

**1. SCOPE OF POLICY**

CERL §31461 defines “Compensation earnable” and outlines compensation types deemed as excluded for purposes of pension calculations.

PEPRA members are not allowed to utilize vacation cashout pay to increase compensation earnable. Subject to limitations, legacy (pre-PEPRA, joined plan prior to 2013) pension members can utilize vacation cashout payments to increase their eligible compensation which can increase the final monthly pension benefit. For the pay to be considered eligible, it must be taken while the employee is actively employed. The amount cannot exceed what is accrued by the member annually or what is allowed to be paid annually to the member.

Subject to the provisions of employer MOUs, employees can take vacation cashouts which are typically limited by the fiscal year or in some cases limited by the calendar year. The practice of “straddling” references where an employee takes a cashout near the end of one year and then takes another cashout near the beginning of the next year. This can create a situation where a legacy member that is retiring can have over the annual maximum vacation cashout in the pension measurement period (12 months or 36 months) used to determine compensation earnable.

**2. HISTORY**

Prior to July 1, 2024, StanCERA allowed members to “straddle” and utilize vacation cashout pay above the annual limit imposed under the employer MOU.

Effective July 1, 2024, StanCERA does NOT allow eligible retiring members to utilize vacation cashout pay above what is normally allowed to be paid in one year for purposes of determining “compensation earnable” for use in the calculation of monthly pension benefits. For members that “straddle” vacation cashout payments, StanCERA will limit the portion of the vacation cashout that is deemed as pension-eligible to the annual limit imposed by the Employer, which could be either a fiscal year limit or a calendar year limit. If the pension measurement period for the retiring member is three years, that member will be limited to the maximum annual cashout for each of the three years used in the pension calculation.

**3. METHODOLOGY**

The compensation earnable period utilized will be based on the highest average for the member as initially determined by the system. Per CERL §31462.1, members may request a different period. In the event that a member takes multiple vacation cashouts during the compensation earnable period, StanCERA staff will utilize the maximum cashout allowed by the employer annually (under the established MOU if applicable), using the highest amount paid, up to a maximum of the amount accrued during one year. This limitation is applied to each year for a three-year average. Multiple cashouts during the same measurement period can be used if it falls within the maximum allowed under the MOU for the member. Members may contact StanCERA with any questions about vacation cashouts as it relates to compensation earnable for pension calculation purposes.