

Date: December 29, 2020

To: All StanCERA Plan Sponsors

From: Natalie Davis, Fiscal Services Manager

Re: Section 401(a)(17) Compensation Limits

This memo is to inform you of an important provision of the federal tax law that limits the amount of compensation that can be used to calculate a member's retirement benefits, including the member's contributions to StanCERA for Tiers 1,2, 4 & 5.

Section 401(a)(17) of the Internal Revenue Code and Government Code section 31671 limits the amount of compensation that can be used to calculate a pension benefit. The 2021 limit is \$290,000 per calendar year for people who became members of StanCERA on or after July 1, 1996. This amount is adjusted from time to time by the IRS commissioner for cost of living increases.

If a person becomes a member of the retirement system on or after July 1, 1996, pension-eligible amounts in excess of the Section 401(a)(17) limit are not included in the calculation of the member's "final compensation" and the individual does not receive a pension benefit based on such excess amounts.

Please be prepared to make all necessary adjustments to your payroll systems to discontinue member contributions on pensionable compensation in excess of the 2021 compensation limits effective January 1, 2021.

If StanCERA fails to comply with these limits our tax-exempt status could be in jeopardy. In addition, employee contributions on amounts that exceed the Section 401(a)(17) limit cannot be refunded to the employee. Your cooperation is appreciated.

If you have questions or need additional information regarding this memo, please do not hesitate to contact StanCERA.

Cc: Deanne Corbiser
Rick Santos