

# DEFINED CONTRIBUTION HANDBOOK



PUBLIC EMPLOYEES  
RETIREMENT ASSOCIATION

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# INTRODUCTION .....

The Defined Contribution Plan (DCP) is a tax-qualified retirement savings program under Chapter 401(a) of the Internal Revenue Code and must comply with Internal Revenue Service requirements. As a tax-qualified plan, federal and state taxes on DCP contributions and investment earnings are deferred until you withdraw the funds.

Participation is optional for qualifying individuals.

DCP participants contribute a percentage of their gross salary. The public employer may also make a contribution based on plan provisions. Contributions are used to purchase shares in the investment accounts you select. Your investment selections and market conditions determine your DCP account balance.

At retirement, the plan provides a lump-sum benefit of the value of your shares with accrued interest or dividends.

# ELIGIBILITY AND ENROLLMENT .....

DCP is a retirement savings program for eligible public officials, physicians, city managers, and other specific classes of positions listed under Minnesota Statutes Chapter 353D. Eligibility for the DCP can vary depending on the type of employment.

DCP participation is optional. Eligible individuals have 30 days from their start date with a governmental subdivision to make a one-time, final election to participate in the DCP. Making no selection within this 30-day period is an automatic election to opt out of DCP participation. Elections are final and permanent for all current and future employment with the governmental subdivision.



The employer completes Part A of the applicable membership election form and provides it to the eligible individual. The eligible individual completes Part B of the form and returns it to the employer. The membership election form must be signed within 30 days of the individual's first day of service and received at PERA within 60 days of the individual's first day of service.

Some positions have the option of making an election to join the Coordinated Plan instead of the DCP. PERA's Coordinated Plan is a defined benefit plan where the member and employer contribute a percentage of the member's gross salary to PERA. Instead of providing a lump-sum benefit like the DCP, the Coordinated Plan is designed to provide a lifetime monthly benefit based on a formula using the member's age at retirement, service, and salary.

An explanation of eligible DCP participant groups and the applicable membership election forms are provided below.

## PUBLIC OFFICIALS

Eligible public officials include those first elected or appointed to a public office in a governmental subdivision.

Public official positions that complete the Membership Election by Public Officials form are:

- » **Elected or appointed to a vacant elected position.** Examples include:
  - *Governing body positions:* county commissioner, city council, school board, township supervisor, soil and water board, or other special district board.

# ELIGIBILITY AND ENROLLMENT.....

- *Non-governing body positions:* local city or county auditors, treasurers, attorneys, clerks, certain township clerks.

An elected non-governing body public official whose earnings exceed the monthly threshold has the option of joining the Coordinated Plan instead of the DCP. An election to join the Coordinated Plan is an election to opt out of the DCP.

- » **Appointed to a board or commission** of this governmental subdivision.
- » **Elected county sheriff** who is currently receiving a retirement benefit from PERA's Police & Fire Plan and who does not have previous employment with the county.

Public official positions that complete the DCP Election by Appointed Public Officials form are:

- » **Appointed or hired to a non-governing body public office** and earnings do not exceed the monthly threshold. Examples include:

- *Appointed non-governing body positions:* township and city clerk or treasurer, county auditor, treasurer, or recorder.

An appointed or hired non-governing body public official whose pay in any month exceeds the monthly threshold must immediately be enrolled in the Coordinated Plan and DCP contributions must stop.

## PHYSICIANS

Eligible physicians complete the Membership Election by a Governmental Physician form. They must be an employee of a governmental agency (not an independent contractor providing services to the facility).

A physician whose earnings exceed the monthly threshold is automatically enrolled into the Coordinated Plan, unless they elect to participate in the DCP instead.

## CITY MANAGERS

City managers complete the Membership Election by a City Manager form.

City managers and administrators whose earnings exceed the monthly threshold are automatically enrolled in the Coordinated Plan. These managers have 30 days from their first day of service with the city to make a one-time election for exclusion from the Coordinated Plan and either elect to (1) participate in the DCP or (2) have no PERA coverage. Revoking the Coordinated Plan and joining the DCP or choosing no PERA coverage requires city council approval through a resolution.

If the city has ever contributed for you in the Coordinated, Police & Fire, or Correctional Plans, or if the city has previously sponsored any supplemental pension or deferred compensation plan under Minn. Stat. §356.24 for you, then you do not have the option to be excluded from the Coordinated Plan to make another election.

## CERTAIN PUBLIC AMBULANCE SERVICE PERSONNEL, RESCUE SQUAD, AND VOLUNTEER FIREFIGHTER POSITIONS

Positions that complete the DCP Election by Certain Ambulance, Rescue, or Volunteer Firefighter Positions form include:

- » **Basic and advanced life-support emergency medical service personnel** who are employed by any public ambulance service may elect to participate in DCP. Your DCP election must be made within 30 days of the service's election to participate or 30 days from the date you begin providing service to the agency, whichever is later.
- » **Rescue squad** groups include municipal rescue squads associated with City of Litchfield in Meeker County and county rescue squads associated with Kandiyohi County, who perform emergency management services. Individuals cannot be affiliated with a fire department or ambulance service.
- » **Volunteer or emergency on-call firefighters** providing services in a municipal fire department or an independent nonprofit firefighter corporation who are not eligible for PERA's Police & Fire Plan, the Statewide Volunteer Firefighter Retirement Plan or a municipal fire relief association. No employer contribution is payable by the fire department or the firefighting corporation unless the municipal governing body or the firefighting corporation governing body, whichever applies, passes a resolution.



## HOW IT WORKS .....

### CONTRIBUTIONS

Participating employees contribute a percentage of their gross salary, based on qualifying employment, and the public employer may also make a contribution based on plan provisions.

DCP Contribution Rates		
Plan	Employee Contribution	Employer Contribution
Public officials	5.0%	5.0%
Physicians	5.0%	5.0%
City Managers	6.5%	6.5%
Ambulance and rescue squad emergency services	Participating ambulance and rescue squad emergency services determine the contribution amount.  Employers must establish a fixed percentage of compensation to contribute on behalf of salaried employees. Members may then choose to make member contributions up to the same amount.  Employers making contributions for volunteer or largely uncompensated personnel may assign a unit value for each call or each period of alert duty for the purpose of calculating contributions.	
Certain Volunteer Firefighters	7.5% or more – either solely from compensation paid to the covered firefighter or through a combination of member and employer contributions.	

# DCP INVESTMENT OPTIONS.....

Plan participants designate a percentage of total contributions to be placed in one or more of seven accounts of the Minnesota Supplemental Investment Fund. The Minnesota State Board of Investment (SBI) administers this investment fund and includes actively and passively managed stock, bond, a balanced fund, a money market fund, and a fixed interest account. You may change your investment selections at any time and may also transfer all or portions of previously purchased shares from one account to another.

## CHOOSING INVESTMENT OPTIONS

People have different levels of comfort when it comes to investing their money. There are no risk-free or insured accounts in the Supplemental Investment Fund. There are, however, certain accounts that pose less risk than others. You should expect that these lower risk accounts will also provide lower returns over the long run.

To help with your investment selection, SBI publishes an annual Supplemental Investment Fund Prospectus showing the investment goals and actual returns of the accounts. You can find this publication on both PERA's and SBI's websites. SBI also maintains monthly share values going back to 1967 on their website, including monthly interest for the Money Market.

Note: PERA benefit specialists are not financial advisors and cannot offer recommendations to DCP participants about where to invest their funds. Participants who need additional investment counseling may wish to obtain advice from a financial planning professional.

## CHANGING INVESTMENT SELECTIONS

To change your investment options, please complete the DCP Investment Selection form and return it to PERA by mail or fax. You may transfer all of your current investments to different accounts, or you may transfer part of your investments.

## HOW TO CHANGE INVESTMENT SELECTIONS



### TRANSFER ALL INVESTMENTS

To withdraw all your funds from an account and transfer them to other(s), you need to complete Part II of the DCP Investment Selection form. There are three steps to follow:

- 1 In column A of Part II, write 100% in the box corresponding to each account in which you wish to sell all shares you currently own. This tells PERA to sell 100% of the shares in the account or accounts so indicated.
- 2 Designate new investment selections in column B. Indicate what percentage of the proceeds of the sale of shares in Column A should be invested in the accounts listed.
- 3 Check how your current contributions are being invested. If the account you want to abandon appears as an investment selection for future contributions, you must designate new investment selections for payroll contributions, unless you want shares of this account purchased in the future. To select new investments for payroll contributions, you must complete Part I of the DCP Investment Selection form. In Part I, indicate the percentage of new and incoming payroll contributions you want invested in the accounts listed.

# DCP INVESTMENT OPTIONS .....



## TRANSFER PART OF YOUR INVESTMENTS

To withdraw some, but not all, of your funds invested in a particular account, you need to complete Part II of the DCP Investment Selection form. There are two steps to follow:

- 1 In column A of Part II, write in the percentage of the account value you wish to withdraw in the box corresponding to the account in which you wish to sell some shares. Since you wish to withdraw only part of the value of your account, the percentage you will write in here will be less than 100% for each account you wish to reduce.
- 2 You must designate new investment selections in column B. When completing column B, indicate the percentage of the proceeds of the sale of shares in column A you wish invested in the accounts listed.

## SPECIAL RULES REGARDING THE FIXED INTEREST ACCOUNT

You may transfer funds from any of the Supplemental Investment Fund accounts to the Stable Value Fund (fixed interest account) at any time during the year. Although there is considerable flexibility in depositing lump sums into the account, transferring money out of the account may be restricted, depending on the accounts to which you transfer funds.

Funds may be transferred directly from the Stable Value Fund into equity-related accounts without restriction. Equity-related accounts include the Balanced Fund, U.S. Stock Actively Managed Fund, U.S. Stock Index Fund, Bond Fund or Broad International Stock Fund within the Supplemental Investment Fund. You may not re-transfer these amounts to the Money Market Fund for at least 90 days.

# ACCOUNT DISTRIBUTION .....

## ACCOUNT VALUE

Your DCP account balance is determined based on your investment selections and market conditions. Interest paid by the money market and fixed interest funds is reinvested in additional shares of the respective accounts. Interest and dividends earned by the stocks and bonds held in the other five accounts are used to purchase additional stocks and bonds in those accounts. These purchases and the gains and losses in market value of the securities held in the accounts are reflected in the value of the accounts' shares, much like a mutual fund.

PERA and the State of Minnesota cannot guarantee that the value of an account will not decrease to a level below that originally paid for the shares.

## BENEFIT OPTIONS

You are eligible to withdraw your DCP account after the termination of DCP-covered employment, approval of disability, or your death.

# ACCOUNT DISTRIBUTION

## TERMINATION OF EMPLOYMENT

As a DCP participant, you are entitled to a distribution of the value of shares held in the account after the termination of DCP-covered employment\*. Members who are actively employed by a DCP-covered employer are not eligible for a distribution, even if they have ceased contributing to the plan.

**Exception:** If you are age 65 or older, stay employed by a public employer, and have an account balance of at least \$5,000, you may elect to take a partial or total distribution once per calendar year. The minimum distribution is \$5,000.



## DISABILITY

Participants who qualify for permanent disability under Minnesota statutes governing PERA have the option of receiving monthly payments or a lump-sum distribution. Monthly payments must be in \$100 increments. The benefit ends when the disability status ends or when the account is depleted, whichever is sooner.

## DEATH BENEFIT

If you die prior to receiving the balance of your DCP account, the value is payable to your designated beneficiaries. If you did not designate a beneficiary, payment of the account would be made to your spouse. If you do not have a spouse, your account will be payable to your estate. Upon notification of your death, PERA will mail distribution forms to the named beneficiaries or estate representative. PERA will issue the death benefit once we receive the distribution form and a copy of the member's death certificate.

## LOAN AND HARDSHIP PROVISIONS

There are no loan or hardship provisions for this plan.

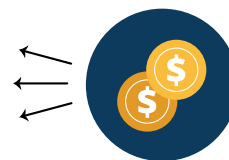
*\*Participating ambulance service personnel who change employment or membership among participating ambulance services shall continue participation in the plan if termination from one participating ambulance service and commencement in another participating ambulance service occurs within 30 days.*

## DCP DISTRIBUTION

Your DCP account is payable as a lump sum between 30 and 120 days after PERA receives your completed application. The length of time to receive your distribution may vary depending on when PERA obtains your remaining payroll transactions.

### Your DCP withdrawal can be paid:

- » directly to you,
- » direct rollover to another tax-qualified plan,
- » transfer to an insurance company licensed in Minnesota



If you elect a direct rollover or transfer to a private-sector financial institution, they may allow different payout options (including annuities). PERA cannot provide financial advice on which distribution option to elect, nor recommend a financial institution for direct rollover or transfer.

If you terminated employment and wish to elect a distribution, please complete the Application for Refund, Direct Rollover, or Trust Transfer form.



# ACCOUNT DISTRIBUTION .....

If you are over 65, wish to continue working, and have a DCP account balance over \$5,000, please complete the Defined Contribution Plan Withdrawal for Active Employees Age 65 or Older Refund, Direct Rollover, or Trust Transfer form.

For disability, please contact Member Services to request application paperwork.

If you are actively contributing to another Minnesota public pension plan, such as the Coordinated Plan, but are no longer employed in the position in which you contributed to DCP, you are eligible to take a distribution from your DCP account. If you stay with the same employer, but discontinue contributing to DCP and begin contributing to another Minnesota public pension plan, there may be restrictions on distribution of your DCP account.

## REQUIRED MINIMUM DISTRIBUTIONS

The money in your DCP account cannot stay there indefinitely. You are required to withdraw your DCP funds by a certain age:

- » Age 73 for a person who attains age 72 after December 31, 2022, and
- » Age 75 for an individual who attains age 74 after December 31, 2032

If you reached age 72 on or before December 31, 2022, your RMD age is based on prior law. If the RMD is not taken by that date, the IRS may impose an excise tax.

For more information, visit the [Retirement Topics—Required Minimum Distributions \(RMDs\)](#) page on the IRS website.

# TAXES .....

Since the DCP is a tax-qualified plan, contributions made to PERA by you and your employer are tax-deferred and will be considered taxable income when you take a distribution from your DCP account. All investment earnings you receive are also considered taxable income.

You may owe taxes in the year you receive the distribution or in the future, depending on your withdrawal method:

### **If you choose to have your refund paid directly to you, your refund will be mailed to your address:**

- » **Federal Taxes.** PERA will automatically withhold 20%. You can withhold more than 20% by completing the W-4R tax form.
- » **State Taxes:** PERA will automatically withhold 6.25% (MN residents only). You can elect any tax selection, including no withholding, by completing the W-4MNP tax form. We are unable to withhold non-MN state taxes.
- » **Early Withdrawal Tax:** If you receive the distribution before age 59½, you may be subject to an additional 10% federal early withdrawal tax. The tax penalty may not be applicable if you terminate public service and receive your refund during or after the year you reach age 55 (age 50 for qualified public safety employees). Other exceptions may apply.
- » **Sixty-Day Rollover Option:** You can still transfer all or part of the refund to a qualified plan within 60 days from the payment date. The refund portion that is rolled over will not be taxed until you take it out of the qualified plan.

# TAXES .....

## **If you choose a direct rollover, your refund will be mailed to you but issued to your tax-qualified plan:**

- » **Taxes:** If you transfer your lump-sum payment to a qualified plan that accepts rollovers, your distribution will not be taxed at the time of the transfer. However, the funds will be taxed later when you take it out of the qualified plan. If you have made after-tax contributions to PERA, these contributions will be non-taxable and cannot be rolled over to a qualified plan.
- » **Roth IRA:** First, check with your financial entity to see if they accept a direct Roth rollover (some will not). If you wish to have PERA transfer tax-deferred contributions to a Roth, we will not withhold taxes. However, this will be a taxable event and reflected as income on your Form 1099-R federal tax document from PERA. The 10% early withdrawal tax does not apply. It is your responsibility to determine your ultimate tax liability and qualification for a Roth rollover.

Because the DCP is a tax-qualified plan, enrollment may lower the maximum contribution participants can make to a deferred compensation plan and may also, depending upon income level, eliminate the tax deductibility of contributions to a traditional individual retirement account (IRA).

# ADMINISTRATIVE FEES, MEDICARE AND SOCIAL SECURITY .....

## **ADMINISTRATIVE FEES**

PERA charges two plan administration fees:

- » 2% of the employer contributions to DCP (2 cents for each \$1.00 contributed by the employer), and
- » 0.25% of the value of the participant's shares (this asset-based annual charge amounts to \$2.50 for each \$1,000 of the participant's account value).

## **MEDICARE**

DCP members elected or appointed after March 31, 1986, are required to participate in Medicare.

## **SOCIAL SECURITY**

With limited exceptions, members are excluded from participating in Social Security. For some positions, however, a Section 218 agreement between the federal government and either PERA or a single governmental unit may require Social Security participation. For details, contact your governmental unit's human resources office or PERA.

DCP members who do not have Social Security taxes withheld from their salary may have future Social Security benefits reduced (if eligible for such benefits) because of the DCP lump-sum benefit they receive from PERA. For details, contact the Social Security Administration and request information on the Government Pension Offset and the Windfall Elimination provision.

# OTHER CONSIDERATIONS .....

## COORDINATED PLAN – AN ALTERNATIVE OPTION

Some individuals who are eligible for the DCP may instead choose to participate in PERA's Coordinated Plan. Eligible participants include public officials in elected non-governing body positions, physicians, and city managers. The individual's monthly salary must exceed the monthly threshold.

The Coordinated Plan is a defined benefit retirement plan and a 401(a) tax-qualified plan. As a Coordinated Plan member, you and your employer contribute a percentage of your gross salary to PERA. While contributions and investment earnings are important, they do not determine the amount of your individual benefit. Instead, the Coordinated Plan is designed to provide you a lifetime monthly benefit based on a formula using your age at retirement, service, and salary.

If you are vested in the Coordinated Plan, you have enough service to qualify for a lifetime monthly benefit. It can be distributed in the form of a Single Life option, or one of four survivor options. A survivor option, while reducing your monthly benefit, provides continuing benefits to your survivor upon your death. The minimum retirement age for the Coordinated Plan is 55.

Another option is a lump-sum refund of your member contributions plus interest. By taking a refund, you forfeit all future PERA benefits. Should you elect to receive a refund, your employer's matching contributions are not refundable. They remain with PERA to provide retirement, disability, and survivor benefits.

Your Coordinated Plan enrollment election is final, and participation continues until termination of employment.

### **DCP AND DEFINED BENEFIT PLANS:**

If you are contributing to the DCP and at the same time are eligible for a monthly retirement benefit from the Coordinated Plan, Police & Fire Plan, or Correctional Plan, you may begin to collect your pension benefit while contributing to the DCP. Additionally, if you are already collecting a monthly retirement benefit, you may participate in the DCP. Restrictions on beginning to collect your benefit(s) while employed may apply if the Coordinated Plan service and DCP service are with the same employer.

For more details on the Coordinated Plan, including contribution rates, vesting, termination requirements, and benefit information, please review the Coordinated Plan handbook or contact Member Services.

# BENEFICIARIES, myPERA .....

## BENEFICIARIES

Upon your death, your named beneficiary(ies) will receive the balance in your DCP account. Your account will be paid to your primary beneficiary(ies). If both you and your primary beneficiary(ies) are deceased, your account will be paid to your secondary beneficiary(ies). A beneficiary may be any specific person(s), a trust, or any specific entity such as a church, charity, or organization.

If you have no named beneficiary(ies), or if they predecease you, the account balance will be distributed as follows:

- » Your spouse;
- » If you have no surviving spouse, your estate.

It's important to designate primary and secondary beneficiaries and to keep your beneficiaries current. You can designate beneficiaries in your myPERA account, or by completing a Change Form.

## myPERA

myPERA is your online account to update your personal information, change your address, add beneficiaries, or view your benefits. At this time, changing DCP investment selections is not available in your myPERA account.

Please visit [mnpera.org](http://mnpera.org) and click on the myPERA Login button. It's easy to register. Click on the Register as a New User button on the left side of the screen and follow the prompts. You will need your PERA ID to register. You can find your PERA ID in the upper-right corner of benefit statements you have received, request it through the myPERA registration process, or you can contact Member Services. PERA will mail your ID to you. For account security, your PERA ID is not disclosed over the phone, fax, or e-mail.