



IRC SECTION 415 & SERVICE PURCHASE FACT SHEET

What is Internal Revenue Code Section 415?

Internal Revenue Code Section 415 (IRC Section 415) is a federal law that limits the amount of annual retirement benefits a participant can receive from a qualified defined benefit pension plan such as any of those defined benefit plans that are part of the Wayne County Employees' Retirement System (WCERS). WCERS retirement plan could be exposed to losing its tax exempt status if it fails to comply with Section 415.

The purpose behind Section 415 is to limit the extent to which benefits and contributions can receive the favorable tax treatment provided to a *qualified* retirement plan. Congress made clear that while there was no wish to limit benefits and contributions in general, there was a desire to limit the special tax treatment available for those benefits and contributions. In other words, pension benefits that exceed 415 limits are permissible, but they do not receive the same favorable tax treatment accorded pension benefits that fall within the limits.

Perhaps more importantly, where pension benefits do exceed 415 limits, a retirement plan sponsor, i.e., Wayne County, must comply with other requirements set forth in IRC 415. The key requirement is that such "excess" benefits *cannot* be paid from the "qualified" assets of the Retirement System (assets receiving favorable tax treatment), but only from a "pot" of assets that is totally separate from the assets held in trust by the Retirement System

Important

The information included here is general. The Wayne County Employees' Retirement System Ordinance, the WCERS plan document, and the Internal Revenue Code are complex and subject to change. If there is a conflict between the information in this fact sheet and the documents or the law, the documents and the law will supersede the information in this fact sheet.

What is the Amount of the IRC Section 415 Retirement Benefit Limit?

IRC Section 415(b) places a dollar limit on the annual benefit that can be received by a member from a tax-qualified defined benefit pension plan, such as the WCERS defined benefit plan. Under IRC Section 415(b), the maximum annual retirement benefit payable to a member who retires between age 62 and age 65, and who elects to receive his or her retirement allowance in the form of a single life annuity or in the form of a qualified joint and survivor annuity is \$215,000 for the calendar year-2017. The dollar limit is set every year by the Internal Revenue Service (IRS).

The limit for a given member is determined by the limit established by the IRS for the calendar year in which the member retires. Any determination as to whether your retirement benefit will fall within this limit can only be made at your retirement.



Under what circumstances can the IRC Section 415 benefit limit be reduced?

The \$215,000 annual benefit limit is reduced with respect to any member who retires with less than ten years of participation in a WCERS retirement plan. In such case, the limit is reduced by one-tenth ($1/10^{\text{th}}$) for each year of plan participation less than ten.

For any member who retires before age 62, the \$215,000 annual benefit limit is reduced so that such limit, as so reduced, is equal to an annual benefit beginning at the member's actual retirement age that is the actuarial equivalent of a \$215,000 benefit beginning at age 62. No reduction to the annual limit will be made with respect to the following:

A full-time employee of any police department or fire department of a state or a political subdivision of a state that provides police protection, firefighting services, or emergency medical services will not be subject to a reduced Section 415 benefit limit if he or she retires prior to age 62, provided he or she has at least 15 years of service as a full-time employee of any such police department or fire department.

For a benefit paid in any form other than a single life annuity or a qualified joint and survivor annuity (i.e., where 50% or more of the retiree's allowance is payable to a surviving spouse upon the retiree's death) the limit is actuarially reduced so that if the benefit is to be paid to the retiree only, it will be the actuarial equivalent of a single life annuity, and so that if the benefit is payable to the member and upon the member's death someone else, the benefit will be the actuarial equivalent of a qualified joint and survivor annuity.

Neither the rule reducing the IRC Section 415 annual benefit limit because of less than 10 years of participation nor the rule reducing the IRC Section 415 annual benefit limit because of payment prior to age 62 apply when payments are made:

- To a member who qualifies for disability retirement; or
- To the surviving spouse or beneficiary due to the pre-retirement death of a member.

Under what circumstances can the IRC Section 415 benefit limit be increased?

For any member who retires after age 65, the annual benefit limit is increased so that such limit, as so increased, is equal to an annual benefit beginning at the member's actual retirement age that is the actuarial equivalent of a \$215,000 benefit beginning at age 65.



What contributions are taken into account in testing whether the Section 415 benefit limit will be exceeded?

IRC Section 415 benefit limit, as it may be reduced or increased in accordance with the principles noted above, will be tested against a benefit that is attributable to:

Employer contributions and
Tax-deferred member contributions

Annual benefits attributable to rollover contributions and post-tax contributions may be excluded when determining the benefit against which the Section 415 limit is tested.

How is it determined whether a retirement allowance must be limited?

It cannot be determined before actual retirement whether a member's retirement allowance will be limited by IRC Section 415. The allowance is tested as follows:

Screening: At retirement, the highest annual allowance payable for a member's lifetime alone - ("unmodified allowance") is screened against the current year's IRC Section 415 dollar limit to determine if testing is required. If the unmodified allowance exceeds the current year's IRC Section 415 dollar limit, then the retirement allowance is "tested" to see if it will be limited.

Testing process: Once a screened allowance is identified for testing, an actuarial program is used to test the allowance for limiting. This program incorporates the applicable variables and principles mentioned above and determines whether or not the allowance must be limited.

Under what conditions can service credit be purchased by a member?

As an active WCERS member, you may be eligible to purchase part- time or full time service credit under the WCERS plan that relates to your governmental employment with a city, county, township or village of the state of Michigan or another state or with the federal government. In all cases we refer to your collective bargaining agreement or benefit plan to determine whether you are eligible to purchase any service credit and, if so, how much service credit you can purchase.

IRC Section 415 specifies various rules pertaining to the purchase of service credit. They include:

Purchases of "qualified service credit."

Qualified service credit can be purchased in unlimited amounts. Qualified service credit includes any of the following forms of service, so long as you are not eligible to receive a pension with respect to that service time:

- (i) Service as an employee of the government of the United States, or of any state or any political subdivision of any state;



- (ii) Service as an employee of an educational organization which is a public, private or sectarian school that provides elementary or secondary education;
- (iii) Service as an employee of an association of employees who are described in (i) above; or
- (iv) Military service recognized by any such governmental plan.

Purchases of “nonqualified service credit”.

Nonqualified service credit is service credit other than qualified service credit, and would include:

- (i) Contractual or “air” time—time that does not represent any period of actual employment; and
- (ii) Any form of “qualified service credit” if the member is receiving, or is eligible to receive, a pension benefit from a source other than Wayne County.

With respect to nonqualified service, no purchase of same is permitted prior to a member’s participation in the WCERS plan for which he or she intends to purchase service credit for at least five years, and in no event can more than five years of nonqualified service credit be purchased.

Is there an exception to the two five-year limitations on purchases of nonqualified service credit?

There is an exception to the five-year participation requirement and the five-year limit on purchases of nonqualified service credit. That exception applies where the member uses funds from a Section 457 or 403(b) plan to purchase service credit by way of a direct transfer of such monies from the 457 and/or 403(b) plan to the WCERS plan for which he or she intends to purchase service credit.

WCERS will be responsible for determining if the service you intend to purchase is “qualified service credit,” or “nonqualified service credit,” and will inform you of the appropriate payment options.

Upon retirement, if a participant has a 415 issue with regard to his or her pension benefit plan, he or she will be contacted by WCERS promptly.