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## Circular Letter

November 5, 2012

TO: **ALL PUBLIC AGENCY EMPLOYERS**

SUBJECT: **REPLACEMENT BENEFIT FUND CREDIT**

The purpose of this Circular Letter is to inform you of important information reflecting recent changes to the management of the Replacement Benefit Fund (RBF).

The CalPERS Actuarial Office has implemented adjustments in the June 30, 2011 actuarial valuation. CalPERS anticipates that these changes will result in lower contribution rates to the Public Employees' Retirement Fund (PERF) for employers also contributing to the RBF and protect the PERF from prefunding expected benefits in excess of limits imposed by federal tax law. These changes will take effect for the 2013-14 fiscal year. As a result of these changes, employer contributions to the RBF will no longer be credited against employer contributions owed to the PERF.

### **Background**

Internal Revenue Code (IRC) Section 415(b) is a federal provision that limits the annual retirement benefits that can be accrued by or paid to a member of a qualified defined benefit pension plan such as the CalPERS retirement plan. The annual retirement benefits payable from the CalPERS retirement plan are subject to the dollar limits imposed by IRC Section 415(b). The maximum dollar limits are established each year by the IRS but can vary for each individual based on factors such as the age at which an individual retires.

The Replacement Benefit Plan (RBP) is a plan that allows for "replacement" of the annual benefit allowance amount that exceeds the IRC Section 415(b) limit. Its purpose is to "make whole" the retirement allowances limited by IRC Section 415(b). The RBP is funded by employer contributions and payment by the employer to the RBF must be made before the replacement benefit amount can be issued to the retiree.

CalPERS uses the RBF to account for the collection of employer contributions to the RBP and the related payment of benefits. In the past, upon payment of the invoiced amount to the RBF, the employer could take a credit for the amount paid to the RBF, less any applicable FICA taxes (Federal Insurance Contributions Act tax is a payroll tax to fund Social Security and Medicare), against the amount of its employer contributions currently due to the PERF.

**Interim Procedure**

Due to the recent changes in the management of the RBF, the offset to employer accounts for payments to the RBF were not permitted beginning with the 2011-12 fiscal year. However, because CalPERS determined that this change to prior offset procedures was a hardship for some employers, CalPERS staff identified an interim procedure to allow employers to offset certain payments to the RBF in 2013.

For the affected employers, there will be a one-time adjustment to the employer contribution rate under the PERF for the period of January 1, 2013 to June 30, 2013. The amount that can be offset will be the amount that is invoiced to an employer in the 2013 annual invoice for RBF payments owed to retirees in the RBP as of December 31, 2012, less applicable FICA taxes. That invoice is expected to be issued by January 15, 2013. Any additional payments due to the RBF for both new and existing retirees that are invoiced after this annual invoice cannot be used as a credit against the employer's contribution rate under the PERF. Beginning with the 2013-14 fiscal year, no credits against amounts owed under the PERF will be made for payments made to the RBF.

The California Public Employees' Retirement Law and the Internal Revenue Code are complex and subject to change. If there is a conflict between the law and the information in this Circular Letter, the law will govern.

If you have any questions, please contact the CalPERS Customer Contact Center at **888 CalPERS** (or **888-225-7377**).

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