



December 10, 2024

Re: New Rules for Pay Code Review and Overpayment Corrections (Passage of Assembly Bill 3025)

Dear Participating Employer,

The purpose of this notice is to make you aware of a recent legislative change establishing new processes for county retirement systems to conduct pay code review and handle overpayment corrections. The California Legislature recently enacted Assembly Bill 3025, which goes into effect on January 1, 2025, as Section 31541.2 of the Government Code. For the most part, CCCERA and its participating employers are already following procedures in line with the new law.

However, in certain circumstances, this law can directly affect participating employers like you, because it outlines new payment obligations for employers if “disallowed compensation” is paid to retired members, beneficiaries, or survivors. The new law defines disallowed compensation as reporting errors where a pay item was reported as pensionable when it should have been treated as non-pensionable. The legislative record indicates the intent of this law is to mitigate the financial burden of collecting benefit overpayments from the retired member, survivor, or beneficiary, and to shift that burden to the employer.¹

Background

Generally, it is rare for a pay item to be reported as pensionable when it should have been treated as non-pensionable. That’s because CCCERA’s participating employers typically report newly created pay items to CCCERA for review, in compliance with Board of Retirement Regulations. New pay items are subsequently reviewed by CCCERA staff, and we determine whether the item is reportable as “pensionable compensation.” Items determined to be pensionable can then be reported to CCCERA, and items which are not pensionable are not reported.

How will the new law affect retirees and their previous employer?

For a retired member, survivor, or beneficiary whose benefit was calculated based on the inclusion of disallowed compensation, the new law requires the following:

- **Benefit recalculation and adjustment.** CCCERA will permanently adjust the benefit of the affected retired member, survivor, or beneficiary to reflect the exclusion of the disallowed compensation.

¹ August 21, 2024, Assembly Floor Analysis of AB 3025, p. 4.

- **Employer reimbursement of overpaid benefit.** The employer who reported the disallowed compensation must pay CCCERA the full cost of any overpayment previously made to the affected retired member, survivor, or beneficiary related to the disallowed compensation.
- **Employer payment to member.** The bill requires the employer to pay to the affected retired member, survivor or beneficiary, an amount that is 20% of the actuarial equivalent present value of the following calculation: (1) the difference between the monthly allowance that included the disallowed compensation and the newly adjusted monthly allowance that excluded it; (2) multiplied by the duration that CCCERA is projected to pay the benefit to the affected retired member, survivor, or beneficiary. The bill requires that the employer begin payment within six months of notice from CCCERA, and the employer may have up to four years to complete the payment. CCCERA may also charge the employer the costs of actuarial services provided.

How will the new law affect active members and their employer?

For active members, the new law outlines rules that are generally in line with CCCERA's current policies and practices. Namely, if disallowed compensation is identified during the member's active employment with the participating employer, CCCERA must: (a) credit employer contributions made on disallowed compensation against future contribution liabilities owed by the employer; and (b) return member contributions paid on disallowed compensation to the member. More minor provisions of the new law outline reporting requirements that CCCERA would follow in the event we need to make a correction, and guidelines for CCCERA and employers to follow when a new pay code is created.

To ensure compliance with the law and stay up to date on current practices, please continue to follow the pay code approval process outlined in our Participating Employers Handbook, available on the Employers page of our website at cccera.org. If you have any questions about existing pay codes or the new law, you can send an email to our Employer Support Team at employers@cccera.org. We're always happy to help with any questions you may have about this or any other topic.

Respectfully,



Christina Dunn
Chief Executive Officer