

IRC 415(b) Replacement Benefit Plan Overview

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IRC 415(b) & Replacement Benefit Plan

- Annual dollar limitation on the total retirement benefit an individual can receive from a tax-qualified pension plan such as CalPERS
- Limit is set by the U.S. Department of Treasury
 - Places a maximum on the annual limit that may be paid from a tax qualified plan
- Maximum Annual Limit in 2022 is \$245,000
 - Members who retire under age 62 are adjusted to actuarial equivalent with some exceptions

IRC 415(b) & Replacement Benefit Plan

- Replacement Benefit Plan (RBP) Administration
 - Government Code sections 21750-21765 and California Code of Regulations, title 2, sections 589-589.10
 - CalPERS is the administrator of the plan
- Approximately 1,700 participants and 600 employers participate in the plan currently
 - Each year retirement allowances are retested against the new annual limits using member's age at retirement to determine participation in the plan
 - Employer participation includes Public Agencies (73%), State (22%) and Schools (5%)

Replacement Benefit Plan Process

- Members are identified as limited and PERF benefits are reduced accordingly
- Employers are billed upon initial retirement of their members and subsequently on an annual basis with limits and adjustments (e.g. COLA)
 - If multiple employers exist, they are billed proportionately
- Once invoices are paid by employers, members are sent monthly checks from the Replacement Benefit Fund (RBF)
 - Payments currently sent via paper checks; exploring options for direct deposit

Replacement Benefit Plan Process

- Replacement Benefit Fund Payments considered wages
 - W-2 tax forms issued to members in addition to 1099 for CalPERS retirement benefits within the limits
- FICA Taxes are calculated and deducted from initial payments
- 1.5% administrative fee in 2022

Judges' and Legislators' Retirement System (JLRS) Impacts

- No Replacement Benefit Fund available for JLRS retirees
 - Current statute doesn't account for JLRS
- Maturity of Extended Service Incentive Program (ESIP) and large Monetary Credit balances, length of service, and ages are beginning to push judges over the limits
- Stakeholder outreach occurring to identify resolutions
- Expanded communication in progress

Communications

- Circular Letters
- Employer Leadership Dialogues
- Retirement Workshops and Publications
- Retirement Estimates
- Participant Letters
- www.calpers.ca.gov Resources