

City of San José
Introduction to Internal Revenue
Service Code Section 415(b)
Limits

AGENDA

- Basic Dollar Limit
- Adjustments for Benefit Commencement Before Age 62
- Adjustments for After-Tax Contributions
- Grandfathered Benefits
- Questions

BASIC DOLLAR LIMIT

- Section 415(b) of the Internal Revenue Code limits the amount of benefit payable from a qualified defined benefit pension plan
- Today, the only limitation applicable to a governmental plan is the dollar limit
- The dollar limit was reset by Congress at \$160,000 per calendar year beginning in 2002 as a part of Economic Growth and Reconciliation Tax Relief Act (EGTRRA). The limit is adjusted each year for inflation

BASIC DOLLAR LIMIT

- Annual inflation is measured as of September 30th of each year
- Dollar limit is adjusted for inflation, but rounded down to the next multiple of \$5,000
- Table shows historical limits since 2002

Calendar Year	415 (b) Dollar Limit
2017	\$215,000
2016	\$210,000
2015	\$210,000
2014	\$210,000
2013	\$205,000
2012	\$200,000
2011	\$195,000
2010	\$195,000
2009	\$195,000
2008	\$185,000
2007	\$180,000
2006	\$175,000
2005	\$170,000
2004	\$165,000
2003	\$160,000
2002	\$160,000

BASIC DOLLAR LIMIT

- The basic dollar limit amount is adjusted for:
 - Inflation since September 30, 2001
 - Benefit commencement prior to age 62 or after age 65 (except no reduction if at least 15 years of full-time qualified police or fire service)
 - Benefit payment forms other than:
 - Life annuity
 - 50% or 100% joint and survivor annuity with spouse as beneficiary
 - Limit is prorated for service less than 10 years
 - After-tax contributions
 - Grandfathered benefits

ADJUSTMENTS FOR BENEFIT COMMENCEMENT BEFORE AGE 62

- The dollar limit is reduced to be actuarially equivalent to the dollar limit at age 62
- Actuarial equivalence is defined by the IRS
 - 5% interest
 - Applicable mortality table for plan year (No mortality prior to age 62)

* No reduction if at least 15 years of full-time qualified police or fire service

415(b) Dollar Limit for 2017

January 1 to June 30 Retirements

Adjustments for Age at Benefit

Commencement

Additional Adjustments May Apply

Retirement

Age	Federated •	Police & Fire*
48	\$ 86,307	215,000
49	91,670	215,000
50	97,430	215,000
51	103,623	215,000
52	110,292	215,000
53	117,480	215,000
54	125,233	215,000
55	133,606	215,000
56	142,646	215,000
57	152,404	215,000
58	162,965	215,000
59	174,410	215,000
60	186,835	215,000
61	200,336	215,000
62 or Older	215,000	215,000

ADJUSTMENTS FOR AFTER-TAX CONTRIBUTIONS

- Benefit attributable to after-tax contributions is not subject to the limit
- After-tax contributions are accumulated with interest at rates set by law
- Converted to an annuity using interest rates and mortality prescribed by law
- Example
 - \$1,000 contributed during the 1984-85 plan year would be accumulated with interest to \$5,648 as of June 30, 2014
 - For a 62-year old, \$5,648 would be converted to an annuity amount of \$ 413 per year
 - \$ 413 per year of the employee's benefit would be excluded from the 415 limit calculation, so the 62-year old could receive a benefit of up to \$210,413 in 2014

GRANDFATHERED BENEFITS

- Applies only to members who became members of the plan prior to January 1, 1990
 - Reciprocity service cannot be used to meet this requirement
- Can always pay the accrued benefit of the member determined under the terms of the plan as of October 14, 1987
 - Benefits attributable to purchased service may not be considered part of the grandfathered accrued benefit
- Key differences in plan provisions
 - 3-year final average compensation instead of 1-year
 - Post retirement COLA was equal to CPI up to a maximum of 3% with a bank instead of a fixed 3%

MEMBER CONTRIBUTIONS

- Municipal Code sets Tier 1 member contributions equal to $\frac{3}{11}$ ths of the System's normal cost
- The System's normal cost is the weighted average of all of the individual normal costs
- Individual normal costs vary significantly primarily due to age at hire, but also due to gender and in a few cases to the expected application of the 415 limits
- Actual costs also vary based on a member's salary and promotion history as well as age at retirement and longevity

MEMBER CONTRIBUTIONS

- The weighted average normal cost rate is 24.6% of pay, of which members pay 6.6% of pay
- The normal cost rate for members hired at age 25 is 6% to 7% of pay less than the weighted average
- For the members impacted by 415 limits, the 415 limit reduces their normal cost rate by an average of 1.0% of pay (2.6% of pay is the largest individual impact)
- The member's portion of this difference would be about 0.3% of pay (0.7% for the largest difference)



APPENDIX

Calculation of Annual Benefit Attributable to After-Tax Contributions \$1,000 Contributed During the 1984-85 Plan Year

		Accumulated			Accumulated			Accumulated
	Interest	Balance at		Interest	Balance at		Interest	Balance at
Plan Year	Rate	Year End	Plan Year	Rate	Year End	Plan Year	Rate	Year End
1984 - 85	5.00%	\$ 1,024.70	1994 - 95	8.22%	\$ 2,199.94	2004 - 05	4.94%	\$ 4,131.80
1985 - 86	5.00%	\$ 1,075.93	1995 - 96	7.56%	\$ 2,366.25	2005 - 06	4.63%	\$ 4,323.10
1986 - 87	5.00%	\$ 1,129.73	1996 - 97	8.12%	\$ 2,558.39	2006 - 07	6.08%	\$ 4,585.95
1987 - 88	5.00%	\$ 1,186.21	1997 - 98	8.00%	\$ 2,763.06	2007 - 08	5.96%	\$ 4,859.27
1988 - 89	10.77%	\$ 1,313.97	1998 - 99	6.83%	\$ 2,951.78	2008 - 09	4.14%	\$ 5,060.44
1989 - 90	10.54%	\$ 1,452.46	1999 - 00	7.01%	\$ 3,158.70	2009 - 10	3.32%	\$ 5,228.45
1990 - 91	10.53%	\$ 1,605.40	2000 - 01	7.96%	\$ 3,410.13	2010 - 11	2.83%	\$ 5,376.42
1991 - 92	9.66%	\$ 1,760.49	2001 - 02	6.16%	\$ 3,620.20	2011 - 12	2.40%	\$ 5,505.45
1992 - 93	8.25%	\$ 1,905.73	2002 - 03	5.53%	\$ 3,820.39	2012 - 13	1.10%	\$ 5,566.01
1993 - 94	6.67%	\$ 2,032.84	2003 - 04	3.06%	\$ 3,937.30	2013 - 14	1.47%	\$ 5,647.83

Annuity Conversion Factor at Age 62:

13.6667

Annual Benefit Attributable to After-Tax Contributions: \$

4 13.26

The interest rate required to accumulate after-tax contributions is:

- 5.00% for plan years after June 30, 1976 and prior to July 1, 1988
- After June 30, 1988, 120% of the applicable federal mid-term rate for the first month of the plan year
- The applicable federal mid-term rate is based on Treasuries with maturities of more than 3 and less than 9 years and is published monthly by the IRS