

Employer Information Circular



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External Affairs and Program Development Branch

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IRS ESTABLISHES PENSION PLAN LIMITS FOR TAX YEAR 2001

The purpose of this circular is to inform employers that the Internal Revenue Service (IRS) has established new pension plan limits for Tax Year 2001. The following limits apply to members and participants of CalSTRS. CalSTRS is not authorized to give tax advice, accordingly, if you have any questions about these or any other Internal Revenue Code sections, please contact your tax counsel or the IRS.

The IRS recently announced cost-of-living adjustments to the (IRC) Section 415(b) defined benefit plan dollar limit. The new limit, applicable to all benefits payable from CalSTRS, is \$140,000 for Calendar Year 2001. This is an increase of \$5,000 over the \$135,000 limit for Calendar Year 2000. This limit is applied annually to the employer provided benefits of a member who retires between ages 62 and 65. The limit is actuarially reduced for retirement at less than age 62 and actuarially increased for retirement at greater than age 65. Any benefits due a member in excess of this limit are payable from the Replacement Benefits Program administered by CalSTRS. Under federal law if a member was paying the Medicare payroll tax when employed, payments from the Replacement Benefit Program also will be subject to the payroll tax deduction. Employers of members who will receive payment from the Replacement Benefits Program will be contacted to verify Medicare coverage.

The IRC Section 401(a)(17) compensation limit for Calendar Year 2001 remains unchanged at \$170,000. This limit is applicable to all persons who became members or participants of CalSTRS on or after July 1, 1996. Compensation in excess of this limit is not creditable to CalSTRS and is not subject to employer or member contributions. If you have an employee who may earn compensation in excess of this limit and the member has a membership date on or after July 1, 1996, please notify your CalSTRS Membership Division Pension Program Representative.