

CLIENT NEWS BRIEF

CalSTRS Issues New Creditable Compensation Regulations – Impact Will Be Felt at Bargaining Table & in Administrator Contracts

The long-awaited CalSTRS creditable compensation regulations were adopted by the CalSTRS Board on September 4, 2014. The new regulations govern how CalSTRS will treat various forms of compensation for CalSTRS members who entered the system prior to January 1, 2013 (these members are usually referred to as “classic” or “2% at 60” members). The regulations take effect January 1, 2015.

The use of formal regulations to provide guidance on the treatment of compensation is a welcome change. In addition to other important provisions, the regulations clarify what forms of compensation are creditable (that is, what “counts” for purposes of retirement) by defining the parameters of “salary” or “remuneration in addition to salary.” The regulations also clearly identify types of compensation that will no longer be creditable to the system, such as allowances and cash in lieu of benefits. Additionally, for compensation that is creditable, the regulations direct whether it is to be credited to the Defined Benefit program, thereby increasing the monthly retirement allowance, or whether it should be credited to the member’s Defined Benefit Supplement account.

The new rules will have a far reaching impact for county offices of education, community colleges, and K-12 districts in two main arenas: the bargaining table and administrator contracts.

At the bargaining table, there may be tension between pension reforms applicable to new CalSTRS members and the compensation rules applied to classic members under the new regulations. Additionally, some types of compensation commonly used in the bargaining process, such as one-time off-schedule payments and cash in lieu of benefits, will need to be re-evaluated in light of the change in treatment under the regulations.

With regard to administrator contracts, shifts in the treatment of compensation by CalSTRS mean that all administrator contracts should be reviewed to determine whether any elements of compensation should be restructured to adapt to the provisions of the new regulations. Importantly, the new regulations provide the opportunity for a restructure of compensation prior to January 1, 2016. A proper restructure could allow non-creditable forms of compensation to become part of base salary. The regulations provide complex rules governing the restructure process, and both employers and administrators should clearly understand the benefits and risks of a restructure before moving forward.

To assist public employers in gaining a greater understanding of the regulations and subsequent implementation, Lozano Smith will be conducting a series of workshops at several locations throughout the state that will focus on the creditable compensation regulations, impacts on bargaining and the restructure process. The workshops will be applicable to all public education employers. Presenters will also address issues under pension reform, compensation rules under CalPERS and post-retirement employment rules for both classified staff and certificated/faculty employees.

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For a schedule of Lozano Smith workshops and locations, [click here](#).

For a copy of the new creditable compensation regulations, [click here](#).

If you have any questions about the new CalSTRS creditable compensation regulations or how retirement law governs public schools and their employees, please contact one of our [eight offices](#) located statewide. You can also visit our [website](#), follow us on [Facebook](#) or [Twitter](#), or download our [Client News Brief App](#).