

# Employer Information Circular



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## **NEW PENSION PLAN LIMITS FOR TAX YEAR 2002**

The purpose of this circular is to alert employers that new federal legislation, the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001, has established new pension plan limits for tax year 2002. The following limits apply to CalSTRS members of the Defined Benefit Program and participants of Cash Balance Benefit Program. 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 counsel or the Internal Revenue Service (IRS).

EGTRRA has increased the IRC Section 415(b) defined benefit plan dollar limit. The new limit for calendar year 2002 is \$160,000 and is applicable to all benefits payable from CalSTRS. This is an increase of \$20,000 over the \$140,000 limit for calendar year 2001. This limit is applied annually to the employer provided benefits of members and participants who retire 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 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 payroll tax when employed, payments from the Replacement Benefits Program will also be subject to the payroll tax deduction. Employers of members and participants who will receive payment from the Replacement Benefits Program will be contacted to verify Medicare coverage.

EGTRRA also increased the IRC Section 401(a)(17) compensation limit. The new limit for tax year 2002 is \$200,000. This is an increase of \$30,000 over the \$170,000 limit for tax year 2001. 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 employee became a CalSTRS member or participant on or after July 1, 1996, please notify your CalSTRS Membership Division Pension Program Representative.