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## EXCESS BENEFIT PROGRAM FACT SHEET - TIER 1

Internal Revenue Code (IRC) Section 415(b) contains the provisions of federal law which limit the amount of annual retirement benefits payable directly from a plan sponsor for qualified defined benefit pension plans (qualified plans) such as the Los Angeles City Employees' Retirement System (LACERS). The excess benefit limit will only typically impact highly compensated employees who have accrued significant retirement benefits. Under certain circumstances, any benefits in excess of this limit may be paid through the Excess Benefit Program (EBP).

### What is the City's Excess Benefits Program?

The IRC Section 415(b) limits the distribution amount paid to an individual from all of the plan sponsor's qualified defined benefits plans. In 1997, the City created an Excess Benefit Program to allow Members like you to receive a full formula based retirement allowance despite your LACERS payments exceeding the maximum benefit limit. If the Excess Benefits Program had not been created, neither LACERS nor the City would be able to pay the excess benefits.

### How is the IRC 415(b) limit applied?

Each year the Internal Revenue Service (IRS) adopts a Section 415(b) dollar limit, based on the IRC expected retirement age of 60. The dollar limit for the year in which you retired is applied to you based on your age on your specific retirement date. In addition, various factors may impact the age adjustment to your limit. The following are some of the factors that may adjust your limit:

- Age at retirement – if you were under age 60 on the date of your retirement, your limit maybe adjusted downward.
- Less than 10 years of City Service accrued based on City employment while you were a Member. If you have less than 10 years of this type of City Service, each whole year less than 10 will reduce your limit by 10%.
- Service Purchases – if your Service Credit includes Service Purchases and you have less than 10 years of City Service based on City employment while a Member of LACERS, your limit may be reduced. In addition, Service Purchases may be reduced/prohibited if they result in an Excess Benefit.
- City Service accrued for City employment while a Member of another City defined-benefits plan may also count towards the 10 years of City Service and help avoid a reduction in the excess benefits limit.
- Military, Police, or Fire service may exempt some Members from age reductions for their excess benefits limit.

### What changes will there be to my retirement allowance?

Your total retirement allowance will not change; however, you will receive one payment from LACERS and the EBP payment directly from the Controller's Office. Payments from the EBP will be treated as wages for tax purposes. Your income for the basic LACERS benefits will be reported to you on a Form 1099R, as income from a pension, while the income paid from the EBP will be reported on a Form W-2 as wages.

## **How will Service Purchases affect my Excess Benefit?**

If an Excess Benefit would ensue due to a service purchase, other than for certain types of redeposits, the purchase may not be allowed. As a qualified plan under the IRC, LACERS is not allowed to pay excess benefits. Likewise, under the current IRC guidelines, excess benefits may also not be payable through the EBP.

## **How does military service or police and fire department service impact excess benefits?**

If a Member has accrued 15 years towards their retirement benefits, that was accrued such that the 1) City Service accrued while in the military, while providing City full or part-time employment, or 2) City Service accrued while working within a police or fire department as a full-time employee, sworn or civilian, the age reduction may not apply. A combination of these two types of service will be allowed to combine to 15 years. The exemption is from the aforementioned age reduction.

## **How will Cost of Living Adjustments (COLAs) affect my Excess Benefit?**

There will be no change in the amount you will be paid for your Cost of Living Adjustments (COLAs). Your COLAs will be calculated in exactly the same manner as if you had no Excess Benefit. The only difference will be that, depending on your limit, some or all of your COLAs may be paid as part of your excess benefits payments. Annual COLAs and banking are handled as usual each July 1st.

## **How will my tax liability status change?**

LACERS is unable to address specific tax-related issues for you. Tax liabilities depend on your entire tax picture, and LACERS benefits and/or EBP income are just parts of a bigger picture for your tax liability. If you have questions regarding your specific tax liability, please consult with your own personal tax/financial advisor. Since payments from your EBP will be treated as wages, you will be required to complete a W4 for tax withholding purposes for the payment of your excess benefits, which are paid by the Controller's Office. Your LACERS retirement benefits require a separate W4-P to detail your withholding by LACERS. If you do not return a completed W4 Form, the Controller's Office will withhold taxes from your EBP payment based upon the default status (currently single with zero dependents). In addition, at the end of each year your income will be reported to you via a W2 for payments of the wage portions provided by the City and a 1099-R for payment of the pension portions by LACERS.

## **How often will LACERS test to determine if a Member is in the EBP?**

LACERS will conduct an annual retesting of the EBP.

## **For information or questions regarding excess benefits, contact LACERS at 1-800-779-8328.**

LACERS benefits are governed by the Los Angeles Administrative Code, Los Angeles City Charter, the Rules of LACERS Board of Administration, the Internal Revenue Code. These Codes and Rules are subject to change. If there are any discrepancies between those governing authorities and the information in this sheet, the governing authorities have precedence.

In order to comply with the Internal Revenue Code, LACERS will evaluate your request for a PSP Back Contribution purchase to determine whether it complies with federal law limits. A PSP Back Contribution purchase that does not comply may be disallowed in whole or in part by LACERS.

**ADA NOTICE**

As a covered entity under Title II of the Americans with Disabilities Act, the City of Los Angeles does not discriminate on the basis of disability and, upon request, will provide reasonable accommodations to ensure equal access to its programs, services, and activities.