

LOS ANGELES FIRE AND POLICE PENSIONS

SECTION 415(b) PENSION LIMITS FOR PARK RANGERS

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) dollar limit for those retiring at age 62 or older is \$280,000.¹ A Los Angeles Fire and Police Pensions (LAFPP) sworn peace officer who retires from the Department of Recreation and Parks (Park Ranger), before reaching age 62, will probably be subject to a reduced limit based on their age at retirement.

Under the Internal Revenue Code, retirees who have completed at least 15 years of service as a sworn peace officer at a police or fire department, or as a member of the Armed Services, are eligible for the maximum 415(b) limit without applying an age-based reduction factor even if they retire before age 62. However, the Internal Revenue Code does not allow LAFPP to count service as a Park Ranger with the Department of Recreation and Parks towards this 15-year requirement to avoid the reduced limit.

To be clear, if your benefit amount is below the applicable 415(b) limit, the reduced limit does **not** change the calculation of your benefit. Instead, it serves as a maximum on the amount of benefit which could be paid to you.

IRC Section 415 limits for 2025 by age

The full limit of \$280,000 for the year 2025 will likely only apply to those Park Rangers who retire at age 62 or older. If a Park Ranger retires prior to age 62, without sufficient qualifying service described above, then their pension is subject to a lower limit based on age at retirement. These limits are shown below:

Age at Retirement	415 Limit for 2025	Age at Retirement	415 Limit for 2025
50	\$125,039	57	\$196,262
51	\$133,010	58	\$210,169
52	\$141,598	59	\$225,335
53	\$150,866	60	\$241,910
54	\$160,882	61	\$260,066
55	\$171,726	62 or older	\$280,000
56	\$183,486		

¹ 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.

LOS ANGELES FIRE AND POLICE PENSIONS SECTION 415(b) PENSION LIMITS FOR PARK RANGERS

When the 415(b) limit is reduced, it can result in lower monthly pension payments if the annual benefit would exceed the 415(b) limit, based on the member's age at retirement. For example, and as explained in more detail below, if a member enters retirement/DROP exit at age 57 with an annual benefit of \$150,000, then the reduced 415(b) limit will not affect the member's benefit.

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, LAFPP Tier 6 does not have an Excess Benefit Plan.

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.

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 for the year in which the member exits DROP. The DROP balance will be treated as though the member received it as an annuity over their lifetime and this annuity amount is added to their monthly pension for purposes of testing against the 415(b) limit.

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.

LOS ANGELES FIRE AND POLICE PENSIONS SECTION 415(b) PENSION LIMITS FOR PARK RANGERS

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 Park Ranger Case Study:

Assume a Park Ranger exits DROP at age 55 on January 1, 2025, with an annual pension of \$135,600 and a DROP Balance of \$700,000.

Yearly Pension Benefits:

Monthly Pension:	\$ 11,300
Yearly Pension (Monthly x 12):	\$135,600

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:

DROP Balance:	\$700,000
Annuitized DROP Balance:	\$ 49,000/year

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

Annual Pension:	\$135,600
Annuitized DROP Balance:	<u>\$ 49,000</u>
Pension for 415(b) Limit Testing:	\$184,600

The 415(b) limit for a member at age 55 in 2025 is \$171,726. The amount over the limit is calculated below.

Pension for 415(b) Limit Testing:	\$184,600
Less 415(b) Limit:	<u>\$171,726</u>

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.

LOS ANGELES FIRE AND POLICE PENSIONS
SECTION 415(b) PENSION LIMITS FOR PARK RANGERS

Annual amount over 415(b) Limit:	\$ 12,874
Monthly amount over 415(b) Limit:	\$ 1,073

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:	\$ 11,300
Less Monthly amount over 415(b) Limit:	<u>\$ 1,073</u>
Reduced Monthly Pension	\$ 10,227

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.