

PENSION PLAN LIMITS FOR TAX YEAR 2015

The purpose of this circular is to alert employers that the Internal Revenue Service has announced the pension plan limits for tax year 2015 and to inform employers of the creditable compensation limit under the Teachers' Retirement Law for California State Teachers' Retirement System (CalSTRS) members and participants who are subject to the California Public Employees' Pension Reform Act of 2013 (PEPRA). The following limits apply to benefits paid and compensation creditable to the Defined Benefit (DB), the Defined Benefit Supplement (DBS) and the Cash Balance (CB) Benefit programs. CalSTRS is not authorized to give tax advice; accordingly, if you have any questions about these or any other Internal Revenue Code (IRC) sections, please contact your tax advisor or the Internal Revenue Service.

Internal Revenue Code Section 401(a)(17) Compensation Limit

IRC 401(a)(17) limits creditable compensation that may be counted toward a CalSTRS retirement benefit for all persons who became a CalSTRS DB member or CB participant on or after July 1, 1996.

The compensation limit in effect from July 1, 2014, through June 30, 2015, is \$260,000. The compensation limit for the 2015 plan year is \$265,000 and becomes effective on July 1, 2015.

If you have an employee who will earn compensation in excess of this limit *and* the employee became a CalSTRS member or participant on or after July 1, 1996, please contact your CalSTRS Member Account Services Employer Representative for reporting instructions. Employer and member contributions to the DB, the DBS and the CB Benefit programs should not be taken on the excess amount.

Creditable Compensation Limit for CalSTRS 2% at 62 Members and CB Participants Subject to PEPRA

The California Public Employees' Pension Reform Act of 2013 (PEPRA) limits creditable compensation that may be counted toward a CalSTRS retirement benefit for all CalSTRS members and CB participants subject to PEPRA. A person is not subject to PEPRA if he or she was first hired on or before December 31, 2012, to perform service subject to coverage by the DB or CB Benefit program, even if that person's service was credited to a different retirement program, such as Social Security or another alternative plan. In addition, persons who were first hired on or after January 1, 2013, to perform service subject to coverage in the DB or CB Benefit program, but who were members of a concurrent retirement system on or before December 31, 2012, and who performed service in that system within six months of becoming a CalSTRS DB member or CB participant would also not be subject to PEPRA. These individuals are known as CalSTRS 2% at 60 members and CB participants not subject to PEPRA. All other persons first

hired on or after January 1, 2013, are subject to PEPRA, and are known as CalSTRS 2% at 62 members and CB participants subject to PEPRA. This creditable compensation limit is not applicable to CalSTRS 2% at 60 members or CB participants not subject to PEPRA.

The creditable compensation limit is applicable to compensation creditable to DB, DBS and CB Benefit programs combined, and is based on 120 percent of the 2013 Social Security contribution and benefit base, adjusted annually for changes to the Consumer Price Index for All Urban Consumers: U.S. City Average.

The creditable compensation limit for CalSTRS 2% at 62 members and CB participants subject to PEPRA in effect from July 1, 2014, through June 30, 2015, is \$137,941.

If you have an employee who will earn creditable compensation in excess of this limit, please contact your CalSTRS Member Account Services Employer Representative for reporting instructions. Employer and member contributions to the DB, the DBS and the CB Benefit programs should not be taken on the excess amount.

CalSTRS will publish a separate employer information circular to inform employers of the compensation limit for CalSTRS 2% at 62 members and CB participants subject to PEPRA that will be effective July 1, 2015.

Internal Revenue Code Section 415(b) Retirement Benefit Limit

IRC Section 415(b) is a federal provision that limits the amount of annual retirement benefit a CalSTRS 2% at 60 member can receive from a tax-qualified defined benefit pension plan, such as CalSTRS. The annual retirement benefits payable from CalSTRS retirement plan are subject to the dollar limits imposed by IRC 415(b). CalSTRS 2% at 62 members are not eligible for the Replacement Benefits Program.

The limitation on the annual benefit for CalSTRS members, age 65, who participate in the CalSTRS DB Program is \$179,609 for the 2015 calendar year.

The limit is actuarially adjusted for retirement before and after age 65. For example, the limit for members age 55 with less than 30 years of service is \$106,562; the limit for members at age 55 with more than 30 years of service is \$107,179; and the limit for members age 70 is \$183,557.

Any benefits due to members and participants in excess of this limit are payable from the Replacement Benefits Program administered by CalSTRS. No action is required by employers to initiate payment of benefits under the Replacement Benefits Program. However, under federal law, if members or participants were paying the Medicare Part A payroll tax when employed, payments from the Replacement Benefits Program will also be subject to the payroll tax deduction. CalSTRS will work with the member regarding any tax deductions under this part.

If you have any questions regarding this circular, please contact your CalSTRS Member Account Services Employer Representative.