To: Human Resources Officers
Benefits Officers

From: Evelyn Nazario
Assistant Vice Chancellor
Human Resources Management

Subject: 2012 Tax Year Update of Internal Revenue Code (IRC) Limits that Impact Retirement Plans

Overview

Audience: Benefits Officers or campus designee(s) responsible for:
- Communicating information to employees regarding 403(b), 401(k) and/or 457 retirement plans; or
- Administration of the California State University (CSU) Tax Sheltered Annuity (TSA) 403(b) Program; and/or
- Payroll reporting of CalPERS compensation limits.

Action Item: Information Only

Affected Employee Groups/Units: All employees eligible to participate in one or more of the above three savings plans.

Summary

This technical letter provides campuses with pertinent information with regard to the following:

- 2012 Internal Revenue Code (IRC) elective deferral and catch-up contribution limits for 403(b), 401(k) and 457 plans; and
- 2012 compensation limits for retirement withholding and defined benefits.

With the exception of the catch-up contribution limit amounts, elective deferral and compensation limits will increase for 2012.

This technical letter should be reviewed in its entirety by Benefits Officers and any campus designees responsible for administration of the CSU Tax Sheltered Annuity Program.

On October 20, 2011, the IRS announced that the current Internal Revenue Code (IRC) limits for 402(g), 457(e)(15) will increase, and 414(v) limits in 2011 will remain the same for 2012. A summary of the IRC limits is listed below:

<table>
<thead>
<tr>
<th>Internal Revenue Code Limit</th>
<th>Tax Year 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>402(g) elective deferral limit for 401(k) and 403(b) plans</td>
<td>$17,000</td>
</tr>
<tr>
<td>457(e)(15) contribution limit for 457 plans</td>
<td>$17,000</td>
</tr>
<tr>
<td>415(c) “percentage of compensation limit” – 100% of adjusted gross salary up to:</td>
<td>$50,000</td>
</tr>
<tr>
<td>414(v) Age Based (50) catch-up contribution limit</td>
<td>$5,500</td>
</tr>
<tr>
<td>401(a)(17) Compensation Limit</td>
<td>$250,000</td>
</tr>
<tr>
<td>415(b) Defined Benefit Plan Limit</td>
<td>$200,000</td>
</tr>
</tbody>
</table>

Distribution:
CSU Presidents          Payroll Managers          Lupe Vela, DPA Savings Plus Program
Vice Chancellor, Human Resources   Debbie Green, State Controller’s Office

IRC 401(a)(17) Compensation Limit
IRC Section 401(a)(17) caps the annual compensation that can be taken into account in determining contributions and benefits under tax qualified plans. In 2012, this amount increases to $250,000. Please be advised that CSU employees who first became members of CalPERS prior to July 1, 1996, are exempt from the 401(a)(17) compensation limit.

IRC 415(b) Defined Benefit Plan Limit
IRC Section 415(b) places a dollar limit on the annual benefit an individual can receive from a tax qualified pension plan, such as CalPERS. In 2012, this amount increases to $200,000. A reduction occurs if benefits start before age 62, and an increase occurs if benefits begin after age 65. CalPERS offers “Replacement Benefits Plan,” which will, to the extent allowed by federal and state law, replace any benefits that exceed IRC Section 415(b) limits.

Elective Deferral Limits
The Internal Revenue Code (IRC) establishes specific limits that govern amounts an individual can contribute to pre-tax salary reduction retirement plans, such as 403(b), 401(k) and 457(b) plans. Two limits determine the amount that an employee may contribute on an annual basis. The employee may contribute the lesser of:

1) The IRC Section 402(g) “elective deferral limit” for 403(b) and 401(k) plans, which is $17,000; or

2) The IRC Section 415(c) “percentage of compensation” limit, which is defined as 100% of adjusted gross salary up to a maximum of $50,000. (See Attachment A for the definition of adjusted gross salary.) Plus:

3) The IRC section 457(e)(15) “deferred compensation deferral limit” for 457 plans, which is $17,000.

For the 2012 tax year, a participant can elect to contribute up to $17,000 to a 403(b) or 401(k) plan, subject to the 415(c) limit, AND $17,000 to a governmental 457(b) plan, for a total contribution of up to $34,000.

Please note, participants may contribute to both a 403(b) and 401(k) plan in the same tax year, however, combined contributions across both plans cannot exceed $17,000. For example, a participant may contribute $8,500 in each plan, or any numeric combination that is equal to or less than $17,000.

The 2012 Plan Comparison Chart specifying these amounts is attached (see Attachment A).

Coordination of Additional Catch-Up Contributions
The following “catch-up” allowances are available as an addition to the IRC Section 402(g) “elective deferral limit,” and apply to all or specific retirement savings plans as follows:

- IRC Section 402(g)(7): 15-Year Catch-Up Allowance Exclusive to the 403(b) Plan; $3,000 annual limit
- IRC Section 414(v): Age 50 Catch-Up Allowance Available for 403(b), 401(k), and 457 Plans
- IRC Section 457(e)(15): Deferred Compensation Deferral Limit Exclusive to the 457 Plan

1) IRC Section 402(g)(7) provides a special “catch-up” election for 403(b) tax sheltered annuities (TSA), which permits certain long-term employees to increase their elective deferrals over the 402(g) limit. Under this catch-up election, employees with 15 or more years of service with the same employer may be eligible to contribute an additional $3,000 per year beyond the IRC Section 402(g) limit for up to 5 years, or a lifetime maximum of $15,000.

- For 2012, contributions made under the 402(g) limit and the 402(g)(7) catch-up provision cannot exceed $20,000 ($17,000 (402(g) limit), plus $3,000 (402(g)(7) limit)).

- Employees who wish to contribute using this catch-up provision must demonstrate eligibility by completing the CSU Maximum Contribution Allowance Worksheet. IRC 402(g) limits and catch-up allowances are monitored by the master administrator, VALIC. Employees that are newly eligible for the 15-Year Catch-Up Allowance in 2012 or employees that were previously eligible but did not take advantage of the additional deferral, will need to complete and submit a Worksheet to the campus Benefits Office. Completed Worksheets must be forwarded to the Benefits Team in Human Resources.
Management (HRM) in order for the deferral limits to be updated in Retirement Manager.

- As a reminder, once the usage of the 15-Year Catch-Up is documented in Retirement Manager, the employee is **not** required to submit a Worksheet for subsequent tax years. **For example, participants that submitted a completed CSU Maximum Contribution Allowance Worksheet to the campus Benefits Office in 2010 or 2011, will not be required to complete a Worksheet for the 2012 tax year or thereafter.**

- Both versions of the CSU Maximum Contribution Allowance Worksheet (paper and electronic) will be updated to reflect tax year 2012, and will be released to campuses in an upcoming e-mail and placed on the Benefits Portal.

2) The Age-Based Contribution “catch-up” allowance under IRC Section 414(v), available to employees age 50 and over, remains $5,500 in the 2012 tax year. Individuals with a birth year of 1962 or earlier are eligible to participate, and can use this provision in a 403(b), 401(k), or 457(b) plan, provided that they have deferred the maximum amount available to the 403(b), 401(k) or 457(b) plan.

- **For 2012, contributions made under the 402(g) limit, and the 414(v) age-based catch-up provision cannot exceed $22,500 ($17,000 (402(g) limit), plus $5,500 (414(v) limit)).**

- **If an employee qualifies for both catch-up provisions, contributions in 2012 cannot exceed $25,500 ($17,000 (402(g) limit), plus $3,000 (402(g)(7) limit), plus $5,500 (414v limit)).**

3) The 457(b) plan, administered by the Department of Personnel Administration (DPA) Savings Plus Program, has a special provision that allows eligible participants to exceed the maximum annual elective deferral limit during the last three years ending before the plan’s normal retirement age. Generally, participants may contribute up to twice the maximum annual contribution amount to a 457(b) plan for each of the three years. (Certain restrictions apply.) **In 2012, this amount increases to $34,000.** To enroll in the 457(b) plan, or take advantage of this provision, participants must contact the Savings Plus Program directly. Please note: participants of the Savings Plus 457(b) plan cannot participate in this special catch-up provision and the age based catch-up allowance at the same time.

**CMS Processing Instructions**
This technical letter has no impact on the CMS Baseline.

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

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**2012 INTERNAL REVENUE CODE (IRC) LIMITS AND COMPARISON CHART**  
TAX SHELTERED ANNUITY (403[b]), STATE DEFERRED COMPENSATION (457) AND STATE THRIFT (401[k]) PLANS

**Eligibility:** Generally, all employees are eligible to participate in the 403(b) program with the exception of certain student classifications and Special Consultants. The following employees are prohibited from joining the 457 and 401(k) plans: seasonal or temporary employees required to be enrolled in the Part-time, Seasonal and Temporary Employees Retirement Program (PST Program).

<table>
<thead>
<tr>
<th><strong>TSA PLAN (403[b])</strong></th>
<th><strong>DEFERRED COMP (457)</strong></th>
<th><strong>THRIFT PLAN (401[k])</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred tax on investment; variety of investment choices.</td>
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</tr>
<tr>
<td>$15 minimum monthly contribution. Maximum annual contribution is $17,000.</td>
<td>$50 minimum monthly contribution. Maximum annual contribution is $17,000.</td>
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</tr>
<tr>
<td>Additional $5,500 age based catch-up deferral available to participants who will reach age 50 by the end of the calendar year.</td>
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</tr>
<tr>
<td>15-year &quot;Catch-up&quot; provision may be available for up to $3,000 per year, for a lifetime maximum of $15,000. Participants must prove eligibility by submission of completed Maximum Contribution Calculation Worksheet.</td>
<td>Special 457 &quot;Catch-up&quot; provision of $34,000 is available. Participants in this plan cannot utilize both the age-based, and special 457 catch-up provisions listed above in the same calendar year. Contact the Savings Plus Program for details.</td>
<td>15-year &quot;Catch-up&quot; provision is not available.</td>
</tr>
<tr>
<td>Eligible rollover in from another employer's 403(b), 401(k) or governmental 457(b) plan.</td>
<td>Eligible rollover in from another employer's governmental 457(b) plan only.</td>
<td>Eligible rollover in from a Traditional IRA, another employer's 401(k) plan, or from 403(b)** plan.</td>
</tr>
<tr>
<td>Eligible rollover to another employer's 403(b), 401(k)<strong>, or governmental 457(b)</strong> plan (exceptions apply), or to a 401(a) (service credit purchase) plan (exceptions apply) or to an IRA (must be at least age 59 ½ or separated from CSU employment). In-service 403(b) contract exchanges to any of the selected five fund sponsors.</td>
<td>Eligible rollover distribution to an IRA (Traditional or Roth), another employer's governmental 457(b), or 401(k), or 401(a) (service credit purchase), or 403(b) plan.</td>
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</tr>
<tr>
<td>Loans Available; restrictions apply***.</td>
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<tr>
<td>Surviving spouse of participant may roll over distributions. Non-spousal beneficiary may rollover distributions to an inherited IRA.</td>
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</tr>
<tr>
<td>At least age 55 and retired, or 59 ½ (regardless of employment status) - receive plan payout without tax penalty.</td>
<td>Plan payout upon retirement or separation from State service without tax penalty (no age requirement).</td>
<td>At least age 55 and retired, or 59 ½ (regardless of employment status) - receive plan payout without tax penalty.</td>
</tr>
<tr>
<td>At age 70 ½, IRS requires mandatory distributions, unless participant is still employed.</td>
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</tr>
<tr>
<td>Employees can manage contributions online at: <a href="https://www.myretirementmanager.com">https://www.myretirementmanager.com</a></td>
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*403(b) plans apply the 100% limit to the employee’s taxable income PLUS employee pre-tax contributions to 403(b), 132(f) (pre-tax parking) and 125 plans (Dependent Care Reimbursement Account, Health Care Reimbursement Account, and Tax Advantaged Premium Plan). Employee pre-tax contributions to CalPERS retirement are not included. For 401(k) and 457(b) plans, limits are based on 100% of compensation up to $17,000.

**Please note:** The Savings Plus Program 457(b) plan does not accept rollovers from 403(b) plan distributions. 403(b) rollovers into the 401(k) plan can only be accepted if the employee has an existing 401(k) plan with assets and has a distributable event (reaches age 59-1/2 and/or separates from CSU employment).

***Please note; not all CSU approved fund sponsors and/or legacy vendors offer loans. For more information, visit: [www.calstate.edu/hr/benefitsportal](http://www.calstate.edu/hr/benefitsportal).

**NOTES:**
1. **Maximum contribution limits for these plans are all interrelated.** If an individual participates in more than one plan in the same calendar year, he/she may be limited by the lowest maximum. Please note: 401(k) and 403(b) deferrals do not count against the 457(b) dollar limit and 457(b) deferrals do not count against the 401(k) and 403(b) dollar limit.
2. **These statements are general comparisons only.** For specific information refer to your tax advisor. For the Deferred Compensation and Thrift Plans, additional information is available from the Department of Personnel Administration’s Savings Plus Program (SPP) Office at (866) 566-4777 or [www.sppforu.com](http://www.sppforu.com).