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Payroll Circular Letter

January 16, 2018 Circular Letter: 200-001-18 Distribution: IV, V, VI, X, XII, XVI

To:All CalPERS EmployersSubject:2018 Compensation Limits for Classic and New Members

Purpose

The purpose of this Circular Letter is to update your agency on the 2018 compensation limits for Classic and Public Employees' Pension Reform Act (PEPRA) members. These guidelines provide information on how to report payroll when Internal Revenue Code (IRC) or PEPRA limits have been reached in a calendar year. Section 401(a)(17) of the IRC provides earnings limits on annual compensation that can be taken into account under qualified retirement plans for some classic members. Government Code section 7522.10 of the PEPRA provides the authority for the earnings limit for all new members.

The employer should notify all classic or PEPRA members who are subject to the compensation limit requirements.

Compensation Limit

The compensation limit for classic members for the 2018 calendar year is \$275,000. Employees with membership dates prior to July 1, 1996, are not impacted by these limits.

The compensation limits for classic members during 2014-17 are:

2017	2016	2015	2014
\$270,000	\$265,000	\$265,000	\$260,000

The compensation limit for new members for the 2018 calendar year is:

Year	Social Security Participants	Non-Social Security Participants
2018	\$121,388	\$145,666

The compensation limits for new members during 2014-17 are:

Year	Social Security Participants	Non-Social Security Participants
2017	\$118,775	\$142,530
2016	\$117,020	\$140,424
2015	\$117,020	\$140,424
2014	\$115,064	\$138,077

Compensation limits for both classic and new members do not limit the salary an employer can pay, but rather limits the amount of compensation taken into account under the defined benefit plan.

Report earnable compensation to CalPERS for classic members; report pensionable compensation to CalPERS for new members. Classic and new members should not make contributions on compensation that exceeds the limit for each calendar year. In addition, exclude items such as overtime, automobile allowances, and lump-sum payouts for all compensation reported.

The employer is responsible for monitoring when an employee meets or exceeds the limit. Once a participant reaches the compensation limit, the employer must continue reporting compensation as earned; however employer and employee contributions should no longer be reported for the rest of the calendar year. my|CalPERS will track classic and new member earnings over multiple CalPERS contracting agencies. Therefore, if a member is hired in the middle of the year from another CalPERS agency, my|CalPERS will notify you, the current employer, when the member reaches or exceeds the compensation limit. Monitoring and contribution reporting begins anew at the beginning of each calendar year. The end date of the payroll earned period determines in which calendar year the period falls.

Federal law does not allow CalPERS to refund over-reported contributions to an active CalPERS member. The employer must report these adjustments and refund the money to the employee(s) once these adjustments have posted.

Impact on Final Compensation

For classic members, final compensation is the average annual compensation earnable for a 12or 36-consecutive-month period of employment, depending on the employer contract.

Classic members' retirement allowances are subject to final compensation limits under IRC section 401(a)(17). The calculation of each 12-month period will be subject to the annual compensation limit in effect for the calendar year in which the 12-month period begins. If final compensation exceeds 12 months, each 12-month period is calculated based on the applicable annual compensation limit for that 12-month period.

For new members, final compensation is the average annual pensionable compensation for a 36-consecutive-month period of employment.

New members' retirement allowances are subject to pensionable compensation limits under Government Code section 7522.10. The pensionable compensation limit — used to calculate final compensation — is calculated based on the limit in effect for each calendar year and the number of days per year included in the final compensation period.

Training

An online training class, "my|CalPERS Payroll: Reporting Past the Compensation Limit" is available for employers. This class provides instruction on how to report payroll information when the compensation limit has been reached. To enroll in online training, log in to my|CalPERS and select the **Education** tab.

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

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