The information provided in this publication is for your convenience and reference as a general guide only and cannot be relied upon as an authoritative source for the law, practices, or policies of CalPERS. While CalPERS tries to include only accurate, timely and complete information in its publications, summaries, guidelines and other advisory printed materials, sometimes information provided in printed materials may be or become inaccurate, untimely, incomplete, unclear or misleading. In all instances, the law then in effect, not this publication, controls the application of the Public Employees’ Retirement Law. It is the reader’s responsibility to independently verify the accuracy of the information contained in this publication before engaging in a course of action.
REPORTABLE/NON-REPORTABLE COMPENSATION

Pay rate and special compensation must be in written pay schedules, memorandums of understanding, bargaining agreements, or similar documents that shall be available for public scrutiny. Guidelines defining compensation, compensation earnable, pay rate, and special compensation are listed in the California Public Employees' Retirement Law (PERL) in G.C. sections 20630, 20636, and the California Code of Regulations 570.5.

COMPENSATION (G.C. SECTION 20630)
Compensation is broadly defined as payment to employees for services performed during normal working hours or for time during which the employee is excused from work because of holidays, sick leave, industrial disability leave (payments under Labor Code Sections 4800 and 4850), vacation, compensatory time off, or leave of absence. The employer shall identify and report compensation for the pay period in which the compensation was "earned" regardless of when paid, and shall not exceed compensation earnable.

PUBLICLY AVAILABLE PAY SCHEDULE (CCR 570.5)
This regulation requires that each pay schedule include:
- Position title for every employee position
- Pay rate for each position
- Time base for each pay rate

This regulation also contains criteria for ensuring the pay schedule is publicly available and does not permit a reference to another document in lieu of disclosing the pay rate. Further, the regulation clarifies that "compensation earnable" will be limited to the amount listed on a pay schedule that meets all of the established criteria, and identifies how pay rate may be determined when employers fail to meet the requirements.

WORKERS’ COMPENSATION TEMPORARY DISABILITY AND INDUSTRIAL DISABILITY LEAVE PAYMENTS
G.C. section 20630 of the PERL defines “compensation” as “…the remuneration paid out of funds controlled by the employer in payment for the member’s services performed during normal working hours or for time during which the member is excused from work because of: holidays, sick leave, industrial disability leave, during which, benefits are payable pursuant to Sections 4800 and 4850 of the Labor Code or Article 4 (commending with Section 19869 of Chapter 2.5 of part 2.6; or Education Code Section 44043, 87042) vacation, compensatory time off, or leave of absence…”

Labor Code Section 4850 contains industrial disability leave provisions for various specified safety members of CalPERS. This pay is reportable to CalPERS.

Workers’ Compensation Temporary Disability payments in lieu of Workers’ Compensation that are not pursuant to the above mentioned law codes are not reportable to CalPERS. However, if a miscellaneous member uses accrued leave credits such as vacation, sick leave, or compensated time off (CTO) the compensation attributable to the used leave credits is reportable to CalPERS.

COMPENSATION EARNABLE (G.C. SECTION 20636 (g) (1))
Compensation earnable for state members means the average monthly compensation, as determined by the board, upon the basis of the average time put in by members in the same group or class of employment and at the same rate of pay, and is composed of the pay rate and special compensation of the member.

PAY RATE (G.C. SECTION 20636 (g) (2))
Pay rate for state members means the average monthly remuneration paid in cash out of funds paid by the employer to similarly situated members of the same group or class of employment, in payment for the member’s services or for time during which the member is excused from work because of holidays, sick leave, vacation, compensating time off, or leave of absence.

GROUP OR CLASS OF EMPLOYMENT (G.C. SECTION 20636 (e) (1))
Group or class of employment means a number of employees considered together because they share job similarities, work location, collective
bargaining unit, or other logical work related grouping.

**SPECIAL COMPENSATION**  
(G.C. SECTION 20636 (g) (3))

The following list identifies special compensation items included for state members:

- The monetary value of living quarters, board, lodging, fuel, laundry, and other advantages of any nature furnished to a member by his or her employer in payment for the member’s services.
- Compensation for performing normally required duties, such as holiday pay, bonuses (for duties performed on regular work shift), educational incentive pay, maintenance and noncash payments, out-of-class pay, marksmanship pay, hazard pay, motorcycle pay, paramedic pay, emergency medical technician pay, Peace Officer Standards and Training (POST) certificate pay, and split shift differential.
- Compensation for uniforms in certain circumstances.
- Other payments the board may determine to be within special compensation.

Pay rate and special compensation for state members do not include any of the following:

- Provisions by the state employer of a medical or hospital service or care plan or insurance plan for its employees, contribution by the employer to meet the premium or charge for that plan, or a payment into a private fund to provide health and welfare benefits for employees.
- Payments by the state employer of the employee portion of taxes imposed by the Federal Insurance Contribution Act.
- Payments for the purchase of annuity contracts.
- Payments credited as employee contributions.
- Payments credited to deferred compensation plans.
- Payments for unused vacation, annual leave, personal leave, sick leave, or compensated time off.
- Final settlement pay.
- Payments for overtime, including pay in lieu of vacation or holiday.
- Compensation for additional services outside regular duties, such as standby pay, callback pay, court duty, allowance for automobiles, and bonuses for duties performed after the member’s regular work shift.
- Payments applied for the purchase of a retirement plan or money purchase pension plan.
- Payments to be covered by a flexible benefits program, where those payments reflect amounts that exceed the salary.
- Other payments the board may determine are not pay rate or special compensation.

**COMPENSATION LIMITS**  
(IRC SECTION 401(A) (17))

Section 401(a) (17) of the Internal Revenue Code provides dollar limitations on annual compensation that can be taken into account under qualified retirement plans. Below is a list of the procedures for reporting a member who has reached the limit. CalPERS notifies all employers of the new limits each year in January by sending a Circular Letter, and my|CalPERS will automatically track the earnings limit.

The compensation limit is only applicable to persons who first became members or participants of California Public Employees’ Retirement System (CalPERS) on or after July 1, 1996.

For those members who are subject to the limit, their final compensation will be capped at the limit in effect for each 12 consecutive-month period that is used to calculate their allowance if they were to retire. The determination of compensation for each 12 month period shall be subject to the annual compensation in effect for the calendar year in which the 12 month period begins.

For example, the 2014 compensation limit for classic members is $260,000. Therefore, the member should not make contributions on earnings that exceed the $260,000 limit within the 2014 calendar year. The earnings that are mentioned are those earnings that are reportable to CalPERS, which exclude earnings for overtime, automobile allowances, lump sum payouts, etc. The compensation limit does not limit the salary an employer can pay an employee who is a member of CalPERS.

If an employee’s compensation reaches the limit, payroll will error out in the my|CalPERS system, prompting the employer to not report employee contributions.
Your agency will continue reporting pay rate, and member earnings, but no member or employer contributions for the service periods that remain in the calendar year. Reporting the earnings allows the employee to continue earning service credit without making contributions on earnings that exceed the limit.

If an employee’s pay rate increases after the time you cease reporting contributions, please report the higher pay rate and earnings on your payroll transaction in case legislation was to change the original limits established for the year.

Once the calendar year is over, the system will prompt you to report contributions for the employee and begin the monitoring for the new calendar year.

**PUBLIC EMPLOYEES’ PENSION REFORM ACT OF 2013 (PEPRA) - CONTRIBUTION CAPS**

PEPRA mandated all new members be subject to contribution caps which differ from the caps set for classic members. New member contribution caps are effective January 1, 2013. Adjustments to the caps are permitted annually based on changes to the Consumer Price Index for All Urban Consumers.

### NEW MEMBER CONTRIBUTION CAPS

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>New Member</strong></td>
<td><strong>$115,064</strong></td>
<td><strong>New Member</strong></td>
<td><strong>$138,077</strong></td>
</tr>
<tr>
<td>with Social</td>
<td>(100% of the 2014</td>
<td>without Social</td>
<td>(120% of the 2014</td>
</tr>
<tr>
<td>Security</td>
<td>Social Security</td>
<td>Security</td>
<td>Social Security</td>
</tr>
<tr>
<td></td>
<td>contribution and</td>
<td></td>
<td>contribution and</td>
</tr>
<tr>
<td></td>
<td>benefit base</td>
<td></td>
<td>benefit base</td>
</tr>
</tbody>
</table>

**NOTE:**

Please see the Membership chapter of this Guide for the definition of a new PEPRA member.

Employers will report full pay rate and actual earnings for all members in myCalPERS and the system will flag and notify the employer when the contribution limit has been reached for that calendar year. Member contributions must stop when the member’s actual earnings reach the contribution limits outlined above.

Note that this does not necessitate a change to your file formatting structure; rather it is related to how your agency tracks and reports payroll. Reporting up to the compensation cap for new members will occur in the same manner it does currently for classic members subject to the 401(a) (17) limit.

PEPRA requires the CalPERS Board to define excessive compensation as “a significant increase in actuarial liability due to increased compensation paid to a non-represented employee” and further directs the Board to implement program changes to ensure that a public agency that creates a significant increase in actuarial liability bears the increased cost associated with that liability.

**PUBLIC EMPLOYEES’ PENSION REFORM ACT OF 2013 (PEPRA) - EPMC**

PEPRA prohibits EPMC for new members employed by public agencies, school employers, the judicial branch, or CSU, unless an employer’s existing MOU would be impaired by this restriction. It is up to each employer to determine if an MOU would be impaired by this restriction on EPMC for new members. The impaired MOU must have an effective date of January 1, 2013, or earlier.

**NOTE:**

Please see the Membership chapter of this Guide for the definition of a new PEPRA member.

If your agency determines that an existing MOU is impaired, then any stated EPMC agreements will apply to new members through the duration of the MOU. CalPERS must receive the full required member contributions, regardless of the amounts paid by the member or the employer. Once the impaired MOU is amended, extended, renewed, or expires, EPMC will no longer be permitted for new members. CalPERS will implement a manual validation procedure to ensure EPMC is not being reported on payroll for new members.

Agencies must notify CalPERS in writing if they determine that their MOU is impaired and provide a certification to CalPERS, signed by the agency’s presiding officer, confirming that application of Section 7522.30(c) of PEPRA would cause an existing MOU to be impaired.

EPMC may continue to be reported for classic members pursuant to existing PERL provisions.
Agencies who wish to eliminate or reduce EPMC for classic members are able to do so under existing law through collective bargaining and contract amendments. Existing PERL statutes allow employers to periodically increase, reduce, or eliminate employer paid member contributions.

**LEGISLATIVE OR JUDICIAL BRANCH EMPLOYEES**

Contact CalPERS directly at **888 CalPERS** (or **888-225-7377**) for questions regarding compensation for exempt, Legislative, or Judicial employees.
SERVICE CREDIT

Pay rate indicates the amount of compensation a member is paid for a unit of time (e.g., hour, day or month). The pay rate should remain stable throughout a fiscal year except for pay raises, changes of position, etc. If a member works in more than one position, receives a raise in the middle of a pay period, or has a variable pay rate, report amounts earned under each pay rate separately.

- **An hourly** pay rate is that rate of compensation to which an employee is entitled under an employment agreement which provides for compensation for each hour of regular time worked by the employee.

- **A daily** pay rate for both a full-time and a part-time employee is that amount of compensation to which a full-time employee is entitled when the employee’s services are performed under an employment agreement which provides for a daily rate of compensation.

- **A monthly** pay rate for both a full-time and a part-time employee is that amount of compensation to which a full-time employee is entitled, when the employee’s services are performed under an employment agreement which provides for a monthly rate of compensation.

**IMPACT ON FINAL BENEFITS**

Reporting correct pay rates for your active employees is essential in calculating correct member benefits at retirement. The three critical elements used in calculating retirement benefits are:

- Service Credit
- Benefit Factor
- Final Compensation

Service credit and final compensation are directly related to the pay rate and earnings reported for the member. Service credit is derived from the pay rate and earnings reported as illustrated below.

**EARNINGS DIVIDED BY PAY RATE EQUALS SERVICE CREDIT**

<table>
<thead>
<tr>
<th>Example</th>
<th>Member Earnings</th>
<th>Monthly Pay Rate</th>
<th>Monthly Pay Rate</th>
<th>=</th>
<th>0.100 years of service credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>$1,200.00</td>
<td>$1,200.00</td>
<td>$1,200.00</td>
<td></td>
<td>0.100 years of service credit</td>
</tr>
<tr>
<td>2.</td>
<td>$600.00</td>
<td>$1,200.00</td>
<td>$1,200.00</td>
<td></td>
<td>0.050 years of service credit</td>
</tr>
<tr>
<td>3.</td>
<td>$600.00</td>
<td>$7.50</td>
<td></td>
<td>80 hours equates to 0.0465 years of service credit</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>$600.00</td>
<td>$30.00</td>
<td>$30.00</td>
<td>20 days equates to 0.093 years of service credit</td>
<td></td>
</tr>
</tbody>
</table>
NOTE:
Always use the pay rate featured on a publicly available pay schedule. The pay rate should not change except when a pay raise or demotion occurs.

FULL-TIME SERVICE CREDIT
(G.C. SECTION 20962)
One year of service credit shall be granted for service rendered and compensated in a fiscal year in full-time employment for any of the following:

a. One academic year of service for persons employed on an academic year basis by the University of California, the California State University system, or school employees who are certificated members, under terms and conditions prescribed by the board.

b. Ten (10) months of service for persons employed on a monthly basis.

c. Two hundred fifteen (215) 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 (1,720) hours of service after June 30, 1951, and 2,000 hours prior to July 1, 1951, for persons employed on an hourly basis.

e. Nine months of service for state employees represented by State Bargaining Unit 3 and subject to the 9-12 pay plan or leave plan, provided a memorandum of understanding has been agreed to by the state employer and the recognized employee organization to become subject to this subdivision. A fractional year of credit shall be given for service rendered in a fiscal year in full-time employment for less than the time prescribed in this section.

Partial credit will be given for those working less than the full-time markers described previously (10 months, 215 days, and 1,720 hours). Service credited in hours, days, or months is converted to a percentage of a year at the end of each fiscal year. Service credit for each fiscal year is combined to arrive at total service credit.

MAXIMUM SERVICE CREDIT AMOUNT
As one of the major factors used in the retirement calculation, service credit is checked carefully for each payroll entry. CalPERS limits the amount of service credit for each entry to full-time. Credit for more than one year of service shall not be allowed for service rendered in any fiscal year.