



California Public Employees' Retirement System
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TO: ALL CONTRACTING PUBLIC AGENCIES

**SUBJECT: FEDERAL "CAP" ON COMPENSATION TO BE USED FOR
BENEFIT PURPOSES**

This Circular Letter is to make employers aware of federal law that could affect the benefit entitlement of employees who first become CalPERS members on and after July 1, 1996.

As a tax-qualified pension plan, CalPERS is required to comply with certain provisions of the federal Internal Revenue Code (IRC). One such provision, IRS section 401(a)(17), places a limit on the amount of compensation that can be used in the calculation of benefits payable to members of tax-qualified plans. A special transition rule exists which exempts employees **who first become members** of CalPERS prior to July 1, 1996, from **any compensation limit**. However, employees who become members on and after that date are subject to this limit.

The annual compensation limit increased January 1, 1998, to \$160,000. Employees who are brought into membership on and after July 1, 1996, who are highly compensated or who become highly compensated in the future should be made aware of this limit. The IRS will adjust this limit in the future for changes in the cost-of-living, and CalPERS will continue to make you aware of changes to this limit as they occur. Please be assured that this limit does not impair your ability to pay a member salary above \$160,000 per year; it only states that compensation above this level cannot be used for benefit calculation purposes.

CalPERS is in the process of developing systems and procedures to be able to track this limit and instruct employers on payroll reporting. In the meantime, if you will be bringing an employee into membership whose compensation is above \$160,000, please contact the CalPERS Actuarial and Employer Services Division at 888 CalPERS (or 888-225-7377) for assistance in payroll reporting.

Kenneth W. Marzion, Chief
Actuarial & Employer Services Division