

Employer Information Circular

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PENSION PLAN LIMITS FOR TAX YEAR 2004

The purpose of this circular is to alert employers that the Internal Revenue Service (IRS) has announced the pension plan limits for tax year 2004. The following limits apply to CalSTRS members of the Defined Benefit (DB) Program, including benefits paid from and compensation attributable to the Defined Benefit Supplement (DBS) Program, as well as participants of the Cash Balance (CB) 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 IRS.

IRC Section 415(b) defined benefit plan dollar limit. The limit for calendar year 2004 is \$165,000 and is applicable to all benefits payable from CalSTRS. This is an increase of \$5,000 from the \$160,000 limit for calendar year 2003. 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 (for example, \$98,605 at age 55) and actuarially increased for retirement at greater than age 65 (for example, \$260,106 at age 70). 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. Employers of members and participants who will receive payment from the Replacement Benefits Program will be contacted to verify Medicare coverage.

IRC 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 2003-04 is \$200,000. 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 2003-04, which begins July 1, 2003 is the calendar year 2003 compensation limit of \$200,000.

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The compensation limit for calendar year 2004 has been increased to \$205,000. Therefore, the compensation limit for plan year 2004-05, which begins July 1, 2004, will also increase to \$205,000. Any compensation in excess of this limit is not creditable compensation and neither employer nor member contributions to the DB Program, the DBS Program, or the CB Benefit Program should 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 Membership Pension Program Representative for reporting instructions.