REGULATORY PROPOSAL: Updates to Penalties and Interest Regulations

SUMMARY

The purpose of this regulatory proposal is to secure direction from the board to move forward in preparation for future initiation of the formal rulemaking process to adopt amendments to the existing Penalties and Interest regulations that add clarifying language and address some common scenarios that have arisen over the past decade.

RECOMMENDATION

Staff recommends that the board direct staff to begin drafting proposed amendments to the existing Penalties and Interest regulations. The board's policy is to support or sponsor regulations that provide more effective and efficient administration of the retirement plan.

BACKGROUND

Existing regulations, first enacted in 2012, are intended to ensure CalSTRS receives payroll files and contributions in a timely manner. The regulations also ensure that the system is made whole for any interest and state contributions that are lost due to late reporting of creditable compensation. After 10 years of application, there are scenarios that the current regulations do not contemplate due to legislative and regulatory changes that have occurred since their adoption, including the Public Employees' Pension Reform Act (PEPRA) in 2013, the CalSTRS Funding Plan in 2014, the Creditable Compensation regulations in 2015 and AB 1667 (Cooper) in 2023. Additionally, there are specific limitations with the CalSTRS legacy pension administration system that impact employers under certain circumstances when they submit reporting corrections, resulting in penalty and interest assessments.

PROPOSED CHANGES

If directed to move forward, a drafting team would be formed to craft amendments to the existing Penalties and Interest regulations that would add clarifying language and simplify how they are administered in particular situations. The drafting team would explore adding some exemptions to the assessment of penalties and interest and addressing some conditions that have resulted from the enactment of PEPRA, the funding plan, the Creditable Compensation regulations and AB 1667. More specifically, the drafting team would explore codifying existing practice around charging interest on outstanding invoices and excusing employers from penalties that are not consistent with the intent of the existing regulations.

NEXT STEPS

With the board's approval, staff will engage with stakeholders and form an internal drafting team that will develop proposed amendments to existing regulations. Those proposed amendments will be presented to the board at a future meeting for direction to initiate the formal rulemaking process.