



California Public Employees' Retirement System  
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## Other

# Circular Letter

August 18, 2020

Circular Letter: 200-040-20

Distribution: VI, XII

**To:** All Public Agency and School Employers  
**Subject:** Information on Furloughs

### Purpose

The purpose of this Circular Letter is to provide information to employers considering the implementation of work furloughs for local safety and school employees. The following information documents the impact of furloughs on member benefits **and** member/employer contributions. It also explains how to properly report furlough time, how CalPERS administers the annual adjustment process for public agencies and schools, and the qualification considerations for membership.

### Member Benefits

A member's retirement allowance is calculated based on their benefit formula, final compensation, and service credit. While the benefit formula is unaffected by a furlough, there may be an impact on final compensation and service credit.

### Final Compensation

Final compensation is the highest average annual compensation earnable over a 12- or 36-month period depending on member classification and bargaining unit, as set forth in the law. Compensation earnable is comprised of pay rate and special compensation. Special compensation is a payment received for special skills, knowledge, abilities, work assignment, workdays or hours, or other work conditions.

A furlough does not change pay rate, nor would it change special compensation in most instances when items of special compensation are paid as a flat dollar amount or a percentage

of pay rate. However, a furlough could reduce special compensation amounts that are paid as a factor of earnings (e.g., reporting the value of employer paid member contributions). Therefore, in some cases final compensation could be reduced, but only for members with earnings-based special compensation whose highest 12- or 36-month period at retirement includes furlough time.

## **Service Credit**

One year of service credit is granted for full-time employment for any of the following:

- 10 months of service for persons employed on a monthly basis
- 215 days of service for persons employed on a daily basis
- 1,720 hours of service for persons employed on an hourly basis

Under a furlough plan, all members will accrue service at a slower rate during the fiscal year. However, since one year of service credit can be accrued in less than a year, full-time members employed continuously throughout the fiscal year may be able to accrue a full year of service credit. For example, a full-time member working continuously during a two day per month furlough plan would still earn a full year of service credit.

Part-time members would generally have a reduction to the overall amount of service credit accrued. The overall reduction will depend upon the percent of full time normally worked and the number of furlough hours.

Members with appointments of less than 12 months may see an impact. In addition, members who take a leave of absence, or are hired or separate from service during a furlough plan, may see a reduction to the overall amount of service credit accrued because of the slower accrual rate. Their service will be based on the ratio of service accrued up to the separation or leave date to the full time amount required.

## **Member/Employer Contributions**

The Public Employees' Retirement Law (PERL) provides that member contribution rates are to be applied to actual earnings, not compensation earnable. Therefore, when the member contribution rate is multiplied by the furlough-reduced member earnings, it will result in reduced member contributions payable to CalPERS.

The employer contribution rates set by the CalPERS Board of Administration are a percentage of payroll, and thus tied to actual earnings. Therefore, a furlough that reduces payroll would result in reduced employer contributions to CalPERS.

## **Service Credit Purchase Option**

There is no provision in the PERL which allows members to purchase furlough time.

## Proper Payroll Reporting

Under a furlough plan, employers should continue to report the full-time pay rate for their members and the actual earnings as they have been reduced due to the furlough.

## Annual Adjustment Administration

Those covered under Government (Gov.) Code section 20969.2 that are subject to mandatory furloughs will not have their CalPERS retirement benefits impacted due to furlough.

CalPERS uses an annual adjustment process to administer Gov. Code section 20969.2. This implementation process requires the following three steps:

1. Employers submit detailed furlough plan information to CalPERS.
2. Employers submit specific member information for the accounts identified as requiring an adjustment.
3. CalPERS will make the proper adjustment to each member's account.

More information about each step is detailed below.

### Step 1

CalPERS will send each impacted employer an Excel file requesting specific furlough plan information for the prior fiscal year including:

- Whether the employer implemented a furlough plan
- Furlough plan effective date
- Nature of the furlough plan (e.g., number of days)
- District contact information
- Whether the employer reports earnings<sup>1</sup> based special compensation
- Whether pay rates were reduced due to furlough in order to maintain the employee's normal service credit totals. Pay rates reduced due to a reduction in pay or a pay cut with no corresponding days off are not furloughs under Gov. Code section 20969.2, and the employer should indicate "no" under the question inquiring whether a furlough plan was implemented.

Employers must return the completed Excel file to our CalPERS furlough inbox at [School and Local Safety Furlough@CalPERS.CA.GOV](mailto:School_and_Local_Safety_Furlough@CalPERS.CA.GOV). County offices of education are responsible for collecting and sending the furlough plan information for each of their districts.

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<sup>1</sup> A furlough does not change pay rate, nor would it change special compensation in most instances when items of special compensation are paid as a flat dollar amount or a percentage of pay rate. Furloughs could reduce special compensation amounts that are paid as a factor of earnings.

## Step 2

CalPERS will run internal reports based on the furlough plan information provided by each employer to determine which accounts require an adjustment for the 2019-20 fiscal year.

These reports will identify employees who received less than one year of service credit, retired, or had a community property split during a furlough year. You will receive another email from CalPERS that will transmit to each impacted employer another spreadsheet containing this specific member information. Employers must complete the spreadsheet by providing lost earnings due to furlough for each impacted member. For example, if the member should have been paid \$3,000, but was only paid \$2,700 due to furlough, lost earnings would equal \$300.

Under a furlough plan, employers should continue to report the full-time pay rate for their members and the actual earnings as they have been reduced due to the furlough.

Additionally, for employers providing earnings-based special compensation, CalPERS will seek supplemental detail on members who retired and based their final compensation on a furlough impacted year. A separate spreadsheet will be sent to employers offering this category of special compensation. Retirees who had their earnings-based special compensation totals or service credit totals reduced due to furlough may receive a retirement allowance adjustment.

## Step 3

CalPERS will verify the information submitted by each employer and automatically credit the necessary adjustments to the appropriate member accounts in myCalPERS.

## Membership Qualification

CalPERS membership enrollment procedures are not changing as a result of administering Gov. Code section 20969.2; however, there are implications with regard to the employers' role in monitoring employees for membership qualification.

The work hours of employees who do not have a fixed term of appointment and who work on a seasonal, limited term, on-call, emergency, intermittent, substitute, irregular or other part-time basis as outlined in Gov. Code section 20305 should be monitored to determine the point at which service would have been credited. The hours an employee would have worked had the employee not been subject to mandatory furloughs should be counted toward qualification of CalPERS membership.

## Conclusion

In order to effectively administer Gov. Code section 20969.2, it is important you submit accurate information to CalPERS in a timely manner.

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If you have any specific questions about furloughs as they relate to CalPERS, contact the CalPERS Employer Contact Center at **888 CalPERS** (or **888-225-7377**) or email [School and Local Safety Furlough@CalPERS.CA.GOV](mailto:School_and_Local_Safety_Furlough@CalPERS.CA.GOV).

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