STATE of CONNECTICUT

RETIREMENT SERVICES DIVISION

RETIREMENT SERVICES DIVISION
OFFICE of the STATE COMPTROLLER
165 Capitol Ave.
Hartford, CT 06106

RETIREMENT SERVICES DIVISION MEMORANDUM 2021-02

February 5, 2021

TO ALL HEADS OF STATE AGENCIES

ATTENTION: **All Personnel and Payroll Officers**

SUBJECT: **ALTERNATE RETIREMENT PROGRAM (ARP) COMPENSATION AND CONTRIBUTION LIMITS**

I. INTRODUCTION

The Internal Revenue Code (IRC) establishes limits on retirement plan benefits and contributions. These limits apply to both the State Employees Retirement System ("SERS") and the Alternate Retirement Program (ARP). The Internal Revenue Service (IRS) has announced the compensation and contribution limits which will apply to the 2021 calendar year.

The purpose of this memorandum is to provide agencies with (1) the revised annual compensation limit under IRC, Section 401(a)(17); (2) the revised contribution limit under IRC, Section 415(c); and (3) the required administrative procedures to ensure proper compliance.

These limits are discussed in detail in Retirement Services Division Memorandum 2021-01. For ease of reference, this memorandum will summarize those portions of the discussion that apply only to ARP.

II. ARP COMPENSATION LIMIT

The Alternate Retirement Program (ARP) is subject to a compensation limit (the "401(a) Limit") under Section 401(a)(17) of the IRC. This limit operates as a cap on the amount of employee compensation in any given year that may be used as the basis for both the employee and employer contribution to a member's account.

Employees who became participants of the ARP before January 1, 1996, are **exempt** from the 401(a) Limit. One hundred percent of such employees' compensation may be used as the basis for calculating employer contributions to their ARP accounts.

Employees who became participants in the ARP on or after January 1, 1996, are **subject to** the 401(a) Limit. If such employees receive compensation in excess of the limit during any given year, that excess compensation **may not** be used as a basis for calculating employer contributions to their ARP accounts.

For calendar year 2021, the compensation limit (cap) has increased to $290,000.

III. ARP CONTRIBUTION LIMIT

Section 415 of the IRC imposes a limit (the "415(c) Limit") on the combined amount of employer and employee contributions that may be made to an ARP account in any given year. **All** ARP participants are subject to this contribution limit, regardless of when their participation in the ARP commenced.

For the 2021 calendar year, the combined contribution limit is *either* (i) $58,000 or (ii) 100% of the participant's covered compensation, whichever is *less*.

IV. ADMINISTRATIVE PROCEDURES

It is ultimately the obligation of each agency payroll department to ensure compliance with the compensation limit for affected ARP participants and the contribution limit for all ARP participants.

The agency payroll department must stop contributions to the ARP when either the compensation limit or contribution limit is met. The agency must resume the required contributions with the first payroll check dated in the next calendar year.

1. The Active and Pension Payroll Services Division ("APPSD") will work with each agency payroll department to help implement the 401(a) Limit on compensation and the 415(c) Limit on contributions.

2. Twice during each bi-weekly pay cycle, APPSD will report to agency payroll departments on the implementation of the 401(a) Limit and the 415(c) Limit. These reports will identify the employees within the agency who either are close to or have already exceeded the annual limits on compensation and/or contributions.

   a. A first, "pre-confirm" report will be sent at the start of each pay confirm week. It will identify those employees who may be close to their compensation and/or contribution limits.

   b. A second, "post-confirm" report will be sent following the completion of active payroll confirm. It will identify those employees who may have exceeded their [compensation and/or] contribution limits.

3. The agency payroll department must review the reports provided by APPSD and must act on the information they contain.

4. Specifically, if the report shows that an employee's compensation or contribution limit has been met during the calendar year, then the agency payroll department

must stop the employee- and employer-share contributions to ARP for that employee.

5. Thereafter, if deductions are manually stopped for an employee, because that employee has reached his or her compensation or contribution limit for a given year, the agency payroll department must ***resume*** the required employee- and employer-share contributions with the first payroll check dated in the next calendar year.

6. If the agency did not stop the ARP deductions for an employee until ***after*** the employee had exceeded the annual compensation or contribution limit for a given calendar year, and if, as a result, the employee is eligible for a return of his or her contributions, then the agency must submit a return of excess contributions to the Retirement Services Division ("RSD") at rsd_member_accounts.ct.gov. Such refund request will then be directed to Prudential Retirement. Each such refund request must state:

    - The employee's name;
    - The employee's ID number;
    - The employee record number;
    - The applicable deduction codes (both employee and employer share);
    - The amount of excess contributions; and
    - The calendar year in which the excess contributions were made.

V. CONCLUSION

The Retirement Services Division will keep agencies informed of the maximum compensation and contribution limits for ARP participants. Any questions concerning this memorandum may be directed to the Agnes Gajowiak, Benefit System Coordinator at agnes.gajowiak@ct.gov .

Very truly yours,

By:

John Herrington, Director Retirement Services Division

JH/cn.