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Circular Letter

March 3, 2016

TO: ALL CALPERS EMPLOYERS

SUBJECT: 2016 COMPENSATION LIMITS FOR CLASSIC AND NEW MEMBERS

The purpose of this Circular Letter is to update your agency on the 2016 compensation limits for Classic and New Public Employee Pension Reform Act (PEPRA) members and provide guidelines 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 for some Classic CalPERS members that can be taken into account under qualified retirement plans. 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 New members who are subject to the compensation limit requirements.

The compensation limit for Classic members for the 2016 calendar year is \$265,000. Please note that those with membership dates prior to July 1, 1996, are not impacted by these limits.

The limit for previous years is as follows:

2015	2014	2013	2012	2011	2010
\$265,000	\$260,000	\$255,000	\$250,000	\$245,000	\$245,000

The compensation limit for New members for the 2016 calendar year is as follows:

Social Security participants	Non-Social Security participants
\$117,020	\$140,424

The New member compensation limits for previous years is as follows:

Year	Social Security participants	Non-Social Security participants
2015	\$117,020	\$140,424
2014	\$115,064	\$138,077
2013	\$113,700	\$136,440

These limits for both member categories are applicable for the 2016 calendar year. 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.

Compensation earnable is reported to CalPERS for Classic members and pensionable compensation is reported 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, all compensation reported to CalPERS should exclude items such as overtime, automobile allowances, lump sum payouts, etc.

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 their compensation limit. Monitoring begins anew at the beginning of each calendar year. Therefore, contribution reporting should resume each January 1 for your employees.

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 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 401(a)(17). The calculation of each 12-month period shall 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.

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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**).

RENEE OSTRANDER, Chief
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