Date: June 28, 2005

To: Human Resources Directors
Benefits Officers
Payroll Managers

From: Cathy Robinson
Assistant Vice Chancellor
Human Resources Administration

Subject: **CalPERS Reporting Instructions for IRC 401(a)(17) Compensation Limits**

Internal Revenue Code (IRC) 401(a)(17) provides dollar limitations on benefits and contributions under qualified retirement plans, including the California Public Employees’ Retirement System (CalPERS). The 2005 calendar limit is $210,000. The purpose of this technical letter is to highlight processing instructions provided by CalPERS in Circular Letter 200-200-05 (Attachment 1), regarding reporting procedures.

Employees who first became members of CalPERS on or after July 1, 1996, are subject to the 401(a)(17) limit, which restricts the amount of final compensation that can be used to calculate the CalPERS retirement benefit. Employees subject to the limit are exempt from making contributions to CalPERS on earnings that exceed the current year maximum. However, campuses must continue to report the appropriate contribution code and pay the employer portion of contributions on all earnings that accrue in a calendar year, even those above the maximum, so that these employees continue to earn service credit.

At this time, CalPERS does not have an automated process to determine when CSU employees have met and/or exceeded IRC 401(a)(17) limits. Therefore, when an affected employee’s compensation meets the calendar year limit, CalPERS must be notified during the pay period the limit is met. A notice that campuses can use to communicate this information to CalPERS is attached (Attachment 2).

Additionally, CalPERS determined that campuses, in some cases, were not properly reporting the appropriate amount(s) of contributions on behalf of employees affected by the IRC 401(a)(17) limits. Consequently, CalPERS is retroactively correcting the service credit records on a year-by-year basis for employees who exceeded the 401(a)(17) maximum.

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**Distribution:**

CSU Presidents
Vice Chancellor, Human Resources
Director, SOSS
CalPERS is currently invoicing the CSU for the service credit as follows: For months or partial months in which an employee's year-to-date salary exceeded the 401(a)(17) maximum, CalPERS is applying a 17.022% employer contribution rate (current rate) to all retroactive excess salaries regardless of the employer contribution rate for a particular fiscal year.

The method of using the current employer contribution rate is based on Section 20533 of the California Government Code that states: "If correction of the amount of compensation reported requires additional employer contributions, the contributions shall be computed using the employer rate in effect at the time of the adjustment."

If it is determined that an employee has overpaid the employee portion of contributions in excess of the IRC 401(a)(17), the campus must make the necessary adjustments, and refund any excess contributions directly to the employee.

Please refer to the attached CalPERS Circular Letter to review additional processing instructions.

Please note: Information discussed in this technical letter does not apply to employees who became members of CalPERS prior to July 1, 1996.

Questions regarding this technical letter may be directed to Michelle Hamilton at (562) 951-4413. This technical letter is also available on Human Resources Administration’s Web site at: http://www.calstate.edu/HRAdm/memos.shtml.

CR/mh
Attachments
Circular Letter

TO: STATE AGENCIES, AGRICULTURAL DISTRICTS, PUBLIC AGENCIES, STATE COLLEGES & UNIVERSITIES, COUNTY SUPERINTENDENTS OF SCHOOLS AND INDIVIDUAL SCHOOL DISTRICTS

SUBJECT: 2005 COMPENSATION LIMITS (IRC SECTION 401(a)(17))

Section 401(a)(17) of the Internal Revenue Code provides dollar limitations on benefits and contributions under qualified retirement plans. The purpose of this circular letter is to update you on the limit on compensation for 2005 and outline the procedures for reporting a member who has reached the limit.

The compensation limit for the 2005 calendar year is $210,000. The limit for previous years is as follows:

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<td>$170,000</td>
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The compensation limit is only applicable to persons who first became members or participants of California Public Employees' Retirement System (CalPERS) on or after July 1, 1996. For those members who are subject to the limit, their final compensation will be capped at the limit in effect for each 12 consecutive-month period that is used to calculate their allowance if they were to retire. Therefore, the member should not make contributions on earnings that exceed the $210,000 limit within this calendar year. The earnings that are mentioned are those earnings that are reportable to CalPERS, which exclude earnings for overtime, automobile allowances, lump sum payouts, etc. The compensation limit does not limit the salary an employer can pay an employee who is a member of CalPERS.
If you have such an employee whose compensation reaches the limit, the following should be done:

- Send a notice to the following address indicating the member's name, Social Security number and period in which the employee's compensation first exceeded the limit:

  California Public Employees' Retirement System  
  Attn: Payroll Manager  
  P.O. Box 942709  
  Sacramento, CA  94229-2709

- Continue reporting Pay Code, Pay Rate, Member Earnings and a Contribution Code (01 or 11), but no member contributions for the periods that remain in the calendar year. Reporting the contribution code allows the employee to continue earning service credit without making contributions on earnings that exceed the limit. While the law limits employee contributions, employer contributions should still be paid on all earnings that are reported. If an employee's pay rate increases after the time you cease reporting contributions, please indicate the higher pay rate and earnings on your payroll transaction in case legislation were to change the original limits established for the year.

- Once the calendar year is over, resume reporting contributions for your employee and begin the monitoring for the new calendar year.

- If an employee has already reached the limit and the above has not been done, please use a CalPERS Contribution Code 02 or 12 to make a prior period contribution adjustment and reverse contributions for each period that was reported to CalPERS on earnings that exceeded the limit. Federal law does not allow CalPERS to refund over-reported contributions to an active member of the system. The employer must report these adjustments and refund the money to the employees themselves.

At this time, employer monitoring of their employees' compensation is the only means CalPERS has to determine if limits are exceeded. CalPERS plans to incorporate an automated means to monitor employee compensation and identify those that exceed the limit in the new contribution reporting system that is currently in the beginning stages of being developed. If you have any questions regarding the limits, please contact the Employer Contact Center at (888) CalPERS (225-7377).

Lori McGartland, Acting Chief  
Actuarial and Employer Services Division
<Date>

California Public Employees’ Retirement System
Attention: Payroll Manager
P.O. Box 942709
Sacramento, CA 94229-2709

Dear Payroll Manager:

The following employee has met the IRC 401(a)(17) compensation limits for this calendar year. Please be advised that the employee will exceed the current compensation limits effective with the ____________ payroll period.

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<th>Employee Name</th>
<th>Social Security Number</th>
<th>Earnings to Date</th>
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<td>XXX-XX-XXXX</td>
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As a result, employee contributions to CalPERS for the remainder of this calendar year will be discontinued. Pursuant to CalPERS guidelines, our office will continue to report and remit employer contributions on behalf of this individual.

If you need additional information, please contact our office at ____________.

Sincerely,

Designated Campus Representative

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