

Employer Information Circular

Volume 20; Issue 7

December 17, 2004

PENSION PLAN LIMITS FOR TAX YEAR 2005

The purpose of this circular is to alert employers that the Internal Revenue Service (IRS) has announced the pension plan limits for tax year 2005. The following limits apply to CalSTRS members of the Defined Benefit Program, including benefits paid from and compensation attributable to the Defined Benefit Supplement Program, as well as participants of the 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 IRS.

IRC Section 415(b) defined benefit plan dollar limit. The limit for calendar year 2005 is \$170,000 and is applicable to all benefits payable from CalSTRS. This is an increase of \$5,000 from the \$165,000 limit for calendar year 2004. 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, \$101,592 at age 55) and actuarially increased for retirement at greater than age 65 (for example, \$267,988 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 2004-05 is \$205,000. 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 2004-05 is the calendar year 2004 compensation limit of \$205,000.

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The compensation limit for calendar year 2005 has been increased to \$210,000. Therefore, the compensation limit for plan year 2005-06, which begins July 1, 2005, will also increase to \$210,000. Any compensation in excess of this limit is not creditable compensation. Therefore, employer and member contributions to the Defined Benefit Program, the Defined Benefit Supplement Program, and the Cash Balance Benefit Program should be 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.