



Employer Announcement #89

Annual Compensation Limits and Partial-Year Employment for OPSRP Members

Internal Revenue Code (IRC) 401(a)(17), Oregon Revised Statutes (ORS) 238A.005(17)(c)(I), and Oregon Administrative Rules (OAR) 459-005-0525 limit the amount of compensation that may be considered “salary” for calculation of IAP account contributions and final average salary (FAS) during a calendar year. The IRC annual compensation limit is adjusted each calendar year based on the previous year’s change in the cost-of-living index.

Salary paid during the waiting time before membership is established does not count toward the annual compensation limit because IAP contributions are not paid during this time period.

Once membership is established, ORS 238A.005(17)(c)(I) requires proration of the IRC annual compensation limit in any calendar year that a member is employed and paid salary for less than full year, i.e., partial-year employment.

The prorated annual compensation limit will depend on the number of months of retirement credit the member earned during the partial year of employment as determined under ORS 238A.140 and OAR 459-075-0150 (exclusive of any retirement credit credited for the member’s waiting time).

OPSRP members accrue a month of retirement credit for each full month or “major fraction” of a month of service as defined within OAR 459-075-0150. Salary paid to an OPSRP member during a month in which retirement credit is accrued is considered subject salary and would be included in annual compensation proration calculations.

To prorate the maximum compensation allowance that applies to a member during partial-year employment, PERS takes the number of months of retirement credit the member earned and divides that by 12. The resulting figure is multiplied by the full IRC annual compensation limit to determine the prorated annual compensation limit that applies to that member for that year.

For purposes of calculating IAP account contributions and FAS, a member’s annual compensation (including any overtime pay) cannot exceed the annual compensation limit, whether full or prorated, for each calendar year.

In cases of employment with multiple PERS employers, the calendar year compensation the member earned by all PERS-participating employers is treated as a single total.

Example 1: An individual with no existing PERS membership history is hired September 25, 2013, into an OPSRP-qualifying position paying \$400,000 annually. The individual completes the six full month waiting time and becomes an OPSRP member April 1, 2014. The individual then terminates employment October 17, 2014, making 2014 a partial year of employment.

The 2014 annual compensation limit for OPSRP members is \$260,000. We must determine the prorated annual limitation that applies to the member based upon 2014’s partial year employment.

The process begins with a determination of the period of time to be considered for the proration calculation. The first three full months of 2014 are part of the individual's waiting time, which is considered non-subject salary for the proration calculation. Membership is established April 1, 2014; therefore, salary paid on or after April 1 is considered subject for IAP contributions and inclusion in the annual compensation proration calculation.

The individual terminates employment October 17, 2014. Working past the 16th of the month constitutes the "greater fraction" of the month; therefore, October counts as a full month of employment. Salary to be included in the proration calculation becomes that paid April 1, 2014, through October 31, 2014, or 7 months.

The prorated 2014 annual compensation limit is $7/12 * \$260,000 = \$151,666.67$. Salary for 2014 is limited to the first \$151,666.67 of salary paid between April 1 and the member's termination. Salary paid to the member in excess of \$151,666.67 must be reported as non-subject without contributions.

Example 2: An individual with no existing PERS membership history is hired January 3, 2011, (January 3 is first PERS business day in January 2011) into an OPSRP-qualifying position paying \$200,000 annually. The individual completes the six full months waiting time and becomes an OPSRP member July 1, 2011.

The 2011 annual compensation limit for OPSRP members is \$245,000. Salary paid during the waiting time before membership is established does not count toward the annual compensation limit because IAP contributions are not paid during this time period.

To determine the prorated annual limitation that applies to the member, we start by determining the period of time to be considered for the proration calculation. The first six full months of 2011 are part of the individual's waiting time, which is considered non-subject salary for the proration calculation.

Membership is established July 1, 2011; therefore, salary paid on or after July 1 is considered subject for IAP contributions and inclusion in the annual compensation proration calculation. Salary paid July 1 through December 31 (6 months) is to be included in the proration calculation.

The prorated 2011 annual compensation limit is $6/12 * 245,000 = \$122,500$. Salary for 2011 is limited to the first \$122,500 of salary paid July 1 through December 31. Salary paid to the member in excess of \$122,500 must be reported as non-subject without contributions.

Example 3: An inactive OPSRP PERS member is hired into a qualifying position July 1, 2011, paying \$200,000 annually. The member does not have to serve a new waiting time and reestablishes active membership July 1, 2011.

The 2011 annual compensation limit for OPSRP members is \$245,000.

Again, the process begins with a determination of the period of time to be considered for the proration calculation. Here, active membership is resumed July 1, 2011; therefore, salary paid on or after July 1 is considered subject for IAP contributions and inclusion in the annual compensation proration calculation. Salary paid July 1 through December 31 (6 months) is to be included in the proration calculation.

The prorated 2011 annual compensation limit is $6/12 * 245,000 = \$122,500$. Salary for 2011 is limited to the first \$122,500 of salary paid July 1 through December 31. Salary paid to the member in excess of \$122,500 must be reported as non-subject without contributions.

Please contact your ESC Account Team Representative if you have further questions on this topic.

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