

Internal Revenue Code (IRC) Section 415(b) limits the amount of pension benefits that a tax-qualified pension plan, such as the Water and Power Employees' Retirement Plan (WPERP), may pay to an individual each calendar year. The benefit limit is adjusted annually by the Internal Revenue Service (IRS). The maximum benefit payable from a retirement plan for calendar year 2024 is \$275,000.

Why does this specify Tier 1? I am in Tier 2.

Since the Excess Benefit Arrangement (EBA) only applies to Tier 1 members, Tier 2 members will only receive a retirement benefit up to the amount allowable under IRC Section 415(b). Any retirement benefit in excess of the 415(b) limit will **not be payable** by either the Plan or the LADWP. Additionally, the Plan will not be able to provide a refund for any excess contributions, including Additional Annuity contributions or contributions made on contracts to purchase additional service credits.

What is the LADWP's Excess Benefit Arrangement?

On April 16, 1998, the Retirement Board adopted an amendment to the Plan to provide for the EBA to allow those who are impacted by IRC Section 415(b) to receive two monthly payments equal to his/her total monthly pension benefit when they are members of Tier 1:

1. The WPERP will pay a portion of the pension benefit up to the amount allowed by IRC Section 415(b); AND
2. The LADWP's Payroll and Timekeeping Office (Payroll) will pay the remaining amount in excess of the IRC limit from the EBA.

What changes will there be to my monthly pension benefit?

Your total monthly retirement benefit will **not** change; however, you will receive one payment from the WPERP, and one payment from the EBA. The total of the two payments will equal your total monthly retirement allowance.

Your payment from the WPERP will continue to be reported on a Form 1099-R and will remain payable on the 1st of the month for the preceding month's retirement allowance. For example, a retirement allowance for the month of April is payable on May 1st.

Your payment from the EBA will be treated as ordinary wages and will be reported on a Form W-2.

Your EBA payments will be payable on/after the 1st of the month following the end of the month that your retirement benefit was payable; however, ***EBA payments will follow the active payroll schedule.*** Therefore, it is likely that you will not get your EBA portion on the 1st of the month; however, you should always receive it by the 15th of the month.

How is the IRC 415(b) limit applied?

Each year the IRS adopts the maximum dollar limit under 415(b). The limit is then further adjusted for the following factors, but in no circumstances will the adjustments result in an amount higher than the maximum adopted by the IRS, unless you are "grandfathered":

1. **Age at retirement:** If you were under age 62 at retirement, your limit will be adjusted downward.
2. **Years of participation:** If you had less than 10 years of Service Credit (WPERP and LACERS combined), your limit will be adjusted downward.
3. **Continuance after death:** If you selected an option to leave a lifetime continuance to a non-spouse beneficiary or have a spousal continuance of less than 50%, your limit will be adjusted downward.
4. **After-tax contributions:** If you had after-tax contributions, including after-tax contributions to Additional Annuity, your limit will be adjusted upward.

What is “grandfathering” and how will it affect my limit?

If you were a member of WPERP or LACERS prior to July 1, 1990, even if your funds from LACERS were not transferred to WPERP under the Reciprocal Agreement, you may be grandfathered. WPERP will calculate your grandfathered limit by calculating your monthly retirement benefit utilizing the WPERP rules that existed on October 14, 1987. If your grandfathered limit is higher than the IRC limit, WPERP will use the grandfathered limit to calculate your excess payment from the EBA.

My membership date is prior to July 1, 1990, why did the grandfather limit not apply to me?

To calculate the grandfather limit, WPERP must use the Plan rules that existed on October 14, 1987. If you would not have qualified for a retirement under the 1987 rules, WPERP must use the IRC limit.

For example, if you were eligible to retire under the Staff Reduction Program by adding additional service years to your calculation and you would not have qualified for a retirement without this enhancement, then you would not qualify for the grandfather limit and the WPERP must use the IRC limit.

My membership date is prior to July 1, 1990, and I am grandfathered, will my monthly retirement allowance be split?

Yes. Grandfathering provides two different limits for the Plan to determine how much is payable from the Plan. In most cases, the grandfathered limit will be higher than the IRC limit. However, having a grandfathered limit does not change that your monthly allowance will be split. It only helps to determine how much has to be paid out of the EBA and how much can be paid from the Plan.

Can I purchase time for service prior to July 1, 1990 to be grandfathered?

No. Grandfathering is based on your membership date with either WPERP or LACERS. Purchasing time will enhance your retirement formula, but it will not change your grandfathering.

Will my retiree cost-of-living (COLA) be affected if my retirement allowance is split?

There will be **no** impact to the amount that you will receive for your annual COLA. Your COLAs will be calculated using your total retirement allowance as if you had no excess benefit.

Will my death benefit be affected?

There will be **no** impact to the amount that your beneficiary(ies) will receive for your 14x death benefit or monthly continuance, if payable. Your death benefit and monthly continuance after you die will be calculated using your total retirement allowance as if you had no excess benefit. However, for tax reporting purposes if the monthly continuance after you die is paid to a non-DWP employee, for the portion that is payable from the EBA, the continuance will be reported on a 1099-R instead of a W-2.

Will the amount payable from the EBA change every year?

The amount payable from WPERP will depend on factors set annually by the IRS and the COLA adopted by the Retirement Board. Therefore, if you are affected, WPERP will conduct a recalculation each April to determine your EBA amount and will provide you with a notice specific to you.

What if I'm divorced and my ex-spouse is receiving a portion of my pension?

There will be **no** change to the total amount of retirement benefit payable to you and your ex-spouse. Since your ex-spouse may not be a previous employee of the LADWP, to the extent possible, we will allocate your ex-spouse's entire community property portion out of the WPERP. If your ex-spouse needs to be paid out of the EBA and they are non-DWP employee, the portion paid out of the EBA will be reported on a 1099-MISC instead of a W-2.

How will my contributions to the Additional Annuity Program affect me?

WPERP will annuitize the balance in your Additional Annuity account at retirement, even if you elect a lump sum refund or rollover. The monthly amount calculated will be included in the calculation of the EBA.

Do I need to provide tax withholding instructions for the EBA?

Payments from the EBA are treated as ordinary income for withholding purposes. Payroll will apply the rates specified by the IRS and the California Franchise Tax Board. For more information, please contact Flortessa Lalu, at (213) 367-1631.

Can payments from the EBA be directly deposited into my bank account?

Yes. You will need to provide direct deposit instructions to the Payroll Office.

What if I move?

You will need to provide a change of address notifications to WPERP and Payroll separately; however, WPERP will forward your change of address to the LADWP at your request.

For questions regarding the Excess Benefit Arrangement, please call WPERP at (213) 367-1715.