

Employer Information Circular

Volume 25; Issue 4

April 14, 2009

PENSION PLAN LIMITS FOR TAX YEAR 2009

The purpose of this circular is to alert employers that the Internal Revenue Service has announced the pension plan limits for tax year 2009. The following limits apply to benefits paid and compensation attributable to the Defined Benefit (DB), the Defined Benefit Supplement (DBS), and the Cash Balance (CB) Benefit Programs.

Internal Revenue Code Section 415(b) defined benefit plan dollar limit. The limit for calendar year 2009 is \$195,000, which is an increase of \$10,000 from the \$185,000 limit for calendar year 2008.

Effective January 1, 2007, limits decreased for plans—such as CalSTRS—with fixed rate Cost of Living Adjustments (COLAs) and age factors that do not continue to increase past age 65. For calendar year 2009, the limit applicable to CalSTRS' members at age 65 is \$167,067. The limit is actuarially reduced for retirement at less than age 62 (for example, \$99,114 at age 55) and slightly adjusted for retirement at greater than age 65 (for example, \$170,725 at age 70). This limit is applied annually to the employer-provided benefits of members and participants who retire between ages 62 and 65.

Any benefits due members and participants in excess of this limit are payable from the Replacement Benefits Program administered by CalSTRS. 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.

Internal Revenue Code Section 401(a)(17) compensation limit. The compensation limit is applicable to all persons who became members or participants of CalSTRS on or after July 1, 1996. The compensation limit for plan year 2008-09 is \$230,000. The limit for the calendar year in which the CalSTRS plan year commences remains in effect for the entire plan year. Therefore, the compensation limit for plan year 2008-09 is the calendar year 2008 compensation limit of \$230,000.

The compensation limit for calendar year 2009 has been increased to \$245,000. Therefore, the compensation limit for plan year 2009-10, which begins July 1, 2009, will also increase to \$245,000. Any compensation in excess of this limit is not creditable compensation. Therefore, employer and member contributions to the DB, the DBS, and the CB Benefit Programs should not be taken on the excess amount. 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.

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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 Internal Revenue Service.