Date: May 19, 2014

To: Benefits Officers, and Payroll Officers

From: Evelyn Nazario
Associate Vice Chancellor
Human Resources Management & CO HR Services

Subject: 2014 Retirement Related Compensation Limits

Overview

Audience: Human Resources Officers, Benefits Officers, and/or campus designee(s) responsible for administering benefits

Action Items: Provide notification to employees impacted by this Technical Letter

Affected Employee All employees eligible for California Public Employees’ Retirement System (CalPERS) retirement as either a “Classic” or new CalPERS member

Groups/Units: Summary

This technical letter announces the 2014 compensation limits applicable to employees subject to Public Employees’ Pension Reform Act of 2013 (PEPRA).

In order to provide campuses with a single document to reference regarding annual compensation limits relating to retirement plans, IRS limits under IRC 401(a) (17) and IRC 415(b)(1)(A) (previously announced in HR/Benefits 2013-13) are also included in this communication and will be referenced in future technical letters pertaining to this particular topic.

This technical letter should be read in its entirety by staff personnel responsible for administering and/or explaining retirement benefits, including associated changes that impact payroll and/or changes evidenced on pay warrants.

General Overview

The purpose of this technical letter is to document and provide a single reference for the following 2014 compensation limits:

- The CalPERS annually adjusted compensation limit(s) applicable to employees subject to the Public Employees’ Pension Reform Act of 2013 (PEPRA); and
- The Internal Revenue Service (IRS) Internal Revenue Code (IRC) (in Title 26 of the United States Code (26 U.S.C.)) Section 401(a)(17) and 415(b)(1)(A) limits applicable to employees defined as “Classic” CalPERS members.

Distribution:

CSU East Bay President Vice Chancellor, Human Resources Budget Officers
Cal Maritime Academy President Vice Presidents, Administration State Controller’s Office
Executive Vice Chancellor and CFO Human Resources Officers
CalPERS Compensation Limits Under PEPRA

Assembly Bill (AB) 340, referred to as PEPRA, became effective on January 1, 2013, and implemented various retirement-related changes that impacted new, current and retired California State University (CSU) employees. As a result, CalPERS members subject to PEPRA (meets the definition\(^1\) of a “New” CalPERS member on or after January 1, 2013) are also subject to an annual compensation limit that is used to calculate final compensation for retirement. The annual compensation limit for PEPRA-impacted employees is based on methodology described in Government Code Section 7522.10 of the PEPRA.

Please note: These limits do not apply to CalPERS “Classic” Members.

Information regarding the CalPERS Compensation Limits is documented in CalPERS Circular Letter 200-007-14.

Effective January 1, 2014, the CalPERS compensation limit(s) and what impact these limits have on CalPERS members subject to PEPRA is clarified in the table below:

<table>
<thead>
<tr>
<th>Employee CalPERS Membership Status</th>
<th>CalPERS Compensation Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees who are considered a new CalPERS member effective on or after January 1, 2013, and subject to specific PEPRA provisions (e.g., 2% at 62 retirement formula and GC 7522.10 compensation limits)</td>
<td>The CalPERS Compensation Limit is $115,064 for employees who are subject to Social Security</td>
</tr>
<tr>
<td></td>
<td>The CalPERS Compensation Limit is $138,077 for employees who are not subject to Social Security (i.e., Public Safety)</td>
</tr>
</tbody>
</table>

Per CalPERS, member and employer contributions for employees who are subject to the CalPERS compensation limits are calculated on pensionable compensation (includes base salary and allowable stipends) and must stop when the member’s actual earnings reach the compensation limits as indicated in Table #1. However, CalPERS members will continue to receive applicable service credit.

IRS Compensation Limits That Impact Classic Members

IRC Section 401(a)(17) caps the annual compensation that can be taken into account when determining contributions and benefits under tax qualified plans, which would include contributions toward CalPERS retirement for employees deemed “Classic” CalPERS members\(^1\) who first became CalPERS members on or after July 1, 1996. In 2014, this amount is limited to $260,000 of pensionable compensation (includes base salary and allowable stipends).

Please note: the employee’s CalPERS membership status determines whether or not the employee is or is not subject to the IRC 401(a)(17) limit as shown in Table #2 below:

<table>
<thead>
<tr>
<th>Employee CalPERS Membership Status</th>
<th>Subject to IRC 401(a)(17) Compensation Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees who are CalPERS “Classic” members who first became members of CalPERS prior to July 1, 1996</td>
<td>Not subject to IRC 401(a)(17) Limit Employee/employer contributions will be assessed on all pensionable compensation minus applicable offsets. (GC 20636 and 20636.1)</td>
</tr>
<tr>
<td>Employees who are CalPERS “Classic” members who first became members of CalPERS on or after July 1, 1996 and prior to January 1, 2013</td>
<td>Subject to 401(a)(17) Limit up to $260,000 Employee/employer contributions will be assessed on all pensionable compensation up to the limit, minus applicable offsets. (GC 20636 and 20636.1)</td>
</tr>
</tbody>
</table>

\(^1\) Refer to HR/Benefits 2012-16 for additional information on PEPRA, and definitions of new and “Classic Members.”
Per CalPERS, member and employer contributions for employees who are subject to the IRC 401(a)(17) limit are calculated on pensionable compensation and must stop when the member’s actual earnings reach the compensation limits as indicated in Table #2. However, CalPERS members will continue to receive applicable service credit.

**IRS Limit on Annual CalPERS-Paid Retirement Benefit**
IRC Section 415(b)(1)(A) places a dollar limit on the annual benefit an individual can receive from a tax qualified pension plan, such as CalPERS. In 2014, this amount is $210,000. Additional information related to the IRC 415(b)(1)(A) limit can be located on CalPERS’ website.

**Notification to Employees**
Human Resources Management (HRM) will notify Executives (M98 employees) who are impacted by either the CalPERS compensation limits or the IRC 401(a)(17) limit.

HRM will provide lists to assist campuses with the notification of all other employees who are impacted by either the CalPERS compensation limits or the IRC 401(a)(17) limit for 2014.

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

**General Information**
Questions regarding this Technical Letter may be directed to Human Resources Management at (562) 951-4411. This Technical Letter is also available on the Human Resources Management website at:

EN/mh