

Changes to Final Compensation Pay Items for Members Joining The System After January 1, 2011.

In March 2010, the Retirement Board reviewed an important policy that had been in effect since January 1998. After careful consideration, including a formal Counsel opinion, this policy, titled "*Determining Which Pay Items are "Compensation" for Retirement Purposes,*" was amended to reflect current law. The amendments to certain aspects of this policy **will apply to people who become retirement system members on or after January 1, 2011.**

What Does This Mean To Employers?

The determination of *compensation*, *compensation earnable*, and *final compensation*, has changed for members joining the system on or after January 1, 2011. Here are the specifics:

Monies paid in cash for time earned are considered final compensation, but are limited by the following:

1. Annual "Cash-out"

The value of accrued time, such as vacation, holiday, sick or administrative leave that is both earned and sold back to the employer by the employee during the **final compensation period** under a "cash-out" agreement is includable in "compensation earnable."

2. Lump Sum at Termination

Only the portion of accrued time (such as holiday, sick or administrative leave) that is paid in the form of a lump sum at termination, and represents **time both earned and cashable during the final compensation period** is includable in compensation earnable.

Examples of amounts that are **NOT** includable in "compensation earnable:"

1. Leave Amounts

For each year of the final compensation period, leave amounts that were sold back during any 12 month period that were accrued over two or more fiscal or calendar years, and that exceed the amount that was **both earned and cashable during service in that 12 month period.**

2. Incentives, Bonuses and Other Payments

Incentives, bonuses, and other payments that are not received in cash during service, but only upon termination or retirement.

3. Conversion of In-kind Benefits and Other Advantages

Conversions to cash of these items are not includable in compensation subject to retirement benefit calculation.

Retirement benefit calculations will not include these items for employees with original membership dates **on or after January 1, 2011**. Likewise, **contributions should not be withheld on these items** for this group of employees going forward. (These changes reflect sections 31450, et seq., of the County Employees Retirement Law of 1937.)

How Employers Should Report Pay and Contributions *After* January 1, 2011 for **NEW Employees**

Some employers will need to create a new, *not-eligible for retirement purposes*, pay code for CCCERA's electronic processing system. This code will designate that no contributions should be taken on these amounts for employees with **membership dates on or after January 1, 2011**. To set up a new pay code, please contact Kathy Somsen via email at Ksomsen@ret.cccounty.us.

Compensation should be reported to CCCERA as follows:

- A. If an employee had terminal pay (vacation, administrative leave payouts, holiday payouts, etc.) and these pay items were **not eligible** for any cash outs (sell backs) during the year, report this terminal pay to CCCERA using the new pay code that demonstrates the amounts are not includible in retirement benefit calculations.
- B. If an employee had terminal pay and **is eligible** for cash outs (sell backs) during the Final Average Salary period, and completed all sell backs, terminal pay should be reported to CCCERA using the pay code that designates the amount is not eligible for retirement purposes.
- C. If an employee had terminal pay and **was eligible** for cash outs (sell backs) but did not make use of this benefit, terminal pay should be reported using the following pay codes:
 - 1. For terminal pay amounts that *could have been sold* back during the final compensation period, please use the appropriate retirement compensable code, i.e., vacation, administrative leave, etc.
 - 2. For terminal pay amounts that exceed the accruals that could have been sold back or cashed out during the final compensation period, please report using a pay code that demonstrates the amount is not eligible for retirement purposes.

The complete Board of Retirement Policy and Addendum referenced here are available on our web site, www.cccera.org. Click on the Retirement Board button and navigate to the policy: "Determining Which Pay Items are Compensation for Retirement."

If you have further questions about implementation and reporting codes, please contact Kathy Somsen, at the above email address.



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