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## Circular Letter

August 27, 2014

TO: **ALL CALPERS EMPLOYERS**

SUBJECT: **REPLACEMENT BENEFIT PLAN INTERNAL REVENUE CODE 415b UPDATE**

The purpose of this Circular Letter is to inform you of a recent myCalPERS system change related to accessing the invoice detail for Replacement Benefit Plan (RBP) invoices and to provide you with additional detail regarding the RBP.

### **Replacement Benefit Fund (RBF) Invoice Detail Report**

Effective July 21, 2014, employers can access the RBF Invoice Detail Report in myCalPERS via the COGNOS Reporting Tool. The RBF Invoice Detail Report provides the name, CalPERS ID, and dollar amount per person included in the Replacement Benefit Contribution invoice. To learn more about accessing and utilizing COGNOS reports, please view the Student Guide for *Course 205: So You Want to Run a Cognos Report?* which is accessible on the CalPERS website at [www.calpers.ca.gov](http://www.calpers.ca.gov).

### **Replacement Benefit Plan Frequently Asked Questions**

During 2014, our employers have asked many great questions about the RBP and we thought we would share those questions and answers with all of you to help explain the program and how it works.

- **How is the member's limited allowance calculated?**  
The limit is personalized for each retiree. Factors that go into the calculation include, but are not limited to, age at retirement, option selected, age of beneficiary, if the member purchased service credit and, if so, how they paid.
- **If multiple employers are billed, how are the employer bills calculated?**  
The invoices are based on the retirement benefit amount and length of service with each employer.
- **Why are we responsible for a replacement benefit contribution if the member did not directly retire from our agency?**  
All agencies participate in the RBP based on their contract with CalPERS. IRC415b regulations require that all service be used when determining if the member should be placed in the RBP.

- **What will happen if we do not pay?**  
The retiree does not receive his or her benefit.
- **How does this affect our employer rate? Will there be a credit for our agency?**  
Information regarding the impact to employer rates and credit is available in our Circular Letter 200-053-12.
- **How often will employers receive these bills? Do we have a schedule for future billings? How do we receive the bills?**  
Typically, invoices are issued in January each year. For members who are eligible for the Cost of Living Adjustment (COLA), a supplemental COLA invoice will issue in late March once the COLA factor is known. However, retirements and adjustments happen all year long, so it is possible to receive invoices throughout the year for new retirees, or for a retiree who is due an adjustment. Invoices are accessible via the myCalPERS system.
- **Why did my bill increase this year compared to prior years?**  
In 2014, CalPERS updated allowances for all retirees who participate in the RBP to reset the allowances to ensure compliance with current IRC415b law and regulations. The limit is now applied to the retiree's total retirement benefit, instead of only the portion of the retirement benefit received from a single employer, as in past years. This is impacting some invoices as it causes the distribution between the Public Employees Retirement Fund (PERF) and the Replacement Benefit Fund (RBF) to change.  
  
This change is also necessary to allow automated updates in future calendar years when new IRC415b program limits are set. Each year the new IRC415b limit set by the IRS will be compared against the retiree's benefit to determine the PERF and RBF amounts. In some cases, this comparison using current year limits will allow retirees to drop out of the RBP and receive their full retirement benefit from the PERF.
- **How can I budget for this at my agency?**  
As the limit for someone subject to IRC415b cannot be determined until retirement, we understand that budgeting for these potential invoices is difficult. We would suggest you use this year's invoice as a budget guide and update your budget based on each year's new invoice.

- **Why does my agency have to pay a replacement benefit contribution at all if we did not pay the former employee the salary that caused his or her retirement allowance to exceed the IRC415b limit?**

One of the essential tenets of the CalPERS retirement allowance calculation is that the member's highest career salary (highest 12 or 36 month salary average) must be used as the final compensation. The only exception to this is for service in certain elected office positions. Therefore, a law change would be required to limit replacement benefit contributions to certain employers and any such change to California retirement law would also have to be in compliance with the Internal Revenue Code.

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

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