

LOS ANGELES FIRE AND POLICE PENSIONS

SECTION 415(b) PENSION LIMITS FOR LAPD, PORT POLICE, AIRPORT POLICE

What is IRC Section 415(b) and how does it affect my pension?

Internal Revenue Code Section 415(b) limits how much a qualified defined benefit retirement plan may pay out in annual pension benefits in the form of a straight life annuity to retired plan members. For 2025, the 415(b) limit is \$280,000.¹

When an employer has adopted an Excess Benefit Plan, retirees can still receive the full amount of their pension allowance even if it is greater than the 415(b) limit. Currently, Tier 6 of the Los Angeles Fire and Police Pensions (LAFPP) does not have an Excess Benefit Plan, limiting what a Tier 6 member may receive in retirement.

What is an Excess Benefit Plan?

An Excess Benefit Plan allows an employer to pay pension benefits exceeding the 415(b) limit. The amount exceeding the 415(b) limit is paid directly by the employer as W-2 wages and does not come out of the assets of the pension plan.

Tier 6 of LAFPP does not currently have an Excess Benefit Plan, meaning a Tier 6 retired member's pension will be capped at the appropriate 415(b) limit based on the member's age at retirement or DROP Exit.

It is possible that the City of Los Angeles may provide an Excess Benefit Plan for LAFPP Tier 6 in the future but there is no way to know for certain, and LAFPP does not control that process. The terms of any Excess Benefit Plan would be negotiated between the unions representing LAFPP Tier 6 Members and the Employee Relations Division of the Office of the City Administrative Officer. Currently, the Los Angeles City Employees' Retirement System (LACERS) has an Excess Benefit Plan for Tier 1 Members, but not for Tier 3 Members.

¹ The Internal Revenue Code allows retirees who have spent at least 15 years working as a sworn peace officer at a police or fire department, or as a member of the Armed Forces to have the maximum 415(b) limit without applying an age-based reduction factor. LAFPP members who do not meet this criterion may be subject to an age-based reduction factor that reduces the 415(b) dollar limit. This 415(b) dollar limit generally is adjusted annually for inflation by the Internal Revenue Service.

Important: The information included in this Section 415(b) fact sheet is general. LAFPP's Plan provisions and the Internal Revenue Code are complex and subject to change. If there is a conflict between the law and the information in this document, the law supersedes the information in this document. LAFPP could lose its tax-exempt status if it fails to comply with Section 415.

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How does the IRC Section 415(b) Limit affect my pension if I participate in DROP?

When an LAFPP member exits DROP, their pension must be tested against the 415(b) limit. The DROP balance will be treated as though the member received it as an annuity over their lifetime and added to their monthly pension for purposes of testing against the 415(b) limit.

If the annuitized DROP payment takes the member over the 415(b) limit, then LAFPP will be required to reduce the amount of monthly pension benefits the member receives once they exit DROP.

The example below is for illustration purposes only, and LAFPP has made assumptions to provide this example that are subject to change. Further, all calculations of the 415(b) limit are specific to the member and depend on a variety of factors, including the member's ongoing monthly pension, DROP account balance at exit, and age at DROP exit.

Sample Retired Police Case Study:

Assume a member exits DROP on January 1, 2025, with an annual pension of \$216,000 and a DROP Balance of \$1,100,000.

Yearly Pension Benefits:

DROP Balance:	\$1,100,000
Annuitized DROP Balance:	\$ 77,000/year

LAFPP calculates the DROP balance as an annuity spread over the member's lifetime. The monthly pension at DROP exit is converted to an annual amount.

DROP Benefits:

Monthly Pension:	\$ 18,000
Yearly Pension (Monthly x 12):	\$216,000

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The annuitized DROP Balance is added to the member's annual pension to ensure compliance with the 415(b) limit.

Annual Pension:	\$216,000
Annuitized DROP Balance:	<u>\$ 77,000</u>
Pension for 415(b) Limit Testing:	\$293,000

The 415(b) limit is \$280,000 for 2025. The amount over the limit is calculated below.

Pension for 415(b) Limit Testing:	\$293,000
Less 415(b) Limit:	<u>\$280,000</u>
Annual amount over 415(b) Limit:	\$ 13,000
Monthly amount over 415(b) Limit:	\$ 1,083

While the annuitized DROP benefit is not reduced, **the member's monthly pension is reduced by the monthly amount over the 415(b) Limit.**

Monthly Pension:	\$ 18,000
Less Monthly amount over 415(b) Limit:	<u>\$ 1,083</u>
Reduced Monthly Pension	\$ 16,917

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