

# Descriptive Transcript for *Defined Contribution Plan*

Descriptive transcript for *Defined Contribution Plan* is below.

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<p>Welcome everybody. My name is Desi. I'm an Outreach and Education Specialist at PERA, and today I'll be walking you through our Defined Contribution Plan program.</p> <p>Before we get started, I want to clarify that PERA's Defined Contribution Plans differ from PERA's Pension Plans, so we will not be talking about the Coordinated Plan, the Police and Fire Plan, or the Correctional Plan today. And if you are enrolled in one of those pension plans, you will want to instead sign up for one of our <i>From Hire to Retire</i> or <i>Ready to Retire</i> programs.</p> <p>Today's program is intended only for those who are eligible for membership in one of PERA's five Defined Contribution Plans. Eligibility is exclusive to public officials, physicians, certain emergency personnel, and other specific individuals. So today we are going to discuss the DCP in detail, including the enrollment process, investment options, and withdrawal guidelines.</p>	<p>Welcome slide with a header that says "Defined Contribution Plan", and a note saying "PERA prohibits recording and distribution of this presentation".</p>
<p>Here is today's agenda. First, we're going to learn what exactly is a Defined Contribution Plan, and we'll discuss what groups at PERA are eligible and how they can enroll.</p> <p>Next, we're going to dive into more of the details of the plan, including how to make and change investment decisions.</p> <p>We'll cover when and how you can withdraw funds and what taxes and fees may apply.</p>	<p>Slide with the agenda listed.</p>

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<p>And finally, we'll go over the different resources available online.</p>	
<p>Let's start with, what is a Defined Contribution Plan? A Defined Contribution Plan—also known as DCP—is a 401A tax-qualified retirement plan. PERA's Defined Contribution Plan has approximately 8,000 members, which includes actively contributing members, as well as members who have left public service and are deferring their DCP benefit until retirement.</p> <p>With a DCP, contributions are made on a regular basis by the member or both the member and the employer. Who makes contributions and what the rate could be depends on which of our five Defined Contribution Plans your position is covered under. We'll go over the different plans and different rates later in the program. These contributions are deposited into the member's account, and because the DCP is a tax-qualified plan, you won't pay taxes on the money you contribute now, and the funds will grow tax-deferred, so you will not have to pay taxes until you withdraw the funds.</p>	
<p>Now, some of the basics of the plan. First off, participation is optional for most eligible individuals. And there is no minimum salary requirement for membership.</p> <p>If you choose to join, you will see contributions deducted from your paycheck. These contributions, along with contributions from your employer, are used to purchase shares in one or more of seven investment fund accounts. Your future benefit is determined by the amount you and your employer contribute plus performance of the investments.</p> <p>Account balance is affected by market fluctuation and can change on a daily basis.</p>	

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<p>And PERA and the state of Minnesota cannot guarantee that the account value won't decrease to a level below what was originally paid for the shares.</p> <p>Another important tenet of this plan is how your future benefit is paid out, which in most cases is as a one-time lump sum. And I want to emphasize this point, because people tend to get the DCP confused with PERA's pension plans, and the pension plans give members monthly benefits. With the DCP, however, there are no monthly benefits. The benefit is strictly paid out as a lump sum.</p>	
<p>In this next section, we're going to cover who's eligible for PERA's DCP, and we'll discuss some important rules of enrollment.</p>	
<p>The first important rule to be aware of is that eligible individuals have 30 days from their first day of work to enroll. Again, the DCP is an optional plan, so if eligible, it is up to you if you want to elect to participate or elect to opt out. You must make this decision within 30 days by completing and returning an election form to your employer. And this will be a one-time, irrevocable election, so whatever decision you make in these 30 days will be final and cannot be changed.</p> <p>If you do not complete an election form and no election is made, then you will automatically be opted out of PERA. So making no selection within this 30-day period is considered an automatic election to opt out, and you will not have the option to enroll for the remainder of your employment.</p> <p>So, whether you choose to join DCP or not, that decision is permanent for the remainder of your service with the governmental unit.</p>	
<p>As mentioned, PERA's Defined Contribution Plans are only available for specific groups of individuals. The largest group that's eligible</p>	

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<p>for DCP would be public officials. This includes both governing and non-governing officials, and it includes positions that the official is elected to, as well as positions that the official is appointed or hired to. And I do want to note that if an individual is appointed to an elected position, then their position is considered elected.</p> <p>Other eligible positions would include physicians, city managers, emergency personnel—such as ambulance service employees, rescue squad groups, or some volunteer firefighters—and any other positions that are listed under Minnesota statute chapter 353D.</p>	
<p>Certain groups of DCP-eligible individuals have different plan options if their monthly pay exceeds the salary threshold of \$425. The first group we're going to talk about is non-governing officials. Non-governing officials are public officials who don't hold voting rights on how the community conducts its business. This would include city or township clerks, county auditors, attorneys, and treasurers.</p> <p>If an appointed or hired non-governing official's monthly pay exceeds \$425, then that official must join the Coordinated Plan. They do not have a choice. Also on that note, if an appointed non-governing official whose monthly pay had previously been below \$425 and they elected to join DCP, but then months later down the road their salary increased above \$425—then that appointed official's DCP eligibility would end and the official must be immediately enrolled in the Coordinated Plan instead.</p> <p>Now on the other hand, if the non-governing official was elected to their position, then they may choose between DCP and the</p>	

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<p>Coordinated Plan. They do have a choice, and they must make this choice within 30 days, and whichever choice they make is permanent.</p> <p>And reminder, officials who are appointed or hired to an elected vacancy, they are considered elected officials and therefore they also would have the choice between the two plans.</p>	
<p>The next group of individuals that we're going to discuss are city managers and physicians.</p> <p>If the city manager or physician's monthly pay exceeds \$425, they will automatically be enrolled in the Coordinated Plan as that is their default coverage. However, they do not have to stick with the Coordinated Plan. Physicians may choose to withdraw from the Coordinated Plan and switch to DCP instead.</p> <p>City managers may also choose to withdraw from the Coordinated Plan if they get city council approval through a resolution first, and they can choose to switch to DCP coverage, or they can choose to be excluded from all PERA plans. I do want to note that this option is only for city managers that have their first employment with the city. And again, this choice must be made within 30 days.</p>	
<p>If you do decide to enroll, you must first give your employer written authorization for deductions by filling out an election form. There are different forms depending on which group you're in, so speak with your employer so that they can locate the correct form for you.</p> <p>We suggest that you ask your employer to complete Part A of the form before you complete Part B. And the reason is because when your employer fills out Part A, it will let</p>	

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<p>you know what your options are so that you can make the correct selection when you are completing Part B.</p> <p>Once you're done with Part B, return the signed and completed form to your employer so they can forward it to PERA. And PERA staff will create the account upon receipt of the signed election form.</p> <p>Once your enrollment is official, the next thing you want to do is complete the Investment Selection Form and return it to PERA. Completing this form will allow you to choose which funds you want your contributions invested in. If you don't complete this form and send it back to PERA, you will be enrolled in a default investment plan, and all of your funds will be placed in a money market account, which is a low-risk, low-reward account, and we will go over this form together later.</p>	
<p>In this next section, we are going to discuss what happens after enrollment, and what actions you need to take with your contributions.</p>	
<p>Once your enrollment is complete, you will start seeing deductions from your paycheck. These deductions are a percentage of your gross income and they're your DCP contributions. Since these contributions are of your gross income, they are tax deferred, which means you don't pay taxes on contributions now, but both federal and state tax will be owed when the benefit begins.</p> <p>Depending on your plan, your employer may match your contribution. Public officials and physicians contribute 5% and their employer matches it. City managers contribute 6.5% and their employer also matches that.</p>	<p>Slide with a chart listing the four Defined Contribution Plans, and the employee and employer contribution percentages.</p>

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<p>For volunteer firefighters, employers may establish any percentage that they will contribute so long as the combined member and employer amount is at least 7.5%.</p> <p>For emergency service personnel, the contribution percentage varies among units. Employers must establish a fixed percentage to contribute, and the members may then choose to contribute up to the same amount.</p> <p>And a common question we get is if members can choose to contribute more than the fixed percentage. The answer is no, you can only contribute that fixed percentage that is set by your plan.</p> <p>Another common question we get is can a member roll money into their PERA DCP account from another source. And the answer to that is also no. A member cannot roll any money into their PERA DCP, regardless of the source of that money. The PERA DCP has no rollover mechanism.</p>	
<p>Your next question may be, what exactly happens with these contributions? Where do they go?</p> <p>You and your employer's contributions will be invested in one or more of seven accounts of the Minnesota Supplemental Investment Fund, and you have the option to choose what accounts your funds are invested in, and you may also change your investment selections at any time, and you can transfer previously purchased shares from one account to the other.</p> <p>In order to make investment decisions, you must complete the Investment Selection Form. If you don't complete the Investment Selection Form and return that form to PERA, that is okay, but as previously mentioned, all</p>	

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your funds will be placed into a money market account by default.	
And here we have it, the Investment Selection Form. You can get this form from your employer.	Slide displaying the entire DCP Investment Selection Form.
New members will need to fill out part one, which we'll zoom in on.	Part one of the form is highlighted.
And you need to fill this out in order to make your initial investment choices.	Part one is zoomed in on. Part one of the form lists the seven different investment fund accounts, with a blank box alongside each fund.
Let's say that you want to invest 75% of your funds into the US Stock Active Fund. In that case, you would write 75 in the blank next to the fund name.	"75" appears in the blank box next to "US Stock Active Fund".
And let's say that you want to invest the rest of your funds into the International Stock Fund. In that case, you would write 25 in the blank next to that fund.	"25" appears in the blank box next to "International Stock Fund".
And you can choose however much you want to invest in each fund, but you do have to use whole numbers here, and don't use any percentage sign, just write the numbers. And the numbers also must add up to 100 at the bottom here.	"100" appears in the blank box next to "Total".
Once you're done with that, you'll skip to the bottom, sign and date, and send it off to PERA.	Part one is zoomed out, and the entire Investment Selection Form is displayed again.
Now if you ever want to change your investment selections, or transfer previously purchased shares from one account to another, you will need to fill out the same form, but this time you will complete part two.	Part two of the Investment Selection Form is highlighted.
If we zoom in, we will see two columns. In column A, you will choose which account you wish to sell shares from and what percentage of the shares you wish to sell. You can sell as little as one percent and as much as 100% of each account. And the proceeds from selling the shares in column A will then be used to	Part two is zoomed in on. Part two displays two columns: column A on the left, and column B on the right. Both columns list the seven investment fund accounts, with a blank box alongside each fund.

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<p>purchase shares in the accounts that you choose from column B.</p>	
<p>For example, let's say that you want to sell 50% of your shares in the US Stock Active Fund. You would write a 50 here next to where it says US Stock Active Fund. And again, for this form, we're going to use whole numbers and don't write any percentage sign.</p>	<p>"50" appears in the blank box next to "US Stock Active Fund".</p>
<p>Next, we would choose which accounts in column B we want these proceeds to go towards. Let's say that we want 25% to go towards buying Balanced Fund Shares, and we want the remaining 75% towards buying Stable Value Fund Shares.</p>	<p>"25" appears in the blank box next to "Balanced Fund". "75" appears in the blank box next to "Stable Value Fund".</p>
<p>Again, you can choose as little as one percent and as much as 100% of each account. However, it must add up to 100 at the bottom here.</p> <p>Once you've completed this form, you will then return it to PERA either by mail or by fax.</p>	<p>"100" appears in the blank box next to "Total".</p>
<p>And it's important to keep in mind that there are no risk-free or insured accounts. Your account balance is affected by market fluctuation, so it can change on a daily basis. And PERA and the state of Minnesota cannot guarantee that the account value won't decrease to a level below what was originally paid for.</p> <p>Also important, PERA service representatives are not financial advisors, so we cannot offer recommendations about investments. If you want or feel that you need additional investment counseling, it's advised to seek advice from a professional financial planner.</p> <p>And to help make decisions on your own, you can refer to the Supplemental Investment Fund Prospectus. This is an annual report that describes the investment goals of the</p>	<p>New slide displaying the cover of the Supplemental Investment Fund Prospectus.</p>

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<p>seven accounts, as well as the returns the accounts have actually achieved and the risk factors of each fund. This report is available on our website and is mailed to each DCP participant every year.</p>	
<p>On that note, if you're concerned about risk and you are in one of the positions that have option to enroll in the Coordinated Plan instead of DCP, it's a good idea to look at the different benefits of each plan.</p> <p>And a reminder, eligible positions include non-governing officials, physicians, and city managers whose monthly salary exceeds \$425.</p> <p>One of the main differences between these plans is how the benefit payment is calculated. As we've discussed, the DCP benefit is based on how much you and your employer contribute and how well the investments perform.</p> <p>While the Coordinated Plan is a traditional pension plan, and the benefit amount is calculated on a formula using your highest five years of salary and years of service. That means it doesn't technically matter how much you contribute, and your benefit is not affected by market fluctuations. For people who are more risk adverse, that may be a more attractive option.</p> <p>Another difference is investment decisions. With the DCP, you are the one in control. So if you feel confident about making investment decisions and you feel equipped to do so, the DCP may be a good choice for you.</p> <p>With the Coordinated Plan, the State Board of Investment manages the funds on the member's behalf. So, it's maintenance-free</p>	

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<p>for the member, which is nice for those of us that prefer to be more hands-off.</p> <p>And lastly, one difference is the way the benefit is paid out. The DCP is paid out as a one-time lump sum of your account balance, and no further payments will occur, where the Coordinated Plan pays out a smaller amount every month for the rest of your lifetime, regardless of the member's account balance. Most Coordinated Plan members will withdraw the entire account balance within two to three years, but PERA will continue their monthly payments for the remainder of their life.</p> <p>The Coordinated Plan also has survivor options in case the member wants to extend their benefit to cover another person after their death. And if you would like to learn more about the Coordinated Plan, I'd suggest that you attend one of our <i>From Hire to Retire</i> webinars, which covers PERA's pension plans in depth and can help you with this decision.</p> <p>And before we move on, I do want to note that there are individuals who have contributed to both DCP and a pension plan at PERA. In those cases, be aware that the member cannot combine their DCP with their PERA pension. They are two separate plans with two separate benefits.</p>	
<p>Now that we know how investments work, we're going to jump ahead a little bit and learn about withdrawing funds. When can we withdraw our money, and how do we do it?</p>	
<p>DCP members aren't eligible to withdraw their DCP funds until they meet certain conditions. As a DCP participant, you're entitled to a distribution of your DCP account balance once you have terminated from your DCP covered employment. Now, for those</p>	

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<p>who are actively employed by a DCP-covered employer, you may be eligible for a distribution if you are age 65 or older.</p> <p>There are also distribution options for members upon approval of disability. And of course, if you die before receiving your funds, your beneficiaries are entitled to a payment of the account balance.</p> <p>So let's talk some more about these situations.</p>	
<p>Upon your termination, you can choose to leave your contributions in your DCP account and allow the funds to continue to grow. Once you decide to take a distribution of your DCP funds, it will be paid out as a lump sum.</p> <p>Also, be aware that if inactive in public service, you are required by law when you reach a certain age to withdraw funds. You cannot leave money in the account forever. And that would be age 73 if you're born before December 31st, 1959, and age 75 if born January 1st, 1960 or later. And in order to withdraw these funds, you will need to complete the Application for Refund, Direct Rollover, or Trust Transfer form.</p>	
<p>Active members are also eligible to receive a distribution of their DCP funds, as long their age 65 or older and have an account balance of at least \$5,000. They may elect to take a lump sum or they can take a partial distribution once per calendar year and the minimum distribution is \$5,000. In order to do this, you would need to complete the DCP Withdrawal for Active Employees Age 65 or Older, Refund, Direct Rollover, or Trust Transfer form.</p>	
<p>Participants who qualify for permanent disability under Minnesota statutes are eligible for a lump sum of their DCP account balance, or they can opt for monthly</p>	

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<p>payments instead. And if monthly payments are chosen, they must be in \$100 increments. The benefit ends when the disability status ends or when the account is depleted, whichever is sooner. And to get this process started, you will need to contact member services and request disability paperwork.</p>	
<p>If you die before drawing your DCP funds, then your account balance is payable to your beneficiaries, spouse, or estate. This death benefit is payable as a lump sum only. There's no option for monthly benefits.</p> <p>Your beneficiaries or estate will need to report your death to PERA, and PERA will then mail them the distribution paperwork. And PERA will issue the lump sum payment once we have received both the signed and completed distribution form, along with a copy of your death certificate.</p>	
<p>Now that we know what circumstances we're able to withdraw funds, let's cover some items to note when it comes to taking a distribution of your DCP account balance.</p> <p>Of course, in order to withdraw funds, you need to file the proper paperwork. As discussed, there are different forms and different paperwork, depending under which conditions the funds are being withdrawn. So you or your beneficiaries will want to contact PERA for the correct paperwork and instructions.</p> <p>The timeline for payments also varies, and it can take 30 to 120 days after PERA receives your completed paperwork for your payment to post.</p> <p>Also important, once a member receives a distribution of their DCP funds from PERA, they may not later repay that amount to be</p>	

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<p>put back into their DCP account. So once the payment hits your account, it is final.</p> <p>And lastly, reminder that since the DCP is a tax-qualified plan, your DCP distribution is considered taxable income. You may owe taxes the year you receive your distribution from PERA or in the future, depending on your withdrawal method.</p>	
<p>And there are three withdrawal methods. You can opt for a direct refund paid directly to you, in which case a check will be mailed to your address. You can have the funds rolled over into another tax-qualified plan, or you can have funds transferred to an insurance company licensed in Minnesota. If you elect a direct rollover or transfer to an insurance company, they may allow different payout options, including annuities. Also, choosing a rollover or transfer may allow you to avoid tax penalties and defer income taxes.</p>	
<p>And on that note, let's talk taxes and fees.</p>	
<p>If you choose to have your DCP account balance paid directly to you, you'll be subject to state and federal taxes in the year that you take that distribution. PERA will automatically withhold 20% of your distribution for federal taxes and 6.25% for state taxes if you are a Minnesota resident. Be aware that this 20% and 6.25% is just a default amount that we withhold. Depending on your overall financial picture, when you file for taxes for the year, you may get a refund or you may owe more.</p> <p>Now, if you received the distribution before age 59 1/2, you may be subject to an early withdrawal tax of ten percent. And a common question we get is if PERA deducts this ten percent from the refund amount before we issue it to you? And the answer is no, we do not deduct this ten percent. The ten percent early withdrawal tax is assessed</p>	

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<p>when you file your taxes, so please keep that in mind.</p> <p>Also, there are some exceptions to this tax penalty, so we suggest that you consult an IRS guide or tax specialist for any questions or concerns you may have.</p> <p>Also, you can avoid this tax and defer income taxes by choosing to have your refund rolled over to another tax-qualified plan. You can do this even if you initially chose to have your distribution issued directly to you, and you have 60 days from the payment date to take advantage of this option.</p>	
<p>If you choose a direct rollover, your refund will be mailed to you, but the check will be issued to whichever tax-qualified plan you chose. The taxes will then be deferred, and there will be no early withdrawal penalty. However, funds will be taxed later on once you do withdraw them.</p>	
<p>Now let's talk Medicare and Social Security. All DCP members elected or appointed after March 31<sup>st</sup>, 1986 are required to pay into Medicare. So nearly everybody will see Medicare taken out of their paycheck.</p> <p>Now, for Social Security, most DCP members are excluded from participating, so you may not see Social Security taxes taken out. There are some DCP members whose positions require Social Security participation, including city managers, physicians, and certain public officials whose monthly pay exceeds the threshold of \$425, as well as some positions that require a Section 218 agreement. If you have questions on this, or if you want more details, you will want to contact your governmental unit's human resources office.</p>	
<p>There are two administrative fees for DCP members. PERA charges two percent of your</p>	

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<p>employer's contributions, so for every one dollar that your employer contributes, you will be charged two cents. And PERA also charges 0.25% of your account value, which amounts to \$2.50 for each \$1,000 of your account. And these fees are deducted quarterly by the State Board of Investment.</p>	
<p>In our last section, I am going to show you where to find some helpful resources on our website, resources including the prospectus and myPERA.</p>	
<p>So, here we are at the homepage of our website, mnpera.org, and that's m-n-p-e-r-a dot org.</p>	<p>New slide displaying the front page of PERA's website.</p>
<p>If you hover your mouse over the members banner, you'll see this drop-down menu. And under plan information, you will see DCP is at the bottom of the list.</p>	<p>A drop-down menu appears. An arrow points to "DCP".</p>
<p>So let's click on this, and that will bring you to this page, which is full of much of the same information that I've shared today.</p>	<p>The Defined Contribution Plan page appears.</p>
<p>If we scroll down, we can see information tailored to each group of DCP eligible individuals, including contribution rates and investment options. And if we scroll to the very bottom, we can find several resources, including the handbook, the Investment Selection Form, as well as the prospectus that we talked about earlier.</p>	<p>Page scrolls down, displaying resources.</p>
<p>Here we are back at our home page, and if you ever need to use your myPERA account, you can find the login button at the top right of every one of our web pages.</p>	<p>Page scrolls back up to home page. An arrow points to the myPERA button in the top right corner.</p>
<p>So if we click on this button, that will bring you to this page, where members can log on.</p>	<p>myPERA login page appears.</p>
<p>If you already have an active account but you cannot remember your password, that's okay. You will just click where it says <i>Forgot Password</i> and you will be allowed to create a new one. And if you have never activated your account, you'll just click right below that</p>	<p>An arrow points to the "Forgot Password" link in the top left corner.</p>

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<p>where it says register as new user, and you will be allowed to activate your account.</p>	
<p>Once you're logged on, you will see different menu options. The example that we have here is of an elected official enrolled in DCP. At this time, it's not possible to change your DCP investment selections using your myPERA account, but you can check your DCP account balance.</p>	<p>myPERA menu appears with various menu options, including "Personal Information", "DCP Elected Officials", "Educational Programs", and "Beneficiary".</p>
<p>To do that, you would click on the DCP tab, which would bring you to this menu. And here you'll be able to look over your investment details, look at your contributions, as well as see your investment selections.</p> <p>Be aware that if you recently changed your investment options, your balance on my PERA will likely show as zero while those shares are being reallocated. It can take several weeks to view the DCP account balance while moving those shares. A quarterly DCP statement is also mailed to all DCP participants as well.</p>	<p>An arrow points to "DCP Elected Officials" on the menu. A drop-down menu appears, displaying three options: "Investment Detail", "Contributions", and "Investment Selections".</p>
<p>Now we just went over a lot of information, so let's recap some main points.</p> <p>First of all, participation in DCP is optional, but once the decision is made, it is irrevocable. So consider if it's the right option for you, especially if you are in one of those groups that's eligible for the Coordinated Plan.</p> <p>Also, you only have 30 days from your first day at work to make this decision, and if you do not make that decision within those 30 days, you will automatically be opted out.</p> <p>Also, it's important to keep in mind that the rate of return is not guaranteed, and your balance will ebb and flow with the market.</p>	

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<p>And lastly, your withdrawal will be a lump sum of the account, which you will be taxed on, and there are different options available for withdrawal, but keep in mind that there are no monthly benefits, and this is different from PERA's pension plans.</p>	
<p>Reminder that PERA is governed by state law. And statutes 353 and 356 is where you'll find most of our information.</p>	<p>New slide appears, listing Minnesota Statutes 11A, 353, and 356.</p>
<p>Just a disclaimer, if there's a discrepancy between the information in this presentation and what's written into law, the law will take precedence.</p>	
<p>And that is it.</p> <p>Once again here's our website, mnpera.org. Here you can find resources and different self-service options. You can also find election forms and withdrawal forms on our website as well.</p> <p>You can contact our service center at these numbers. We have a local number 651-296-7460, as well as a 1-800 number, 1-800-652-9026. Our service center is open Monday through Friday from 8 am to 4:30 pm. Very short wait times. We pride ourselves on friendly, quick, and effective customer service. So if you ever have a question, please do not hesitate to call us.</p> <p>All right, thank you everybody. I hope this presentation was helpful, and have a great day.</p>	