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Payroll Circular Letter

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To: All CalPERS Employers
Subject: 2020 Compensation Limits for Classic and PEPRA Members

Purpose

The purpose of this Circular Letter is to update your agency on the 2020 compensation limits for classic and Public Employees' Pension Reform Act (PEPRA) members. These guidelines provide information 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 that can be taken into account under qualified retirement plans for some classic members. Government (Gov.) Code section 7522.10 of the PEPRA provides the authority for the earnings limit for all PEPRA members.

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

Compensation Limit

The compensation limit for classic members for the 2020 calendar year is \$285,000. Employees with membership dates prior to July 1, 1996, are not impacted by these limits.

The compensation limits for classic members during calendar years 2016 through 2019 are:

2019	2018	2017	2016
\$280,000	\$275,000	\$270,000	\$265,000

The compensation limit for PEPRA members for the 2020 calendar year is:

Year	Social Security Participants	Non-Social Security Participants
2020	\$126,291	\$151,549

The compensation limits for PEPRA members during calendar years 2016 through 2019 are:

Year	Social Security Participants	Non-Social Security Participants
2019	\$124,180	\$149,016
2018	\$121,388	\$145,666
2017	\$118,775	\$142,530
2016	\$117,020	\$140,424

Compensation limits for both classic and PEPRA members do not limit the salary an employer can pay, but rather limit the amount of compensation taken into account under the defined benefit plan.

Report compensation earnable to CalPERS for classic members; report pensionable compensation to CalPERS for PEPRA members. Classic and PEPRA members should not make contributions 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.

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. 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 you, the current employer, when the member reaches or exceeds the compensation limit. Monitoring and contribution reporting begin anew at the beginning of each calendar year. The end date of the payroll earned period determines in which calendar year the period falls.

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 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.

Training

An online training class, "myCalPERS Payroll: Reporting Earnings Over 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 myCalPERS 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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