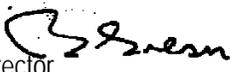


Date: December 19, 2007 Code: TECHNICAL LETTER
HR/Benefits 2007-17

To: Associate Vice Presidents/Deans of Faculty
Human Resources Directors
Benefits Representatives
Compensation Managers

From: Bruce Gibson 
Interim Senior Director
Human Resources Administration

Subject: CalPERS Regulations Regarding Payment of Salary Over the Salary Maximum of a Classification

Overview

Audience: HR directors, AVPs/deans of faculty, benefits representatives, compensation managers and any other campus designees responsible for administration of salaries and/or benefits

Action Item: Provide revised letter (Attachment A) to employees hired or placed over the maximum of the salary range for their classification/skill level.

Affected Employee Groups/Units: All employees whose salary exceeds the salary maximum of his/her classification/skill level.

Summary

The California Public Employees' Retirement System (CalPERS) recently conducted an audit of certain CSU campuses for compliance with CalPERS health benefits and retirement regulations. The purpose of this technical letter is to address an audit finding concerning employees who are paid over the salary maximum of their classification, the impact on their retirement benefits, and to put in place the procedures to correct the audit finding on a systemwide basis. Campus designees responsible for salary and/or benefit administration should read the balance of this technical letter for more details.

Background

Pursuant to Government Code Section 20636(b)(1), if an employee's salary rate is over the published maximum of his/her classification as stated in the California State University salary schedule, the salary in excess of the published maximum is non reportable to CalPERS and is not includable in determining the employee's final compensation for purposes of calculating retirement benefits. In addition, the University is not permitted to make employer or employee contributions to CalPERS on salary in excess of the maximum of the salary range/skill level. The current payroll system does not have a mechanism in place to cap retirement contributions for employees paid over their salary maximum.

Distribution:

CSU Presidents
Executive Vice Chancellor and CFO
Interim Vice Chancellor, Human Resources
Budget Officers

Employee Relations Designees
Payroll Managers
State Controller's Office
California Public Employees' Retirement System

Campuses were notified of the CalPERS regulation through a memorandum from Jackie McClain dated July 19, 2007. Campuses were instructed to inform potential new hires of the regulation if the campus intended to hire the individual over the salary maximum of a classification. A model letter for this purpose was provided to the campuses.

Human Resources Administration (HRA) has been working with the State Controller's Office (SCO) to develop a payroll process to refund excess employee and CSU retirement contributions for affected employees. The process is now complete and implementation is scheduled to begin. Employees will be categorized into two groups:

1. **Employees Paid Over Salary Maximum of Range as of July 1, 2007**

CalPERS has agreed to correct this issue for employees who were paid over the maximum as of July 1, 2007. For ease of administration, employees hired or placed above the maximum during the period July 2 through July 19, 2007, are also included in this group. The SCO has created a new process to refund contributions on salary over the salary maximum made by these individuals and the CSU on a prospective basis. Additionally, the SCO will refund both the employee and employer contributions taken in error on a retroactive basis to the date the employee first went over his/her salary maximum. HRA has identified employees at nine campuses in this group. Letters from the Chancellor's Office will go out to these individuals the week of January 7, 2008. Campus presidents will receive copies of letters sent to their affected employees. An extra copy will be mailed for placement in the employee's personnel file.

2. **Employees Hired or Otherwise Placed Above the Salary Maximum of Range After July 19, 2007**

In the memorandum from Vice Chancellor McClain dated July 19, 2007, campuses were instructed to notify employees who were thereafter hired or otherwise placed above the maximum of their range about the consequences of such placement. This requirement continues to apply to campuses.

Transactions that may result in an employee being placed above the maximum of his/her range include, but are not limited to, appointment (A50), temporary appointment (A52), reassignment (A60), reclassification (A63), promotion (A64), salary rate change (SCR), demotion (A65), or layoff (S30) resulting in a demotion or reassignment to a lower level classification/skill level resulting in a red circle rate, etc.

The SCO will refund excess employee and employer contributions on a retroactive basis to the date the employee first went over his/her salary maximum. The SCO will also issue refunds of excess contributions for this group on a prospective basis.

Attachment A is an updated letter to affected employees that incorporates how the excess contribution will be refunded for employees in this group. Campuses should provide this letter to any employee hired or otherwise placed over the maximum after July 19, 2007.

Please note: Retirees hired as Rehired Annuitants are not subject to this regulation.

SCO Process to Refund Excess Retirement Contributions

Initially there will be two processes that will be implemented to refund employee and CSU excess retirement contributions as follows:

1. **Retroactive Refunds**

The retroactive refunds will be set up by fiscal year and applied to different pay periods within the current year of payment history. If there are two years of red circle rates for any given employee, the refunds will issue in different pay period months (e.g., refunds for 1999 will issue for the 01/07 pay period, refunds for 2000 will issue for the 02/07 pay period, etc.) Because retirement contributions are taken pre-tax, refunds will be subject to federal and state taxes. This refund methodology will help reduce the amount of federal and state taxes that are withheld from the refund as taxes due on the refund will aggregate with other payments that were issued in the subject pay period. Please note that the refund of excess retirement contributions does not impact Social Security or Medicare taxes.

2. **Ongoing Refunds**

Ongoing retirement withholding corrections on the excess salary will be applied to the following month's master pay resulting in a one month lag (e.g., 01/08 refund will be applied to the 02/08 master). The pay warrant will take retirement for the regular salary plus the excess salary (red circle rate) and then debit the amount of the excess salary overpayment resulting in the correct retirement contribution deduction.

Attachment B provides an example of the methodology for both the Retroactive and Ongoing Refund for a sample employee.

The SCO plans on producing a CIRS report each month to identify affected employees. Please contact Ms. Lynn Leino, Supervisor of the Retirement Unit, SCO at (916) 322-7975 when an employee is placed over the maximum of his/her salary range to ensure the employee's record is flagged for this special process.

Questions regarding this Technical Letter may be directed to Pamela Chapin in Human Resources Administration at (562) 951-4414. This Technical Letter is also available on the Human Resources Administration's Web site at: <http://www.calstate.edu/HRAdm/memos.shtml>.

BG/pc

Attachments

Dear :

The purpose of this letter is to provide you with information concerning your salary and your retirement benefit under the California Public Employees' Retirement System (CalPERS).

Pursuant to Government Code section 20636(b)(1), if an employee's salary rate is over the published maximum of his/her classification as stated in the California State University salary schedule, the salary in excess of the published maximum is non reportable to CalPERS and is not includable in determining the final compensation for purposes of calculating retirement benefits. The employee and the university do not pay contributions to CalPERS on salary in excess of the maximum of the salary range.

You are receiving this letter because your salary rate of \$_____ exceeds the maximum of the salary range for your classification of _____. The maximum salary range for _____ is \$_____. As a result, the (difference in \$) in excess salary you earn over the published maximum of your classification is non reportable to CalPERS, is not subject to retirement contributions or used to determine your highest level of compensation for the retirement formula.

Because the state payroll system does not currently have a process to cap excess contributions, on a prospective basis, the State Controller's Office (SCO) will manually adjust your check to correct your retirement contribution. Ongoing retirement withholding corrections on the excess salary will be applied to your following month's pay warrant resulting in a one month lag (e.g., 01/08 refund will be reflected on your 02/08 pay warrant). The pay warrant will show a credit retirement deduction for the regular salary plus the excess salary over the maximum and then a debit retirement deduction for the regular salary minus the excess salary for the previous month. This will correct your retirement contributions and result in a refund of the difference in the deduction amounts to you. This correction process will begin with the _____ pay period and continue as long as your salary exceeds the maximum salary range of your classification.

If you have any questions, please contact _____ in _____ at _____.

Sincerely,

Cc: Personnel file
Employee's Manager/supervisor
President

Please sign below to acknowledge receipt of this information and return a copy to your Human Resources department.

Signature

Date

This example represents the CalPERS adjustment calculations using an actual record Salary Rate before the 07/01/07 salary increase (see Retroactive Pay Period Calculation) and after the 07/01/07 salary increase (see Current Calculation).

RED CIRCLE RATE RETIREMENT CONTRIBUTION REFUNDS

CURRENT CALCULATION				RETROACTIVE PAY PERIOD CALCULATIONS			
$ \begin{array}{r} 10,562.00 \text{ (Actual Salary)} \\ - \quad 77.00 \text{ (Red Circle Rate)} \\ \hline = 10,485.00 \text{ (Gross Subject to Retirement)} \\ - \quad 513.00 \text{ (Retirement Exclusion Amt.)} \\ \hline 9,972.00 \\ \times \quad 5\% \\ \hline = 498.60 \text{ (Retirement Withheld Reported)} \end{array} $				$ \begin{array}{r} 10,084.00 \text{ (Actual Salary)} \\ - \quad 1692.00 \text{ (Red Circle Rate)} \\ \hline = 8392.00 \text{ (Gross Subject to Retirement)} \\ - \quad 513.00 \text{ (Retirement Exclusion Amount)} \\ \hline = 7,879.00 \\ \times \quad 5\% \\ \hline = 393.95 \text{ (Retirement Withheld Should Be Reported)} \end{array} $			
CalPERS Retirement Reporting							
Pay Periods After 07/01/07				Pay Periods Prior to 07/01/07			
	Pay Rate	Wages Paid	Ret. Withheld	Withheld	Pay Rate	Wages Paid	Ret.
Was Reported:	10,562.00	10,562.00	502.45		10,084.00	10,084.00	478.55
Should be Reported:	10,485.00	10,485.00	<u>498.60</u>	Was Reported:	8,392.00	8,392.00	<u>393.95</u>
		Employee Refund	3.85	Should be Reported:		Employee Refund:	84.60