

University of California Retirement Plan (UCRP)



IRC §415 Factsheet

The IRC §415(b) Maximum Benefit Limit and the University of California 415(m) Restoration Plan

For most members of the University of California Retirement Plan (UCRP), future retirement income is easy to project. The calculation is based on a simple formula and certain known adjustments to that formula—all of which are detailed in the *Retirement Handbook* and in the summary plan descriptions.

For some members, however, UCRP benefits will be limited by Internal Revenue Code (IRC) §415(b). This section of the IRC limits the maximum annual amount that a defined benefit plan such as UCRP can pay to any individual.

Beginning January 1, 2000, the University of California 415(m) Restoration Plan (415(m) Plan) will pay

the difference between the UCRP earned benefit and the amount UCRP can pay under IRC §415(b). The 415(m) Plan benefits apply to monthly retirement income, to the lump sum cashout, and to the Capital Accumulation Provision (CAP) payment.

This factsheet summarizes the IRC §415(b) limits and how benefits will be restored under the 415(m) Plan. More information is available in the *University of California 415(m) Restoration Plan Summary Plan Description*.

Please note that §415(b) and §415(m) provisions may change in the future as a result of amendments to the IRC.

The IRC §415(b) Maximum Benefit Limit

IRC §415(b) provides a general dollar limit that restricts the amount of retirement benefits that UCRP can pay you annually.

The dollar limit is determined by several factors—your age at retirement, your membership classification, and the retirement income option you choose. Examples of the dollar limit for most members retiring in 2009 are:

Examples of Dollar Limit

Age	2009 Annual General Dollar Limits for Most Members
50	\$ 84,903
55	\$117,578
60	\$167,522
62+	\$195,000

If you have less than 10 years of UCRP membership, the general dollar limit is reduced by 10 percent per year. Different dollar limits apply if you are a Safety

member with 15 or more years of qualified Safety service.

The dollar limit is adjusted periodically based on increases in the Consumer Price Index.

If you receive a lump sum cashout rather than monthly retirement income, the value is converted to a life annuity and then compared to the dollar limit for your age and classification. Because the cashout includes assumed cost-of-living increases, your benefit may be limited even though your retirement income, if you were to retire, would not be limited.

The Grandfather Provision

The grandfather provision offers a degree of protection to those who first became UCRP members before January 1, 1990, and whose benefits are limited under §415(b). Essentially, it guarantees that the monthly benefit will be at least as much as it would have been under the UCRP provisions in effect on October 14, 1987—without regard to any benefit improvements after that date. Under 1987 provisions:

- the earliest retirement age was 55;
- in most cases, monthly retirement income was based on a lower age factor;
- for members with Social Security, a different Social Security reduction applied; and
- the UCRP maximum benefit was 80 percent of HAPC (less the Social Security reduction, if any).

In addition, the CAP did not exist in 1987, so UCRP can't pay grandfathered members any CAP balance they may have.

The grandfather provision does not apply to the lump sum cashout.

The UCRP Benefit

The calculation of the UCRP benefit to which the dollar limit applies also depends on a number of factors. First, any part of the benefit that is attributable to a member's after-tax contributions is not subject to the limit. After-tax contributions include:

- monthly member contributions to UCRP before July 1, 1983;
- after-tax payments to establish or reestablish UCRP service credit;
- after-tax payments to convert Tier Two service to membership with/without Social Security; and
- after-tax payments to eliminate the Plan 02 noncontributory offset.

Other factors in the calculation include:

- the type of benefit payable—monthly retirement income, lump sum cashout, CAP payment, if any;
- whether there is an eligible survivor (spouse, domestic partner, or other family member) to receive benefits after the member's death;
- the eligible survivor's age;
- the retirement income payment option the member chooses and the age of the contingent annuitant, if any; and
- previous distributions from UCRP, if any.

The University of California 415(m) Restoration Plan

The University of California 415(m) Restoration Plan is a nonqualified plan established effective January 1, 2000. Its purpose is to restore UCRP benefits that would not otherwise be payable because of the IRC dollar limit discussed above. Payments are made as follows:

415(m) Plan benefits will be paid only with respect to UCRP benefits that are payable January 1, 2000, or later. No 415(m) Plan benefits will be paid with respect to monthly retirement income, lump sum cashouts, or CAP balances that were paid before January 1, 2000.

415(m) Plan Payment Methods

If your UCRP benefits are paid as...	The 415(m) Plan pays the difference as...
Monthly retirement income	Monthly retirement income
A lump sum cashout	A single sum, if the difference is \$35,000 or less; or equal monthly payments for 120 months, if the difference is more than \$35,000
CAP balance, if any	A single sum

Questions and Answers

How do I become a member of the 415(m) Plan?

You automatically become a member when you retire or elect a lump sum cashout—or if you receive UCRP benefits as a contingent annuitant, survivor, or alternate payee named under a qualified domestic relations order—if your UCRP benefits are limited by IRC §415(b). No action is required on your part.

How will the 415(m) Plan benefits be paid?

415(m) Restoration Plan benefits will be paid in a separate check. If you receive monthly retirement income—or if you receive a monthly payment to restore the full amount of your lump sum cashout—your 415(m) Plan benefit will be paid at the end of each month.

Can I choose a payment method for my 415(m) Plan benefits that is different than the payment method for my UCRP benefits?

The payment method is not a matter of choice. See the “415(m) Plan Payment Methods” chart on page 2.

Will the amount of my monthly 415(m) Plan benefit always remain the same?

The amount of your 415(m) Plan benefit will change over time. Your monthly UCRP benefit is recalculated periodically because of cost-of-living adjustments to the IRC dollar limit. If these recalculations increase the amount that UCRP can pay, your 415(m) Plan benefit will decrease. In the event that your UCRP benefits are no longer limited, 415(m) Plan benefits will stop.

If you elect a lump-sum cashout, your 415(m) Plan benefit will not be recalculated to reflect future changes in the dollar limit.

Is there any additional federal tax and benefit information I should be aware of?

- 415(m) Plan benefits are taxed as ordinary income and will be reported annually on Form W-2. (Your UCRP benefits are reported on Form 1099R.)
- 415(m) Plan benefits are not eligible for rollover.
- 415(m) Plan benefits are not subject to Social Security and Medicare (FICA) taxes.
- 415(m) Plan benefits are not considered “wages” that would be subject to the annual Social Security earnings test and therefore do not affect the payment of Social Security benefits. In accordance with IRC definitions, 415(m) Plan benefits are made on account of retirement, not for employment services rendered in the year of payment.

Are my 415(m) Plan benefits vested?

No. Because the 415(m) Plan is not a qualified plan, it is not subject to IRC vesting requirements. It is subject to the discretion of the Regents of the University of California.

How is the 415(m) Plan funded?

415(m) Plan benefits and administrative costs are borne by each University location, not by UCRP. The 415(m) Plan has no assets or income held in trust.

What happens if I die while receiving 415(m) Plan benefits?

- If you elect monthly retirement income, any monthly benefit payable to an eligible survivor or contingent annuitant would be tested against the applicable §415(b) dollar limit. If the benefit is limited, the survivor or contingent annuitant would receive a 415(m) Plan benefit.
- If you elect a lump sum cashout and receive monthly 415(m) Plan benefits to restore the full amount of your cashout (see the chart on page 2), you must designate a beneficiary to receive any remaining monthly payments.

If you have questions, please contact your local Benefits Office or call the UC Customer Service Center at 1-800-888-8267.

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