



IRC SECTION 415(b) & QUALIFIED EXCESS BENEFIT ARRANGEMENT

FACT SHEET

SUMMARY:

Under federal tax law, a retiree is permitted to receive pension benefits up to a set annual allowable limit determined by the Internal Revenue Code (IRC). In 2013, the General Assembly at the urging of the NC Department of State Treasurer, established the Qualified Excess Benefit Arrangement (QEBA), a fund to pay the remaining portion of the monthly retirement benefit. The General Assembly initially limited eligibility for the supplemental payments from the QEBA to employees who retired prior to January 1, 2015, and then extended the eligibility to employees who retired prior to August 1, 2016. However, recent legislation has removed the QEBA sunset so that now all members hired prior to January 1, 2015 are eligible to receive supplemental payments from the QEBA. The QEBA law was also amended to provide that the last employer of a payee who retires on or after August 1, 2016, and who receives any supplemental benefit payment from the QEBA, shall be required to reimburse the QEBA fund in the amount of any supplemental benefit payment made to that payee.

Members hired on or after January 1, 2015 will be subject to the benefit limitation under section 415(b) of the IRC, which is currently \$210,000 per year for ages 62-65. The limit changes each year and is adjusted for individuals based on many factors.

The IRS rules are extremely complex, and each individual's retirement and tax situation is different. While we cannot provide advice, we are helping members understand this State law. The NC Retirement Systems (NCRS) is committed to providing excellent customer service for all of its members.

FREQUENTLY ASKED QUESTIONS (FAQs):

What is Internal Revenue Code Section 415(b)?

Internal Revenue Code section 415(b) is a federal provision that limits the amount of annual retirement benefits that an individual can receive from a pension plan. The Teachers' and State Employees' Retirement System (TSERS) and the Local Governmental Employees' Retirement System (LGERS) may lose their tax status if they fail to comply with IRC section 415(b).

Will the 415(b) limit affect my monthly pension benefit?

The determination of whether your retirement benefit will be subject to the 415(b) limit can only be made at retirement. The limit varies every year, so your benefit could be affected one year but not the next.

This fact sheet provides general information on the Internal Revenue Code section 415(b) and its potential implications for NCRS members. Each member's situation is different and members should consult their financial advisor, accountant, attorney or tax preparer for additional guidance to determine any individual implications.

7/28/16

What is the 415(b) dollar limit?

The 2016 annual dollar limit is \$210,000 for retirees aged 62-65. The 415(b) limit varies each year and is set by the IRS. The limit is affected by many factors that were established in IRS rules and revenue rulings that may or may not apply to a particular individual.

How is a retiree's 415(b) annual dollar limit determined?

The annual dollar limit is annually calculated using the following factors:

- date of membership in the North Carolina TSERS/LGERS defined benefit pension plan
- age at retirement
- tax-deferred member contributions
- rollover and post-tax contributions used to purchase service credit

The annual dollar limit is lower:

- For a benefit in any form other than a life-only annuity (unmodified allowance) or a qualified joint and survivor annuity (an allowance where 50% or more of the retiree's allowance is payable to a spouse upon the retiree's death)
- For members who retire between the ages of 50-61, the annual dollar limit is lower, adjusted to be the actuarial equivalent as if the member were age 62 at retirement

The age 62-65 annual dollar limit is used instead of the actual age dollar limit:

- For the allowances of police officer and firefighter members with 15 or more years of service as full-time employees of a police department or a fire department providing police protection, firefighting services, or emergency medical services. Service with employers other than a police or fire department, such as correctional facilities, does not qualify.
- For a survivor's allowance payable due to the pre-retirement death of a member
- For disability retirement before age 62

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