



COMPENSATION EARNABLE AND FINAL COMPENSATION

I. BACKGROUND

AB340 and AB197 were passed by the legislature and signed by the Governor on September 12, 2012. The legislation is effective on January 1, 2013 and policies are necessary to support administrative implementation of the pension reform legislation for SCERA members. A foundational legal analysis was the first step to determine the impact of the new legislative provisions on SCERA member benefits. SCERA legal counsel provided the legal policy review at the October 18, 2012 Retirement Board meeting. Subsequently, pay code categories were reviewed with employers, to assist in developing staff and counsel proposed changes to compensation earnable for current members and proposed pensionable compensation for new members resulting from the pension reform legislation.

AB340 established a standard of pensionable compensation for new members hired on or after January 1, 2013 and AB197 clarified the standard for compensation earnable for current members. Pensionable compensation (AB340) and compensation earnable (AB197) will be referred to as compensation earnable for ease of reference in this policy.

The resulting proposed compensation earnable policy by pay code category and Resolution #112 were reviewed and approved by the Retirement Board on November 26, 2012. Resolution #112 sets the policy structure for compensation earnable treatment of pay code categories in support of the initial implementation of AB340 and AB197 on January 1, 2013.

In addition, a final compensation earnable policy review was necessary for current members given the effective date of the legislation and its impact on compensation earnable after January 1, 2013 along with the compensation earnable history for SCERA members in light of the Sonoma County Court approved settlement agreement and judgment to the Ventura Supreme Court Decision. The final compensation earnable policy following implementation of AB197 for current members was also reviewed and approved by the Retirement Board.

This policy outlines the requirements for ongoing staff administrative policy responsibilities regarding initial implementation of compensation earnable and final compensation provisions of AB340 and AB197.

II. POLICY

SCERA staff will implement final compensation earnable consistent with AB340 and AB197 and the policy approved by the Retirement Board in Resolution #112. Any limitations or exclusions of compensation earnable items after the effective date of the legislation (January 1, 2013) are applied prospectively. The retirement compensation history for the period prior to January 1, 2013 was reviewed and established as consistent with the legal provisions in effect and appropriate contributions have been collected from employees and employers.

The Retirement Administrator, with assistance of legal counsel, is responsible for ongoing policy decisions related to compensation earnable following Board approval of Resolution #112. The Retirement Administrator will keep the Retirement Board informed regarding significant ongoing compensation earnable policy matters, as appropriate.

Employers are responsible for coding of pay code categories consistent with SCERA policy determinations and subject to SCERA staff review. A short list of pay code categories are noted as "presumption included" or "presumption not included" and should be coded by employers consistent with the presumption in the pay code category review. Employers are responsible to notify SCERA staff regarding the facts and circumstances of any pay items they consider may be an exception to the presumption for review by SCERA Retirement Administrator. In addition, SCERA staff will code SCERA systems in a way that flags presumption pay codes for ongoing policy review with each payroll transmittal from employers.

Employers are responsible for notifying SCERA staff of new pay codes for compensation earnable review by SCERA staff at the time of implementation of the codes. SCERA staff will review employer pay code listings on a quarterly basis for compliance with established policy as part of staff administrative procedures.

SCERA staff will continue the longstanding current practice which includes a detailed pay item review of final compensation earnable prior to establishing retirement benefits for retiring SCERA members. Consistent with current practice, matters requiring policy review will be flagged by staff for Retirement Administrator review and determination regarding compensation earnable for the calculation of benefits. SCERA members or employers may appeal a policy decision by the Retirement Administrator to the Retirement Board. In most circumstances, this review will occur as an agenda item at the next available Retirement Board meeting.

When reviewing items of compensation, SCERA staff will audit pay items to identify those that may have a primary purpose to enhance retirement benefits (e.g. conversion of pay items from in-kind to cash payment in the FAS period), involve the manipulation of compensation by SCERA members or employers to enhance benefits, receipt of ad hoc

payments or any other compensation considered to be inconsistent with the pension reform legislation provisions.

III. HISTORY

The Board adopted this policy on 11/26/2012.