



California Public Employees' Retirement System
 P.O. Box 942709
 Sacramento, CA 94229-2709
 (888) CalPERS (or 888-225-7377)
 TTY: (877) 249-7442
 www.calpers.ca.gov

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Circular Letter

June 24, 2013

TO: **ALL CALPERS EMPLOYERS**

SUBJECT: **2013 COMPENSATION LIMITS FOR CLASSIC AND NEW MEMBERS**

The purpose of this Circular Letter is to update your agency on the 2013 compensation limits for classic and new members, and give guidelines for how to report payroll when Internal Revenue Code (IRC) or Public Employee Pension Reform Act (PEPRA) limits may be 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 compensation limit for classic members for the 2013 calendar year is \$255,000. 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:

2012	2011	2010	2009	2008	2007
\$250,000	\$245,000	\$245,000	\$245,000	\$230,000	\$225,000

The compensation limit for new members for the 2013 calendar year is as follows:

Social Security participants	Non Social Security participants
\$113,700	\$136,440

These limits for both member categories are applicable for the 2013 calendar year. **The employer should notify all classic or PEPRA members who are subject to the compensation limit requirements.**

These 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 should be compensation that is reportable to CalPERS, and should exclude items such as overtime, automobile allowances, lump sum payouts, etc.

Although the my|CalPERS system will notify Business Partners when a classic or new member meets or exceeds their compensation limit, the Business Partner is responsible for monitoring when an employee meets or exceeds the limit. 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.

Please be aware that 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

Final compensation is the average of Compensation Earnable for classic members for a 12 or 36 month consecutive month period of employment. For new members, final compensation is the average of Pensionable Compensation for a 36 month consecutive month period of employment.

For classic members' retirement allowances limited under IRC Section 401(a)(17), the determination of compensation for each 12-month period shall be subject to the annual compensation in effect for the calendar year in which the 12-month period begins. In a determination of average annual compensation over more than one 12-month period, the amount of compensation taken into account for each 12-month period shall be subject to the applicable annual compensation limit. Compensation will be calculated using the applicable compensation limits provided in federal regulations.

For new members' retirement allowances limited under Government Code section 7522.10, the compensation limit 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.

Other Resources

In addition, a new online training class, "my|CalPERS Payroll: Reporting Past the Compensation Limit", is now 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**).

KAREN DeFRANK, Chief
Customer Account Services Division