



Circular Letter

Annual Cash Outs of Paid Time Off (PTO) – Vacation, Sick, Annual Leave

January 16, 2019

To: All OCERS Employers

Subject: Annual Cash Outs of PTO for Legacy Members – Vacation, Sick, Annual Leave

OCERS is in the process of reviewing all salary and pay items to ensure proper reporting of pensionable pay. Employee and employer contributions are associated to pensionable salary and pensionable pay items that are paid biweekly throughout a member's career. Any liability associated to pensionable pay that is not reported correctly on a biweekly basis becomes part of the annual actuarial rate setting process. We believe, and our actuary agrees, that it is a better business practice to have pensionable pay reported and contributions collected biweekly. However, we understand the constraints and challenges for employers to accurately report cash outs of paid time off (PTO) including vacation, annual leave and other hours of paid time off on a biweekly or annual basis.

The purpose of this Circular Letter is to provide guidance to employers on how PTO cash outs for Legacy members will be handled for all employers.

Background:

OCERS Board Resolution 98-001 and Compensation Earnable Policy set forth policies and guidelines regarding compensation earnable used to calculate a Legacy member's retirement benefit. Legacy members refer to employees who were members of OCERS prior to January 1, 2013. The resolution states: "*Elements to be Included in 'Compensation Earnable'*". Remuneration earned and receivable in cash (under applicable MOU) to the retiring employee during the final compensation period for working the ordinary time required of other employees in the same grade/class shall be included in 'compensation earnable', including but not limited to the following items of compensation, and others substantially similar to them:

Payoffs of Vacation and Sick Leave and Holiday to the extent earned (pro-rated on a monthly basis), not taken as time off and permitted to be cashed out (pro-rated on a monthly basis) under the applicable MOU regardless of when actually cashed out.

In accordance with the policy, cash outs of unused PTO - vacation, sick leave and annual leave, up to the amount that is earnable and cashable in a 12-month period under the applicable MOU, may be included in a retiring Legacy member's final average salary. Contributions are required on compensation earnable pay items (pensionable pay) and are typically transmitted to OCERS on a biweekly basis.



Circular Letter

Annual Cash Outs of Paid Time Off (PTO) – Vacation, Sick, Annual Leave

January 16, 2019

Pursuant to Government Code Section 7522.34 and set forth in OCERS Pensionable Compensation Policy¹, cash outs and payments for unused PTO are explicitly excluded from Pensionable Compensation for PEPRA members. PEPRA members include employees who became an OCERS member on or after January 1, 2013.

Reporting:

- In light of the difficulties in accurately reporting cash outs of leave on a biweekly or annual basis, OCERS will NOT require leave cash outs to be reported as pensionable.
- OCERS retirement contributions will NOT be deducted from any leave pay outs, including those paid out annually.
- Leave pay outs will NOT be included in the calculation of benefit estimates for members until they retire.

Reconciliation at Retirement:

- All applicable cash out payments will be added to the retiring member's final average salary, as appropriate, at the time of retirement.
- OCERS staff will work with the employer to determine the appropriate amount to include in the retiring Legacy member's final average salary that will be used to calculate the member's retirement benefit.
- Any amount manually added to the retiring member's final average salary will be reported to OCERS' actuary through the annual actuarial rate setting process; any liability associated to the leave pay outs will be incorporated into the employer and employee contribution rates ("load factor").

If you have any questions or need additional information please contact me at (714) 558-6215 or via email at sjenike@ocers.org.

Suzanne Jenike
Assistant CEO, External Operations

¹ Policy is pending final adoption by the Board of Retirement