

PENSION PLAN LIMITS FOR TAX YEAR 2013

The purpose of this circular is to alert employers that the Internal Revenue Service has announced the pension plan limits for tax year 2013 and to inform employers of the compensation limit for CalSTRS members and participants who are first hired to perform creditable service on or after January 1, 2013. 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. 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 advisor or the Internal Revenue Service.

Internal Revenue Code Section 401(a)(17) Compensation Limit

The limit remains at \$250,000 for the 2012-13 plan year from July 1, 2012 thru June 30, 2013. The compensation limit for the 2013 year will increase by \$5,000 to \$255,000 and becomes effective as of July 1, 2013. 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.

California Public Employees' Pension Reform Act of 2013 Compensation Limit

For all persons who are first hired to perform service subject to coverage by the DB Program on or after January 1, 2013, such as CalSTRS 2% at 62 members, the California Public Employees' Pension Reform Act of 2013 limits creditable compensation that may be counted toward CalSTRS retirement benefit. The compensation limit is limited to 120 percent of the 2013 Social Security wage base and is adjusted annually based on changes to the Consumer Price Index for All Urban Consumers. For 2013, the compensation limit is \$136,440.

Internal Revenue Code Section 415(b) Defined Benefit Plan Dollar Limit

Beginning January 1, 2013, the limitation on the annual benefit for CalSTRS members, age 65, who participate in the State Teachers' Retirement plan is \$175,432 for the 2013 calendar year.

The limit is actuarially reduced for retirement at less than age 62 (for example, \$104,081 at age 55 with less than 30 years and at age 55 with more than 30 years' service \$104,583) and slightly adjusted for retirement at greater than age 65 (for example, \$179,283 at age 70).

(Continued on next page . . .)



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.

CalSTRS 2% at 62 members are not eligible for the Replacement Benefit Program.

If you have any questions regarding this circular, please contact your CalSTRS Member Account Services Representative.