

Employer Information Circular

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PENSION PLAN LIMITS FOR TAX YEAR 2011

The purpose of this circular is to alert employers that the Internal Revenue Service has announced the pension plan limits for tax year 2011. 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 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 calendar year 2011 remains unchanged at \$245,000. Therefore, the compensation limit for plan year 2011-2012, which began July 1, 2011, is \$245,000. 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. Employer and member contributions to the DB, the DBS, and the CB Benefit Programs should not be taken on the excess amount.

Internal Revenue Code Section 415(b) defined benefit plan dollar limit. Effective January 1, 2011 the limitation on the annual benefit under a defined benefit plan for the calendar 2011 remains unchanged at \$195,000.

For retirement plans such as CalSTRS, with fixed rate Annual Benefit Adjustments, also known as Cost of Living Adjustments (COLAs), and age factors that do not continue to increase past age 65, the IRS has been reducing the limit since January 1, 2007. Consequently, instead of \$195,000, for calendar year 2011, the limit applicable to CalSTRS' members is \$166,970 at age 65. The limit is actuarially reduced for retirement at less than age 62 (for example, \$99,059 at age 55 with less than 30 years and \$99,439 at age 55 with more than 30 years) and slightly adjusted for retirement at greater than age 65 (for example, \$170,631 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.