronic transmission, as directed by CalSTRS.

Chapter 17 of Part 13 of the Education Code requires that penalties and interest be assessed on employers for late or inaccurate contributions and reports. Effective July 1, 2012, the Penalties and Interest

## Initial Statement of Reasons: Format for Employer Reports

Regulations (Article 15.5, Chapter 1, Division 3, Title 5 of the California Code of Regulations) were adopted by the board to ensure consistent and transparent assessment of penalties and interest. A key component of these regulations require that employers comply with the CalSTRS F496 File and Voluntary Deduction File (VDF) specifications when submitting monthly reports.

Pension Solution is a multi-year project with completion anticipated in fiscal year 2022-23. The second of three implementation phases is currently scheduled for the fall of 2021. This second implementation phase will replace the F496 and the VDF with the NFF, which consists of a contribution file and an employment file. The Contribution File Layout, which replaces the existing F496 and VDF, is associated with monthly payroll and contribution reporting. The Employment File Layout, which replaces the current MR87 (employee statistical information), address and accounts receivable files, is associated with new hires, leaves, terminations, retirements, deaths, installment payments, address changes and other demographic changes. Most data fields that are contained in the existing F496 and VDF are being carried forward into either the new Contribution File Layout or the new Employment File Layout.

This initial statement of reasons for the amendments to CalSTRS regulations that are required in order to implement the NFF describes the substantive changes and additions that are being made to data fields included in the existing files as well as any new data fields that are being added to the two new file specification documents. Two tables under the Purpose and Rationale section provide a list and description of those data fields.

### **Benefits Anticipated**

The Pension Solution project is being rolled out in three phases in an effort to better manage and contain impacts CalSTRS members, employers and customers.

Once operational, the new system will allow CalSTRS to:

- Increase ability to respond to customer and business needs.
- Enhance services to members, beneficiaries, staff and employers.
- Gain long-term operational efficiencies.
- Improve internal controls.

The NFF is a key component of the new pension administration system. The NFF includes substantive changes that organize the data fields within the file formats more coherently and allow employers to report information in accordance with the statute more effectively. The NFF will improve data integrity, which is anticipated to improve accuracy when determining the appropriate amount of contributions as well as the ultimate calculation of benefits for members. Through these improvements, the enforcement of the NFF will broadly benefit the state as a whole.

### **Purpose and Rationale**

#### Sections 27000, 27001 and 27002

This section is amended to add a sunset date in order to make the NFF the only file specifications that will be acceptable for employer reports submitted to CalSTRS once section 27800 becomes operative. The

## Initial Statement of Reasons: Format for Employer Reports

sunset date also serves to remove the reporting requirements from Article 15.5, which mainly pertains to penalties and interest for late remittances of contributions and late and unacceptable reporting.

### Sections 27702 and 27703

These sections, relating to the requirements for employers to be able to report directly to CalSTRS, are amended to remove references to the legacy file formats once the NFF becomes the only file specifications that will be acceptable for employer reports. The amendments broadly reference the division that contains all amendments within this regulations package to account for the delayed effective date of section 27800.

### Section 27800

This section delineates the report formatting that employers must comply with when submitting reports to CalSTRS. This section, along with section 27801, is included in a new article within Chapter 3, which relates to employer reporting. The file specifications employers use to report member data under the DB Program and CB Benefit Program are listed and incorporated by reference within section 27800. These specifications have been incorporated by reference pursuant to 1 CCR § 20 because it would be cumbersome and impractical to publish the specifications in the California Code of Regulations due to the volume and technical nature of the information in each specification. This section becomes operative upon authorization of the board, but not earlier than October 1, 2021, in order to give employers a period of approximately two years to make the necessary changes to their payroll systems to interface with CalSTRS' new pension administration system. Section 27800 also includes a renewable waiver provision that allows employers to continue using the current file format for up to three six-month periods while taking tangible steps to update their technology systems.

### Section 27801

This section defines the acceptable reports for the DB and CB Benefit programs. This section, along with section 27800, is included in a new article within Chapter 3, which relates to employer reporting. It also addresses the scope of reporting (all employees who perform creditable service) and explains how a monthly report that contains reporting from a prior month will be treated.

The file specifications incorporated by reference delineate the information that is to be reported by employers. The Employment and Contribution file layouts will replace the existing MR87, address, accounts receivable, F496 and VDF under the authority granted by Education Code section 22455 that requires county superintendents and other employing agencies to furnish any information concerning any member or beneficiary the board may require in a form, including electronic transmission, as directed by CalSTRS.

### Employment File Layout

The following data fields are included in the Employment File. Those fields that are either not currently included in the F496 and VDF or are being substantively changed are notated and the purpose and rationale for those additions and changes are described in the following table.

Initial Statement of Reasons: Format for Employer Reports

<b>Field Title</b>	<b>Field Description as Associated with the Transaction</b>
Transaction Type**	Defines the type of transaction that is being submitted
Transaction Subtype*	Defines a subcategory of certain values under Transaction Type
Transaction Effective Date	Effective date of transaction
Organization Code**	Identifies the employer
Benefit Program*	Identifies the benefit program
SSN	Identifies the Social Security number of the employee
Client ID*	Identifies the CalSTRS-generated identification number of the employee
Last Name	Identifies the last name of the employee
First Name	Identifies the first name of the employee
Middle Name	Identifies the middle name of the employee
Suffix Name 1**	Identifies the first suffix of the employee
Suffix Name 2**	Identifies the second suffix of the employee
Gender**	Identifies the gender of the employee
Birthdate	Identifies the birthdate of the employee
Address Line 1	Identifies the first address line of the employee
Address Line 2	Identifies the second address line of the employee
City	Identifies the city of the address of the employee
State	Identifies the state of the address of the employee
Zip code	Identifies the ZIP Code of the address of the employee
Phone**	Identifies the primary phone number of the employee
Secondary Phone**	Identifies the secondary phone number of the employee
Mobile Phone**	Identifies the mobile phone number of the employee
Email*	Identifies the email address of the employee
Last Day of Work*	Identifies the last day of creditable service when the Transaction Type is "Termination"
Last Compensation Date*	Identifies the last day of creditable compensation when the Transaction Type is "Termination"
Full-Time Base Days*	Identifies the number of days that constitute a full-time basis when the Transaction Type is "Sick Leave Information"
Unused Sick Leave*	Identifies the unused sick leave balance of the employee when the Transaction Type is "Sick Leave Information"
Annual Excess Sick Leave Awarded*	Identifies the amount of excess sick leave awarded annually to the employee when the Transaction Type is "Sick Leave Information"
Unused Excess Sick Leave*	Identifies the unused excess sick leave balance of the employee when the Transaction Type is "Sick Leave Information"
Reduction in School Funds*	Identifies the range of fiscal years in which there was a reduction in school funds for the employee when the Transaction Type is "Reduction in School Funds"
Annual Total Compensation*	Identifies the total compensation, creditable and non-creditable, for the employee when the Transaction Type is "Annual Total Compensation"
Correction Date*	Identifies the effective date of a transaction for those transactions that are being corrected
Void Record Indicator*	Identifies that the original matching transaction is voided

\* New field    \*\* Existing field with substantive changes    \* Optional fields

## Initial Statement of Reasons: Format for Employer Reports

### *Transaction Type and Transaction Subtype (Employment File Layout)*

CalSTRS requires the Employment File Layout fields noted above in order to enroll members and participants and to be informed of employment terminations, sick leave information, other leave information and periods in which there was a reduction in school funds (Education Code sections 22457, 22717 and 22134). The Transaction Type field indicates what type of information the employer is submitting and improves CalSTRS' ability to validate program membership and eligibility for future benefit programs. Currently, CalSTRS obtains some of this information from employers either by electronic or paper form, and not all transaction types are captured sometimes making it necessary to request historical information from the employer long after the event has occurred and information may not be available. However, requiring the information to be provided through an electronic file provides a uniform and efficient method for employers to submit information closer to when the event occurred, which facilitates more effective administration of the programs. Requiring transmission through an electronic file also provides a crucial audit trail.

The Transaction Subtype field will be used to obtain more specific information on the type of enrollment or leave transaction reported within the Transaction Type field. The field will allow CalSTRS to be able to know if a member who is receiving a disability or retirement benefit is working and to terminate benefits as needed in accordance with existing law. In addition, the leave-related field values which are currently not reported throughout a member's career correspond with the types of purchasable leave that an employer would report in response to a member submitting a service credit purchase request. Requiring this information to be provided through the Employment File Layout provides an efficient method for employers to proactively submit the information at the time of an approved leave, rather than reactively upon a request for a service credit purchase by a member, while ensuring an audit trail.

### *Organization Code, Benefit Program and Client ID (Employment File Layout)*

The Organization Code is needed to identify the employer organization reporting data for a member. The Benefit Program and Client ID are necessary to uniquely identify the member for whom the data is provided. The values provided in these fields allow CalSTRS to accurately record and attribute the data for the designated employee, which employers currently submit as part of the MR87 file. CalSTRS currently requires an employee's Social Security number. However, as a best practice recommended by the Social Security Administration, organizations should avoid using Social Security numbers as identifiers for any type of transaction and leaving Social Security numbers in a database as a secondary identifier. CalSTRS has determined that in order to reduce the risk of identity theft that would negatively impact a member in the event data is compromised, an employee's Social Security number will be only be used in the Employment File Layout and will be supplanted on the Contribution File Layout with a Client ID, a CalSTRS-generated identification number.

### *Gender (Employment File Layout)*

This field is required to be populated with male, female or nonbinary upon enrollment. Employers are also required to specify the employee's birthdate upon enrollment using an acceptable format. The gender and birthdate are necessary for the purpose of informing the actuaries in the development of the mortality assumptions used to fund the plan as well as to determine the appropriate lifetime annuity factors. Although gender is currently provided, the Employment File Layout will include an additional value of

## Initial Statement of Reasons: Format for Employer Reports

nonbinary for individuals who do not identify as male or female, consistent with SB 179 (Atkins—Chapter 853, Statutes of 2018).

### Email (Employment File Layout)

This field is necessary to make an annual account statement available to members and participants pursuant to Education Code sections 22309 and 26214. Pursuant to Education Code section 22337, CalSTRS is required to provide the annual statement and other specific correspondence by either mail or electronic delivery, depending on the preference indicated by the member or participant. Although employers are currently required to provide members' mailing addresses for this purpose, requiring employers to provide the member's email address is new.

### Last Day of Work (Employment File Layout)

This field will be required to be populated with a specified date when the employer submits a "Termination" transaction, pursuant to Education Code section 22457(a). The values provided in this field are necessary to inform CalSTRS when the member's employment with a specific employer ends and when data and contributions will no longer be submitted or remitted to the system. Additionally, the employer must provide the last day of work to CalSTRS for purposes of completing the disability and survivor benefit application process. Under existing law, eligibility for disability and survivor benefits is dependent on, among other things, the last day on which a member performs CalSTRS-covered service. Specifically, the onset of a disability as it pertains to assessing whether or not it is permanent or expected to last at least 12 months is measured no earlier than the day following the last day of actual performance of service (Education Code section 22126). A member may receive a disability benefit if an application is submitted within four months of performing creditable service (Education Code sections 24002 and 24102). Also, a member must cease performing service within 90 days of the approval of a disability benefit (Education Code sections 24005 and 24105). Similarly, a death benefit is paid to a member's survivors if the member dies within four months after termination of creditable service or termination of employment (Education Code sections 23801 and 23854).

### Last Compensation Date (Employment File Layout)

This field will be required to be populated with a specified date when the employer submits a "Termination" transaction, pursuant to Education Code section 22457(a). The values provided in this field are necessary to inform CalSTRS when the member's employment with a specific employer ends and when data and contributions will no longer be submitted or remitted to the system. Additionally, the employer must provide the last compensation date to CalSTRS for purposes of completing the disability benefit, survivor benefit and service retirement benefit application process. Existing law bases eligibility for, or the effective date of, specific benefits on the last day of creditable compensation. More specifically, the effective date of a member's disability benefit must be after the last day the member earned creditable compensation (Education Code sections 24005 and 24105); therefore, approval of a disability application is held until all of the applicant's current employers provide the date the member last earned creditable compensation. Eligibility for a one-time death survivor benefit also depends on whether a member dies during one of several specified periods related to the member being paid creditable compensation (Education Code sections 23801 and 23851). Lastly, the effective date of a member's service retirement benefit is required to be later than the last day the member earned creditable

## Initial Statement of Reasons: Format for Employer Reports

compensation (Education Code section 24204). Therefore, receiving the date on which a member last earned creditable compensation allows CalSTRS to determine eligibility for specified benefits or the effective date for those benefits.

### Full-Time Base Days (Employment File Layout)

This field is necessary to calculate retirement and survivor benefits. Existing law requires unused sick leave to be used in calculating retirement or survivor benefits, as further explained under *Unused Sick Leave* below. Education Code section 22717 provides that a member shall be granted service credit for each day of unused sick leave to which the member was entitled on the member's final day of employment during the last school year in which the member earned creditable compensation. Section 22717 specifies the method by which service credit is to be calculated using the number of days of service the employer requires the member's class of employees to perform in a school year during the member's final year of creditable service. In addition, Education Code section 22718 establishes the cost to the employer for the service credit that is based on unused sick leave is limited to the "present value," which is calculated using the full-time base days, pursuant to Education Code section 22156.1. Therefore, in order to calculate service credit for unused sick leave, CalSTRS needs to receive the full-time base days. Requiring employers to submit this information through the Employment File Layout ensures timely receipt of the information and subsequent processing to calculate service credit.

### Unused Sick Leave (Employment File Layout)

This field is necessary to determine the balance of eligible unused sick leave, which existing law allows to be used in calculating retirement or survivor benefits. Education Code section 22717 requires a member to be granted service credit at service retirement for each day of unused sick leave to which the member was entitled on the member's final day of employment during the last school year in which the member earned creditable compensation. Similarly, Education Code section 22717.5 requires eligible state employees to be granted service credit at service retirement for each day of unused educational leave. In addition, Education Code sections 23805 and 23855 provide ongoing survivor benefits that include service credit for unused sick leave. In order to accurately calculate these benefits in a timely manner, employers must provide CalSTRS with the number of unused sick leave days. Education Code section 22717 requires sick leave days to be submitted within 30 days following the effective date of the member's service retirement or the date the application is received by CalSTRS; the law further allows CalSTRS to assess a financial penalty if the report is delinquent. Rather than continue to administer a paper-based process and implement our statutory authority to impose a penalty, CalSTRS determined it would be most cost-effective and efficient for employers and the system, as well as most beneficial to members, to include this field among those required on the Employment File Layout, allowing for automated workflows to provide the greatest assurance that the information is consistently reported and applied to members' benefits in a timely manner.

### Annual Excess Sick Leave Awarded (Employment File Layout)

This field is necessary to capture the amount of excess sick leave awarded annually by employers. Education Code section 22718 requires CalSTRS to bill employers for service credit granted for unused excess sick leave, and employers must certify the number of unused excess sick leave days. The member's unused excess sick leave is converted to service credit, and the employer is billed for the

## Initial Statement of Reasons: Format for Employer Reports

present value of the service credit. Requiring employers to report this information annually is expected to improve the accuracy of excess sick leave amounts as well as the accuracy of service credit billing for the employer. Making these calculations more precise reduces financial risk to the Teachers' Retirement Fund.

### Unused Excess Sick Leave (Employment File Layout)

This field is necessary to capture the amount of unused excess sick leave certified by employers. Education Code section 22718 requires CalSTRS to bill employers for service credit granted for unused excess sick leave and requires employers to certify the number of unused excess sick leave days. Upon service retirement, the member's unused excess sick leave is converted to service credit, and the employer is billed for the present value of the service credit. The employer must pay regular interest for late payments remitted more than 30 days after the effective date of the member's service retirement or the date the application is received by CalSTRS. Rather than continue to administer a paper-based process, CalSTRS determined it would be most cost-effective and efficient for employers and the system, as well as most beneficial to members, to include this field among those required on the Employment File Layout, allowing for automated workflows to provide the greatest assurance that the information is consistently reported and applied to members' benefits in a timely manner.

### Reduction in School Funds (Employment File Layout)

This field is necessary to determine the final compensation that is to be used to calculate a member's retirement benefit. In determining final compensation, Education Code section 22134 allows CalSTRS to aggregate periods of service separated by periods in which a member's salary was reduced because of a reduction in school funds, if those periods are consecutive except for those periods of salary reduction. The current process is to collect the years in which there was a reduction in school funds from employers at the end of a member's career. However, CalSTRS staff determined that the current process creates a risk that reduced salary years could be missed if an employer fails to report them for a member at service retirement, and inadvertently using those years in a member's final compensation calculation would result in a lower benefit than provided for by law. Collecting this information throughout a member's career on the Employment File Layout improves CalSTRS records to allow for more accurate benefit calculations. In addition, employers will retain the ability to submit this information at any time during a career.

### Annual Total Compensation (Employment File Layout)

The purpose of this field is to capture an employee's *total* compensation in addition to CalSTRS creditable compensation. This field is necessary for CalSTRS to evaluate the completeness of compensation information received. Employers currently report earnings that are creditable compensation for which contributions are paid. However, employers occasionally incorrectly report compensation or may fail to report compensation entirely, which can result in an incorrect calculation of benefits. In fact, CalSTRS received a financial statement audit deficiency regarding lack of controls designed to identify and detect when member data, such as creditable compensation, and related contributions are not reported. When CalSTRS or an employer discovers these errors, employers are required to amend their reporting, which can result in benefit reductions. Capturing total compensation provides CalSTRS a valuable tool to more completely evaluate the compensation information received and identify incorrect reporting earlier, thereby reducing the likelihood that a member will receive an incorrect benefit.



## Initial Statement of Reasons: Format for Employer Reports

Identifying potential errors sooner also improves CalSTRS ability to work proactively with employers to correct them more quickly, reducing the likelihood of employers needing to perform multiyear or extensive cleanups and pay the associated penalties and interest.

### Correction Date (Employment File Layout)

This field allows employers to make corrections to the effective date of two Transaction Types: a leave of absence and a termination date. The NFF requires employers to report these types of employee-related transactions, and this field is necessary for employer corrections to the effective dates of those transactions.

### Void Record Indicator (Employment File Layout)

This field allows employers to indicate that a previously submitted transaction is void by submitting a correction to a previous transaction. The NFF requires employers to report termination, annual total compensation, annual excess sick leave awarded and reduction in school funds information. This field is necessary to provide employers with the ability to efficiently indicate a previous transaction is voided and should be replaced by the corrected record. CalSTRS staff determined that this approach would be the most efficient method for employers to void a transaction since occasional errors are expected to occur.

### Optional Fields (Employment File Layout)

The following data fields in the Employment File Layout are new, but are optional, and employers can submit reports even with no values in these data fields. These fields are necessary for employers to report a suffix used as part of an employee's name or provide telephone numbers that are associated with an employee.

- Suffix Name 1
- Suffix Name 2
- Phone
- Secondary Phone
- Mobile Phone

### Contribution File Layout

The following data fields are included in the Contribution File Layout. Those fields that are either not currently included in the F496 and VDF or are being substantively changed are notated and the purpose and rationale for those additions and changes are described in the following table.

<b>Field Title</b>	<b>Field Description as Associated with the Contribution Line</b>
Transaction Type**	Defines the type of transaction that is being submitted
Organization Code	Identifies the employer
Benefit Program Member Code*	Identifies the benefit program
Client ID*	Identifies the CalSTRS-assigned identification number of the employee
Last Name	Identifies the last name of the employee
Pay Period Begin Date	Identifies the beginning date of the pay period
Pay Period End Date	Identifies the ending date of the pay period

\* New field      \*\* Existing field with substantive changes

## Initial Statement of Reasons: Format for Employer Reports

(Continued from previous page)

<b>Field Title</b>	<b>Field Description as Associated with the Contribution Line</b>
Service Type**	Identifies the type of creditable service performed
Assignment Code	Identifies the type of assignment performed
Time Base*	Identifies the basis of employment
Full-Time Base Hours For Position**	Identifies the annual base hours for the position
Work Hours Per Day*	Identifies the number of hours an employee is required to work per day
Expected Pay Periods**	Identifies the expected pay periods for a school term
Annualized Pay Rate**	Identifies the annual pay rate for the position
Earnings	Identifies the earnings
Earnings Type*	Identifies the type of earnings
Member Contributions	Identifies the member contributions, either pre- or post-tax
Employer Contributions*	Identifies the employer contributions

\* New field      \*\* Existing field with substantive changes

### Transaction Type (Contribution File Layout)

This field indicates whether the report information for a particular member is for normal or regular pay, an adjustment to prior pay, a bargained or retroactive pay rate adjustment or payroll deductions for service credit purchases. Although the field is new, the values are currently provided using the “Contribution Code” within the F496. CalSTRS staff, together with the project team developing the new pension administration system, determined that the integration of these fields into transaction types provides a more efficient method of reporting different adjustment types consistent with the Education Code.

### Benefit Program Member Code (Contribution File Layout)

This field requires employers to indicate the benefit program (either the DB Program or the CB Benefit Program) associated with the contribution line and whether the employee is a member of either of these programs. This field ensures that the contributions associated with the transaction being reported are properly credited to the right program and that the correct contributions are being submitted.

### Client ID (Contribution File Layout)

This field is necessary in order to uniquely identify the member for whom the data is being reported. While CalSTRS currently requires an employee’s Social Security number, in order to reduce the risk of identity theft that would negatively impact a member in the event data is compromised, the use of an employee’s Social Security number will only be used in the initial Employment File Layout and replaced with a CalSTRS-generated Client ID number on the Contribution File Layout and subsequent Employment File Layout transactions. This is consistent with the Social Security Administration’s recommendation that, as a best practice, organizations avoid using Social Security numbers as primary identifiers.

### Service Type (Contribution File Layout)

This field, and the specific values that may be used to populate the field, are necessary to help ensure that only creditable compensation or compensation earned for retired member activities is reported. Education

## Initial Statement of Reasons: Format for Employer Reports

Code section 22119.5 specifies the activities that are considered to be creditable service under the DB Program. Similarly, Education Code section 22164.5 defines “retired member activities” for which compensation must be reported for retired members. The existing file format allows employers to report some of the types of service specified by law, but under the NFF, an exhaustive list of additional values are provided in this field.

### Time Base (Contribution File Layout)

This field, and the specific values that may be used to populate the field, are necessary to determine when an employee is required to enter into mandatory membership. Existing law specifies that employees who perform creditable service, and are not already members of the DB Program, become members after meeting certain time-based thresholds (Education Code sections 22501 through 22504). The existing reporting format does not fully align with mandatory membership statutes. Additionally, this field allows CalSTRS to administer Education Code section 22713, which provides that contributions are made and benefits are accrued under a Reduced Workload Program as if an eligible part-time member performs service full time. By allowing for more values to be included in this data field, CalSTRS can more precisely determine when an employee is mandated into membership. CalSTRS will also be able to more accurately calculate thresholds for mandatory membership and prevent employers from inadvertently reporting contributions or failing to report contributions based on an employee’s membership status.

### Full-Time Base Hours for Position (Contribution File Layout)

This field helps CalSTRS validate when an employee is mandated to enter into DB Program membership. Education Code section 22138.5 specifies the minimum standard for “full time” employment status for various classes of employees, expressed as number of days or hours per year. CalSTRS currently collects this information to calculate benefits pursuant to Education Code section 22115 for part-time community college employees employed prior to July 1, 1996. By collecting this information and using it in conjunction with the Work Hours Per Day field, CalSTRS can determine when service requires mandatory membership pursuant to Education Code sections 22503 and 22504. CalSTRS staff and employers will be able to more accurately determine when membership is mandated and appropriately begin collecting and remitting contributions and crediting service for members.

### Work Hours Per Day (Contribution File Layout)

This field also aids CalSTRS in determining when an employee is mandated into membership. Education Code section 22138.5 specifies the minimum standard for “full time” employment status for various classes of employees, expressed as number of days or hours per year. Currently, for purposes of estimating when mandatory membership thresholds are reasonably likely to have been met pursuant to Education Code sections 22503 and 22504, CalSTRS assumes that the full-time requirement is six hours per day. However, this assumption causes CalSTRS to prematurely flag reporting when the mandatory membership threshold for the DB Program has not yet been met because the employer requires a work day longer than six hours. This causes inefficiencies in interactions with employers and mistakes in mandating membership. By requiring employers to report work hours per day, CalSTRS staff and employers will be able to more accurately determine when membership is mandated and appropriately begin collecting and remitting contributions and crediting service for members.

## Initial Statement of Reasons: Format for Employer Reports

### Expected Pay Periods (Contribution File Layout)

This field is necessary to determine the periods of service that are to be included in the calculation of final compensation. Currently, employers provide CalSTRS with a pay code, which indicates the pay schedule for members who receive 10, 11, 12 or 13 monthly payments per year. Under the NFF, this new field will require employers to provide CalSTRS with the number of pay periods in a school term, as defined in Education Code section 22168.5 as beginning the first day and ending the last day on which creditable service is required to be performed by a member employed on a full-time basis, as well as the specific range of months in which the employer would typically pay an employee for performing service during a school term. The additional values within this field enable CalSTRS to determine valid periods of service to be included in a 36- or 12-month period of final compensation pursuant to Education Code sections 22134 and 22134.5. Because a member's final compensation is determined using the member's highest compensation earnable, which can occur at various stages in a career, it is necessary to receive this level of detail on the contribution line. This information is also necessary to receive installment payments for service credit purchases. The existing file format allows employers to report some of the more typical pay schedules utilized by school districts, but under the NFF, an exhaustive list of additional values are provided in this field, including those that are typically used for adjunct community college faculty.

### Annualized Pay Rate (Contribution File Layout)

This field is necessary to ensure employers report pay rates in a uniform manner to maintain consistency across all employers that report to CalSTRS and to ensure the accurate calculation of compensation earnable (Education Code section 22115) and service credit (Education Code section 22701). Employers currently report pay rates as an annualized, monthly, hourly or daily rate, which creates complexity. CalSTRS performs several calculations that evaluate the validity of the data as well as determine the appropriate service credit for members' reported data. These calculations are complicated by the fact that employers are able to report several different types of pay rates. For the sake of simplification, employers would only report an annualized pay rate as the compensation that a person could earn in a school year performing service on a full-time basis, which would make reporting consistent across all employers and would ensure that calculations that use pay rate, such as service credit, are more accurate.

### Earnings Type (Contribution File Layout)

This field is necessary to ensure that employers report only specific types of payments that are considered creditable compensation. Education Code sections 22119.2 and 22119.3 specify what qualifies as creditable compensation that is paid for performing creditable service and specify the types of pay that are not to be considered creditable compensation. For members who are not subject to the California Public Employees' Pension Reform Act of 2013, "remuneration that is paid in addition to salary or wages" is considered creditable compensation requirements specified in Title 5, Division 3, Chapter 2, Section 27401 of the California Code of Regulations are met. This field helps ensure that only payments that meet the definition of remuneration that is paid in addition to salary are reported.

### Employer Contributions (Contribution File Layout)

This field is necessary to ensure that employers report the correct amount of contributions for compensation that requires contributions. Education Code sections 22950, 22950.5, 22951 and 26503 specify the employer contribution rates. Currently, employers are not required to report employer

## Initial Statement of Reasons: Format for Employer Reports

contributions per employee; instead, they report employer contribution as an aggregated amount for multiple employees. CalSTRS is able to derive the amount of employer contributions per employee because the employer contribution rates are set in law. However, requiring employers to report contributions for each employee simplifies CalSTRS' process. The information in this field also allows employers to verify that they are reporting correct compensation and contribution information because the information will be verified for completeness at the time they submit their reports.

### **Studies, Reports or Other Documents Relied Upon**

None.

### **Economic Impact Analysis**

CalSTRS has considered the impact of these regulations on business, with consideration of industries affected and information supplied by interested parties, including the ability of California businesses to compete with businesses in other states. The NFF solely affects school employers (including school districts, community college districts and county offices of education). There are 90 employers that report contribution information directly to CalSTRS. Of those 90 employers, 13 use custom payroll software. CalSTRS estimates that those 13 employers would incur costs in the range of \$50,000 to \$400,000 each associated with updating their software. An additional five employers that do not report contribution information directly to CalSTRS use custom payroll systems and are expected to make similar updates, with a similar cost range, in order to remain compatible with their respective county offices of education. Based on feedback from all vendors with whom CalSTRS has met, CalSTRS anticipates that the 77 employers that report contribution information directly to CalSTRS using partner agency or vendor-supported payroll software would be covered by an updated release and would not incur additional costs.

CalSTRS anticipates that no system upgrades are necessary for submission of information under the Employment File because this information can be submitted via a secure employer website portal. Some savings are anticipated by transitioning from paper forms to electronic transactions for several business processes.

CalSTRS has determined that the regulations proposed do not constitute a major regulation because there are no direct economic impacts on California businesses.

Specifically:

- The action will not affect the creation or elimination of jobs within the state.
- The action will not affect the creation of new businesses or the elimination of existing businesses within the state.
- The action will not affect the expansion of businesses currently doing business within the state.
- The action will have no effect on the health and welfare of California residents and no effect on worker safety and the state's environment.

### **Evidence Supporting Finding of No Significant Statewide Adverse Economic Impact Directly Affecting Business**

These regulations do not place any additional licensing, record keeping or compliance requirements on businesses. These regulations solely affect school districts, community college districts, county offices of education and other employing agencies that submit reporting information directly to CalSTRS. Therefore, the proposed regulations will not have a significant statewide adverse economic impact on businesses.

### **Conferring with Interested Persons**

Pursuant to Government Code section 11346.45, throughout the development of these regulations, CalSTRS has actively engaged with the direct report employers that will be subject to the associated regulatory requirements. CalSTRS first started this engagement through web-based employer forums beginning in 2015. Starting in 2016, CalSTRS posted an early draft of the NFF for employers to review on the Secure Employer Website and conducted an employer webinar to solicit feedback. Since February 2016, CalSTRS has consistently provided updates at the quarterly meeting of the Employer Advisory Committee, which is composed of county and district employer representatives and CalSTRS staff.

As a result of a comprehensive re-assessment of the Pension Solution project in December 2017, CalSTRS determined the NFF that had been in development since 2016 required enhancements. CalSTRS held a series of informational webinars to ask for additional feedback regarding the specific information that will be incorporated into the file layouts. The first of these webinars, in which CalSTRS shared draft versions of the NFF with county offices of education, school employers and payroll software vendors, were held in May and June 2018. CalSTRS described the fields in the NFF and explained the differences between the existing file formats and the NFF.

In July 2018, staff conducted employer pre-assessments with reporting entities to identify and confirm reporting relationships between counties and districts and to communicate expected reporting changes based on the new pension administration system and the NFF. In August 2018, CalSTRS presented an update on the NFF to the Employer Advisory Committee and shared the new file layout. In September 2018, CalSTRS held additional webinars in which revised versions of the file layouts were presented and changes explained.

Most recently, in September and October 2018, staff presented the NFF to representatives from the California Teachers Association, Faculty Association of California Community Colleges, Association of California School Administrators, California Association of School Business Officials, School Services of California, Los Angeles County Office of Education and Kern County Office of Education.

The NFF layouts and the “File Layout Plus” document, which contains the technical information necessary for employers and payroll vendors to develop requirements, were distributed to employers at the Employer Advisory Committee meeting in November 2018. From November 2018 through January 2019, staff will attempt to hold Employer Readiness Assessments with each of the 90 employers that report directly to CalSTRS in which the File Layout Plus document and the related impact to employers will be discussed. These assessments will be conducted via one-on-one meetings or phone calls with each employer and their payroll software system vendor, if one is used.

## Initial Statement of Reasons: Format for Employer Reports

CalSTRS staff presented a preliminary draft of the regulations during the November board meeting and posted a draft Initial Statement of Reasons to calstrs.com. At the January board meeting, staff provided additional information and the board directed staff to initiate the rulemaking process.

CalSTRS staff has provided information to the Department of Finance regarding the proposed regulatory changes and their economic and fiscal impact.

### **Alternatives Considered**

These regulations implementing the NFF promote legal compliance by providing employers tools that enable consistent implementation of the law. One alternative identified to implementing the NFF is to allow employers to implement the law independently. Another alternative is to continue to use the existing file specification documents because employers are already familiar with them. The first alternative is administratively infeasible because there would likely be considerable inconsistency that would be extremely difficult for CalSTRS to administer. The second alternative would perpetuate the deficiencies that exist with current reporting requirements. Therefore, implementing the required use of the NFF was deemed by staff to be the only viable alternative.

CalSTRS has not identified any alternative that would lessen any adverse impact on small businesses. No alternative has been proposed that would be less burdensome and equally effective in achieving the purposes of the regulation in a manner that accomplishes the purposes of the statute being implemented.