



**WATER AND POWER  
EMPLOYEES' RETIREMENT PLAN**

**COMPENSATION LIMITS  
(All Tiers)**

As a tax qualified plan, the Water and Power Employees' Retirement Plan (Plan or WPERP) must comply with various sections of the Internal Revenue Code (IRC) which places limits on retirement benefits administered by the Plan, including the compensation used for calculating retirement contributions and retirement allowances. The compensation limit is adjusted annually by the Internal Revenue Service (IRS). The maximum compensation for calendar year 2025 is \$350,000.

**What is tax qualification?**

A favorable determination is issued by the IRS to indicate whether a retirement plan has met the minimum legal requirements for a special tax treatment. When this determination has been made, the Plan and its participant receive significant tax benefits, including investments growing tax-free and the taxes on employee contributions and the employer matching contributions (Tier 1) are deferred until you retire or take a distribution from the Plan.

**What is the IRC limit on compensation?**

To maintain its tax qualified status, WPERP must comply with various requirements of the IRC, including Section 401(a)(17), which provides an annual limit on compensation. Once your base compensation (not including overtime or shift differentials) has reached the limit, the Plan will suspend your normal retirement contributions (6% for Tier 1 and 10% for Tier 2) to the Plan, including Additional Annuity (optional up to 10%) unless you are "grandfathered".

**What is grandfathering?**

If you were a member of WPERP or LACERS prior to July 1, 1996, even if your funds from LACERS were not transferred to WPERP under the Reciprocal Agreement, you will likely be grandfathered. When you are grandfathered, the IRC compensation limit does not impact you; therefore, the Plan will continue to take contributions from your biweekly pay regardless of your annual compensation. At retirement, the Plan will use your compensation (disregarding the IRC limit since it does not apply to you) to calculate your monthly allowance. Even though your compensation is not limited, you may still be impacted by IRC 415(b). Please see the "*Qualified Governmental Excess Benefit Arrangement (Tier 1)*" information sheet for more information.

**Can I purchase time for service prior to July 1, 1996 to be grandfathered?**

No. Grandfathering is based on your membership date with either WPERP or LACERS. Purchasing time will enhance your monthly retirement formula, but it will not change your grandfathering. Even redepositing previously withdrawn time with a membership date prior to July 1, 1996 will not allow you to be grandfathered.

**What if I am not grandfathered?**

If you first became a **member** of WPERP or LACERS on or after July 1, 1996, you will not be grandfathered. Since you are not grandfathered, the IRC compensation limit will apply to you in any calendar year where your annual compensation is greater than the limit. When your compensation has reached the limit for the year, the Plan will suspend your normal retirement contributions (including Additional Annuity, if applicable) from you for the remainder of the calendar year. Your contributions to the Plan will resume with the first paycheck the following January. During the suspended pay periods, **you will continue to receive Service Credit towards your retirement**, as if you were contributing, unless you are on a leave of absence without pay or a Disability/Workers Compensation leave with pay.

**How is my retirement allowance impacted if I am not grandfathered?**

Along with Service Credit and Retirement Factor, compensation is used in the formula to calculate your retirement allowance. In compliance with the IRC, the compensation used to calculate your retirement allowance will be based on the limit provided by the IRC in the year **earned**. If your annual compensation is greater than the IRC limit, we will not be able to include the excess compensation in calculating your retirement benefit.

**What if the Plan collected contributions for compensation that is higher than the allowable limit?**

To maintain our tax compliance, the Plan will refund the excess contributions directly to you (prior year contributions) or will transfer the amount to the Payroll Office to refund as a correction to your paycheck (current year contributions.) For prior year corrections, the Plan will provide you with a Form 1099-R. For current year corrections, the Payroll Office will include the amount as taxable income with your W-2.

**How does this impact my compensation while working?**

There is no impact to your compensation as an employee of the LADWP as a result of this compliance. IRC 401(a)(17) only impacts the amount of your contributions to the Plan and the compensation used for calculating your retirement benefit from the Plan. It does not impact what compensation the LADWP pays to you for your employment.

**What happens if I die as an active employee or become disabled?**

There will be no impact to your death or disability benefits from the Plan. During the pay periods that your contributions are suspended, the Plan will continue to deduct \$3 (post-tax) to maintain your enrollment in the Plan's disability and death benefits. However, if you were to die and your spouse or domestic partner opts for a lifetime Survivorship allowance, if eligible, the Survivorship allowance will be calculated in the same manner as your retirement, wherein the compensation used in the formula calculation will be limited for the year earned.

**How will my payments toward a service purchase or contract be affected?**

The Plan will continue to deduct any contract payments that you are currently making during the periods where your contributions are suspended. Additionally, the Plan will also continue to deduct back-bills for missed contributions for prior pay periods where you did not make your required normal retirement contributions.

**What can I do to supplement my retirement if my compensation is limited?**

You may contribute up to 10% of your base compensation (after tax) to the Additional Annuity program. Once you have reached the compensation limit for the calendar year, if your normal retirement contributions are suspended, your Additional Annuity contributions will also be suspended. At retirement the funds in your Additional Annuity account will be paid as a separate annuity, lump sum payment or combination thereof, at your election. Please note, you may be impacted by the benefits limit under IRC 415(b) limit. Please see the "*Qualified Governmental Excess Benefit Arrangement (Tier 1)*" information sheet for more information.

Alternately, you may contribute to the City's Deferred Compensation (457b) or any other retirement savings account. Remember, you will have additional take-home pay during the suspended period(s) since the Plan cannot take a contribution.

**How will I know if my compensation is over the limit?**

For members who are nearing the limit, you will receive a letter a few weeks prior to the suspension of your contributions to provide you with details specific to your situation.

**For questions regarding the Compensation Limit, please call WPERP at (213) 367-1795.**