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Payroll

Circular Letter

January 6, 2021
Circular Letter: 200-001-21
Distribution: IV, V, VI, X, XII, XVI

To: All CalPERS Employers
Subject: 2021 Compensation Limits for Classic and PEPRA Members

Purpose

The purpose of this Circular Letter is to inform all employers of the 2021 compensation limits for classic and Public Employees' Pension Reform Act (PEPRA) members and provide guidelines for 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 considered under qualified retirement plans for some classic members. Government (Gov.) Code section 7522.10 of the PEPRA law provides the authority for the earnings limit for all PEPRA members.

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

Compensation Limits

Classic Members

The compensation limit for classic members for the **2021 calendar year is \$290,000**. Employees with membership dates prior to July 1, 1996, are not impacted by these limits.

The compensation limits for classic members during calendar years 2017 through 2020 are:

2020	2019	2018	2017
\$285,000	\$280,000	\$275,000	\$270,000

PEPRA Members

The compensation limit for PEPRA members for the 2021 calendar year is:

Year	Social Security Participants	Non-Social Security Participants
2021	\$128,059	\$153,671

The compensation limits for PEPRA members during calendar years 2017 through 2020 are:

Year	Social Security Participants	Non-Social Security Participants
2020	\$126,291	\$151,549
2019	\$124,180	\$149,016
2018	\$121,388	\$145,666
2017	\$118,775	\$142,530

Reporting Guidelines

Compensation limits for both classic and PEPRA members do not limit the salary an employer can pay; they limit the amount of compensation considered under the defined benefit plan.

For classic members, report compensation earnable to CalPERS; for PEPRA members, report pensionable compensation to CalPERS. For classic and PEPRA members, contributions should not be made 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.

Employers are 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. myCalPERS will track classic and PEPRA member earnings over multiple CalPERS contracting agencies. Therefore, if a member is hired in the middle of the year from another CalPERS agency, myCalPERS will notify the current employer when the member reaches or exceeds the compensation limit. Monitoring and contribution reporting begin on January 1 of each calendar year. The end date of the payroll earned period determines which calendar year the period falls in.

Federal law does not permit CalPERS to refund over-reported contributions to an active CalPERS member. Employers 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 highest average annual compensation earnable for a 12- or 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 PEPRAs members, final compensation is the average annual pensionable compensation for a 36-consecutive month period of employment.

PEPRA members' retirement allowances are subject to pensionable compensation limits under Gov. 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.

Online Training

The **myCalPERS Payroll: Reporting Earnings Over the Compensation Limit** online class is available for employers. This class provides instruction on how to report payroll information when the compensation limit has been reached. To enroll in the class, log in to your myCalPERS account and select the **Education** tab.

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

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