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# Chapter 4— Defined Contribution Plan



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The Defined Contribution Plan (DCP) satisfies the requirements of [section 401\(a\)](#) of the Internal Revenue Code (IRC) and is a governmental plan within IRC section 414(d). This plan is a retirement savings program for elected local government officials and other specific classes of positions that are listed as eligible in [Minnesota Statutes Chapter 353D](#).

Participation is optional for all individuals, and, as the employer, you must obtain written authorization from the eligible individuals for the deductions. The member's contributions are withheld from earnings on a pre-tax basis and are considered to be "picked up" by the employer under [Section 414\(h\)](#) of the Internal Revenue Code.

DCP members individually determine how to invest the contributions made on their behalf through the purchase of shares in accounts of the Minnesota Supplemental Investment Fund. Total contributions, plus investment performance, will determine the ultimate lump-sum benefit payable upon withdrawal from public service.

A DCP participant is entitled to receive a distribution of the person's benefit after termination of service for any reason, disability, or death, or on or after attaining age 65 if still employed by a public employer. The individual must file an application in order to receive a full or partial distribution of the account balance at the date of distribution.

This chapter describes the membership provisions of the DCP in effect on the date of publication shown on the following pages, lists the contribution rates for each group of eligible employees, and provides guidance on Social Security coverage for DCP members. While every effort has been made to try to verify

the accuracy of the information presented, the governing state or federal laws, regulations, or policies will govern in the event of any discrepancy. In addition, state and federal laws, policies, and regulations are subject to change and a future modification could make some of the information presented here obsolete.



## Coverage for Public Officials

The Minnesota Legislature extended DCP membership to local elected officials holding governing-body or non-governing-body positions, regardless of their earnings' level, beginning July 1, 1990. Elected officials who were members of the Coordinated Plan at any time between July 1, 1990 and June 30, 1991, had the option to discontinue that coverage and enroll in the DCP as an alternative to the Coordinated Plan. (For more details about membership in the Coordinated Plan, see Chapter 3 Defined Benefit Plan.)

DCP membership is currently open to individuals as follows who are elected by the public at large to a local political subdivision:

Over 4,000 elected officials are in the DCP



### Fast Fact

1. Persons elected to a governing-body position or appointed to fill a vacant governing-body position. (Governing body officials serve as the primary policy makers for local government and include the city council, county commissioners, township supervisors, school board, and special district boards.)  
Note: The DCP is the only PERA retirement plan available to officials who are newly elected or appointed to a governing-body position after June 30, 2002. However, if you have an elected official that established Coordinated Plan membership prior to July 1, 2002, that person remains a member of that plan if re-elected to the same office in your political subdivision without having had a termination of service and 30-day break in public service.
2. Persons elected to a non-governing body position or appointed to a vacant non-governing body position, except county sheriffs. Non-governing body positions include but may not be limited to city or township clerks and county attorneys or treasurers.  
Note: For non-governing body officials who earn more than \$5100 per year, the Coordinated Plan is an alternative to the DCP. For non-governing body elected officials who always earn less than \$5100 per year, the DCP is the only PERA retirement plan available.
3. Effective July 1, 2010, DCP participation became available to county sheriffs but only if they are retired and drawing a monthly pension from the PERA Police and Fire Plan and, therefore, excluded from belonging to that public safety plan.  
Note: An elected county sheriff who qualifies for mandatory participation in the PERA Police and Fire Plan does not have the option to join the DCP. (For more details about membership in the Police and Fire Plan, see Chapter 3 Defined Benefit Plan.)

Since July 1, 2010, DCP membership is also open to certain individuals first appointed to a board or commission of a governmental unit (i.e. joint powers board, planning commission, parks board).



The option to join the DCP is available only if the person will have compensation in excess of \$5,100 in a year. (This is the only situation when membership requires a certain level of earnings. In this situation, the salary threshold for DCP membership matches the Coordinated Plan to ensure that the PERA membership eligibility change that occurred in 2010 did not increase the number of positions that could join the DCP and thereby increase pension costs for the employers that have these appointed positions.)

For easy reference, Figures 1 and 2 provide guidance for determining if a public official holding an elected position has the option to join the DCP.

### Figure 1

#### Governing-Body Elected Positions Eligible for DCP Coverage

- A person elected to a local governing-body position (no minimum earnings)<sup>1</sup>
- A person appointed to a vacant governing-body position for the remainder of the term (no minimum level of monthly earnings)<sup>1</sup>

<sup>1</sup> The DCP is the only PERA plan available to governing-body officials whose term of office begins after 6/30/02 for services to be rendered in that position.

### Figure 2

#### Non-Governing Body Elected Positions Eligible for DCP Coverage

- A person elected to a non-governing body position (no minimum earnings)<sup>1</sup>
- A person appointed to a vacant non-governing body elected position for the remainder of the term (no minimum level of earnings)<sup>1</sup>

<sup>1</sup> The Coordinated Plan is an alternative to the DCP for non-governing body elected officials (except sheriffs) who earn more than \$5100 per year. In contrast, if a non-governing body elected official always earns less than \$5100 per year, the DCP is the only PERA plan available.

### Membership Choice

As the employer, you are responsible for informing your public officials of their right to participate in a PERA plan. We suggest that you give the following PERA documents to officials who have the option to join the DCP:

1. A copy of the handbook, *Retirement Plan Alternatives*, which explains the PERA membership options that are available to the official.
2. The form *Membership Election by Public Officials* is used to document the retirement plan choice of the individual. Part A of the form includes a check box for you (the employer) to indicate the individual's pension plan eligibility. Part B is then completed by the official, who must indicate a membership choice and sign. Part B also explains Social Security coverage that may or may not be required.

These documents are available on the PERA website for printing or can be mailed to you by contacting the PERA office.

If an eligible elected official chooses to participate in the DCP, membership continues into a subsequent term in the same office if there is no break in service. In contrast, an elected official who has stopped DCP coverage or terminated elected service and is subsequently re-elected into a position that

again provides the option to join the DCP, must once more indicate (in writing) his or her desire for membership in a PERA plan.

If an eligible public official chooses to not enroll in the DCP (or the Coordinated Plan if applicable), you must retain the signed Membership Election by Public Officials form in your records. Do not send it to PERA since the person did not choose to have PERA coverage. In these situations, we recommend that you remind the individual at least annually of the right to PERA membership. This is best done by completing the membership election form each year to get signed confirmation of the person's decision.

### **Member Enrollment**

You may enroll an eligible elected or appointed public official into the DCP only after the person has given written authorization for such deductions. As noted previously, authorization is provided through completion of the form Membership Election by Public Officials, which must be immediately forwarded to PERA if DCP membership is selected by the eligible official.

Each DCP member must have an individual account in PERA's records. If you have access to PERA's online Employer Reporting and Information System (ERIS), you will create the individual account directly. On

the other hand, if you do not have the necessary technology to use ERIS, PERA staff will create the account upon receipt of the signed election form. (For information about ERIS, refer to Chapter 6.)

### **Contributions**

Subject to annual contribution limits set by the IRS, public officials who choose to participate in the DCP contribute 5 percent of their salary and their employers contribute an identical amount. The member's payroll deductions are made on a tax-sheltered basis.

If an eligible official elects DCP coverage, you are to withhold deductions from the person's salary as of the pay period next following the date in which the coverage was elected. Some forms of compensation are not subject to PERA withholding and cannot be used to compute pension plan deductions. Among other things, PERA-eligible salary does not include per diems paid either as an allowance to cover expenses or to reimburse actual expenses. More details are in Chapter 5 Eligible Earnings.

Employee deductions and employer contributions are remitted to PERA on a pay period frequency. Please refer to Chapter 7 Contribution Reporting for full details. That chapter also provides information on the annual contribution limits that apply to

an individual's DCP account.

Under previous laws (in effect through June 30, 2011), a DCP member, who had elected public service before July 1, 1991 that was not covered by a retirement plan, could pay DCP contributions on that past service and invest those contributions, plus matching employer contributions, in the DCP. The Minnesota Legislature repealed those provisions, thereby prohibiting any purchases of past elected service that had not been initiated by an elected official prior to July 1, 2011.

### **Medicare and Social Security**

Under the Federal Insurance Contributions Act (FICA), Medicare withholding (1.45 percent of salary) is required for all public employees hired, elected, or appointed after March 31, 1986, including those who enroll in the DCP.

Determining Social Security participation for elected officials is more difficult, however, due to various changes made in the federal and state regulations that dictate coverage in Social Security and PERA's retirement plans. As a general rule it is important to know that an elected official who has the option to join the PERA Coordinated Plan *must* pay into Social Security, regardless of whether the individual chooses to enroll in the DCP or the Coordinated Plan, or chooses to have



no PERA coverage.

Figures 3 and 4 identify when an elected official, with the exception of a county sheriff, must pay the Social Security OASDI (Old Age Survivors Disability Insurance) portion of FICA. Both charts assume that your governmental unit has not established a Section 218 Agreement to provide Social Security participation for your elected officials.<sup>1</sup>

If your unit has a Section 218 Agreement modification, you must withhold both Social Security and Medicare taxes from the earnings of the elected officials who individually voted in the referendum to have such coverage, except that county sheriffs are excluded from participating in Social Security under a 218 Agreement. Full FICA participation is also required for all persons elected to a governing body position after the date in which the referendum had been held, except that county sheriffs who must join the Police and Fire Plan are exempt from Social Security participation.

**Figure 3**  
Social Security Coverage - Governing Body Elected Officials (i.e. city council, township, county or school board, or special districts)

Date First Elected or Appointed	Level of Earnings	Did official enroll in DCP?	Withhold Social Security? (OASDI)
After 6/30/02	n/a	Yes	No. Mandatory Social Security participation is not applicable due to the DCP coverage.
After 6/30/02	n/a	No	Yes. Federal law mandates Social Security participation for elected officials who are not members of a public retirement plan (DCP).
Before 6/30/02	Less than \$425 in all months	Yes	No. Mandatory Social Security participation is not applicable due to the DCP coverage.
		No	Yes. Federal law mandates Social Security participation for elected officials who are not members of a public retirement plan (DCP).
Before 6/30/02	More than \$425 in any single month	n/a	Yes. Social Security participation is required for all elected officials who had the option to join the Coordinated Plan even if the officials did not choose to become PERA members. This is due to Minnesota's 218 Agreement covering the Coordinated Plan.

This chart assumes that the employer has not provided Social Security participation to its elected officials through a Section 218 Agreement. Employers that executed a 218 modification must withhold Social Security and Medicare from the salary of all elected officials who individually voted for such coverage and all who take office after the date of the referendum and who qualify for DCP coverage.

<sup>1</sup> Beginning in 1951, states were allowed to enter into voluntary agreements called "Section 218 Agreements" with the federal government to provide social security coverage to public employees. Minnesota laws enacted in 2006, allow a single county, city, township, school district, or special authority to voluntarily offer Social Security participation to its elected officials, except county sheriffs who hold positions that are covered by the PERA DCP and excluded from the Coordinated Plan. To extend the Social Security coverage, the employer must modify Minnesota's Section 218 Agreement. For a description of the process and sample forms, refer to the Social Security Resources section of our Website.

**Figure 4 Social Security Coverage - Non-Governing Body Elected Officials (except county sheriffs)**

Did the official enroll in the DCP?	Does the official have the option to join PERA's Coordinated Plan instead of the DCP?	Withhold Social Security (OASDI)?
No	No	Yes. Under federal law, Social Security is mandatory for public employees who are not covered by a public retirement system.
	Yes*	Yes. Person must pay Social Security because the elected position falls under the Section 218 Agreement covering the Coordinated Plan.
Yes	No	No. Mandatory Social Security participation is not applicable due to the DCP membership.
	Yes*	Yes. Person must pay Social Security because the position falls under the Section 218 Agreement covering the Coordinated Plan, which requires Social Security coverage even if the official chooses to pay into the DCP.

\*As of 1/1/2015, the officials can opt to join the Coordinated Plan if they will earn more than \$5100 in a year. Prior to 2015, they needed earnings over \$425 in any month to have the option to join the Coordinated Plan instead of the DCP. This chart assumes that the employer has not provided Social Security participation to its elected officials through a Section 218 Agreement. Employers that executed a 218 modification must withhold Social Security and Medicare from the salary of the elected officials who individually voted for such coverage and all elected officials taking office after the date of the referendum and who qualify for DCP coverage, except that county sheriffs cannot be given Social Security coverage under a 218 Agreement.

**Elected County Sheriffs**

Generally, sheriffs must be enrolled in the PERA Police and Fire Plan when their annual earnings are expected to exceed \$5100. The Police and Fire Plan member will pay the Medicare tax but not the Social Security tax.

An exception is made if the sheriff is receiving a pension from the PERA Police and Fire Plan. In this situation, the sheriff is excluded from again contributing to the Police and Fire Plan and, under laws effective July 1, 2010, the sheriff (who is a reemployed retiree) may join the DCP. Furthermore, the elected sheriff who is a PERA retiree is exempt from Social Security participation even if the county in which the person serves has executed a [Section 218 Agreement modification](#) to provide Social Security coverage to its elected positions that qualify for DCP membership. This is because Minnesota's original Section 218 Agreement does not allow the extension of Social Security participation through a referendum process to any police officer position that is covered by another public retirement system.

**Federal Form SSA-1945**

Under federal requirements, you must provide [Form SSA-1945, Statement Concerning Your Employment in a Job Not Covered by Social Security](#), to any employee (which includes elected or appointed public officials) who may be excluded from participating in Social Security as a result of choosing coverage under a public retirement system such as the DCP.

This federal form explains that a person's future Social Security retirement or disability benefit could be lowered under the



Windfall Elimination Provision because of the lump-sum refund benefit payable from the DCP. The statement also indicates that the provisions of the Government Pension Offset can affect any possible Social Security benefit entitlement as a spouse or an ex-spouse.

The official's signature is required on Form SSA-1945 and you must send a copy of the signed form to PERA (retain the original) if the person chooses to join the DCP and that coverage prevents participation in Social Security. To obtain a paper copy of this form, please contact the Social Security office.

### **Discontinuing DCP Participation**

Elected or appointed officials may discontinue DCP participation at any time during their tenure in office but must provide written notice that they want the

DCP deductions to stop. If the DCP coverage ends for a person who was exempt from mandatory participation in Social Security, the employer must begin to withhold Social Security tax under the federal laws.

To discontinue DCP participation, the official signs the Notice to Discontinue DCP Participation and gives the form to the employing unit. The employer then completes Part B of the form and sends the form to PERA. While in office, the official may not file a request with PERA to withdraw all or some of the account balance unless he or she is at least age 65 or older. Furthermore, elected officials who cancel their DCP membership may again choose to join the plan at any time while they are in office.

If the position held by an official changes from elected to non-elected, the position is no

longer eligible for DCP participation and the individual's membership in the plan must be discontinued. The person must then be enrolled in the Coordinated Plan if annual earnings are projected to exceed \$5100.

Of course, DCP participation also ends when a public official terminates service. In these instances, please promptly report the termination status and effective date to our office. See [Updating Member Data](#) later in this chapter for details on reporting a status change.

If a DCP member applies for and receives a refund from PERA, the individual may not later repay the previously withdrawn DCP account balance.

## **Coverage for City Managers**

A city manager whose compensation is stipulated to be more than \$5100 in a year automatically becomes a member of the Coordinated Plan (see Chapter 3 Defined Benefit Plan for more details). However, the individual may — within the first six months of employment — withdraw from the Coordinated Plan in order to participate in the DCP or to have no PERA coverage. City representatives are responsible for



informing their city managers of the right to be included or excluded from membership in a PERA retirement plan.

For PERA purposes, a city manager means (1) a person who is duly appointed to and is holding the position of city manager in a Plan B statutory city or in a home rule city operating under the "council-manager" form of government, or (2) a person who is appointed to and is holding the position of chief administrative officer of a home rule charter city or a statutory city under a charter provision, ordinance, or resolution establishing such a position and prescribing its duties and responsibilities.

The option for city managers to join the DCP began July 1, 2006. City managers employed on that date, who were not participating in the PERA Coordinated Plan, had the right to join the DCP. In these instances, the employer was to notify the city manager of the DCP coverage opportunity.

Conversely, city managers who were members of the Coordinated Plan on July 1, 2006 and who had more than six months of coverage did not have the option to transfer to the DCP. Their membership in the Coordinated Plan continued and could not be revoked.

### **Membership Choice**

New city managers must complete Part A of the form Membership Election by a City Manager within the first six months of employment. This form, which can be downloaded from the PERA website or mailed upon request, is used to document the retirement plan choice made by the individual. The three PERA membership choices are as follows:

1. Participate in the PERA Coordinated Plan.  
Note: A city manager may discontinue his or her Coordinated Plan membership within six months of the commencement of the employment if the city council approves the exclusion. To revoke the Coordinated Plan coverage, the city manager must complete the form Election for Exclusion from the Coordinated Plan by a City Manager. If such coverage is rescinded, the city manager may choose to participate in the DCP prospectively or to have no PERA coverage. If the city manager becomes a DCP member, the Coordinated Plan contributions remain in his or her account until the employee terminates public service.
2. Participate in the DCP, or
3. Have no PERA coverage.  
Note: A city manager who chooses within the first six months of the employment to not have any PERA coverage may later revoke that decision with approval of the city council. The city manager may subsequently choose to participate in either the DCP or the Coordinated Plan. (To obtain prospective DCP coverage, the city manager must again complete form Membership Election by a City Manager indicating that DCP coverage is desired. In contrast, if the city manager wants coverage in the Coordinated Plan, he or she must complete the form Election for Inclusion in the Coordinated Plan.)

If a city manager does not complete form Membership Election by a City Manager within six months of commencing employment, membership in the Coordinated Plan is required by law and continues until the individual terminates employment.

### **Member Enrollment**

You may enroll an eligible city manager into the DCP only after the person has given written authorization for such deductions by completing the form Membership Election by City Manager. If you receive this form, please promptly forward it to PERA.

Each DCP member must have an individual account in PERA's records. If you have access to PERA's web system for employers, the Employer Reporting and Information System (ERIS), you will create the individual





account directly. For information about ERIS, refer to Chapter 6.

On the other hand, if you do not have the computer technology necessary to use ERIS, PERA staff will create the account upon receipt of the signed membership election form.

### **Contributions**

Effective with salary paid after Jan. 1, 2011, city managers who are members of the DCP contribute 6.5 percent of their salary into the plan and their employers contribute an identical amount. A member's payroll deductions are made on a pre-tax basis and DCP contributions are subject to annual contribution limits set by the IRS.

If a city manager elects DCP coverage, the employer should withhold deductions from the person's salary as of the pay period next following the date in which the coverage was elected. Some forms of compensation are not subject to PERA withholding and cannot be used to compute pension plan deductions. Among other things, PERA-eligible salary does not include unused vacation, sick or personal leave hours or payments for expenses. For full details, please refer to Chapter 5 Eligible Earnings.

Employee deductions and employer contributions are remitted to PERA on a pay period frequency. Please refer to Chapter 7 Contribution Reporting for full

details. That chapter also provides information on the annual contribution limits that apply to an individual's DCP account.

### **Social Security and Medicare**

A city manager earning more than \$5100 in any year must pay into Social Security, regardless of whether the person chooses coverage in a PERA retirement plan. This is due to the Section 218 Agreement drawn up in 1968 covering positions that qualify for membership in the Coordinated Plan. All city managers hired after March 31, 1986 pay into Medicare.

### **Discontinuing DCP Participation**

An election by a city manager to participate in the DCP is revocable at any time during employment. To discontinue the DCP contributions, a manager must sign the Notice to Discontinue DCP Participation. This form, which can be downloaded from the PERA website or mailed upon request, notifies the employing city to stop withholding DCP deductions from the employee's compensation. The employer then completes Part B of the form and sends the form to PERA.

While in office, the official may not file a request with PERA to withdraw all or some of the account balance unless he or she is at least age 65 or older.

If the DCP coverage is discontinued, the city manager has the option to have no PERA coverage, or with approval of the city council, to participate in the Coordinated Plan prospectively. To obtain prospective coverage in the Coordinated Plan (see Chapter 3) of PERA, the city manager must complete the Election for Inclusion in the Coordinated Plan. The city then completes Part B of that form and sends it to PERA.

Of course, DCP participation also ends when a city manager terminates public employment. The employer must report the termination status and effective date to PERA so that the person is eligible to apply for a refund of the balance in the account. See [Updating Member Data](#) later in this chapter for details on reporting a status change.



## Coverage for Physicians

Since April 4, 1996, physicians who are direct employees of a governmental subdivision have been eligible to participate in the DCP. For physicians who earn more than \$5100 in a year, the DCP is as an alternative to the Coordinated Plan. (See Chapter 3 for information about this defined benefit plan.)

Upon employment, a physician has the right to participate in the DCP but the option to do so must be exercised in writing within the first 90 days of employment. Employer representatives are responsible for informing their physicians of their PERA membership rights.

### Membership Election

If a physician chooses - within the first 90 days of employment - to participate in the DCP, he or she must do so by completing the Retirement Plan Election by a Governmental Physician form. The employer should complete Part A of that form and have the physician complete Part B. If a physician authorizes DCP deductions, you must send the completed form to PERA.

Each DCP member must have an individual account in PERA's records. If you have access to PERA's web system for employers, the Employer Reporting and Information System (ERIS), you will create the individual account

directly. For information about ERIS, refer to Chapter 6.

On the other hand, if you do not have the computer technology necessary to use ERIS, PERA staff will create the account upon receipt of the signed membership election form.

If the physician does not file a written choice within the first 90 days of employment, or chooses not to participate in the DCP, you must enroll the physician in the Coordinated Plan if annual earnings are projected to exceed \$5100.

### Contributions

Physicians who are members of the DCP contribute 5.00 percent of their salary into the plan and their employers contribute an identical amount. A member's payroll deductions are made on a pre-tax basis and DCP contributions are subject to annual contribution limits set by the IRS.

If a physician elects DCP coverage, the employer should withhold deductions from the person's salary as of the pay period next following the date in which the coverage was elected. Some forms of compensation are not subject to PERA withholding and cannot be used to compute pension plan deductions. Among other things, PERA-eligible salary does not include unused vacation, sick or personal leave hours or payments for

expenses. For full details, please refer to Chapter 5 Eligible Earnings.

Employee deductions and employer contributions are remitted to PERA on a pay period frequency. Please refer to Chapter 7 Contribution Reporting for full details. That chapter also provides information on the annual contribution limits that apply to an individual's DCP account.

### Social Security and Medicare

A physician who will earn more than \$5100 in a year must pay into Social Security, regardless of whether he or she is enrolled in the DCP or the Coordinated Plan. The Social Security participation is required under the Section 218 Agreement covering the Coordinated Plan. All employees hired after March 31, 1986 pay into Medicare.

### Discontinuing DCP Participation

Physicians who participate in the DCP must remain in the plan until they terminate employment for the governmental subdivision. Upon termination of employment, the employer must report the termination status and its effective date to PERA. See [Updating Member Data](#) later in this chapter for details on reporting a status change.



## Coverage for Volunteer Ambulance Personnel

Effective July 1, 1987, a public ambulance service had the option to elect to participate in the DCP. Before an ambulance service can extend DCP coverage for its personnel, its representative must contact PERA to obtain the Ambulance Service Questionnaire. Once completed and returned to PERA, staff will determine whether the ambulance service is eligible to participate in the DCP.

Once an ambulance service is enrolled in the program, individual participation in the plan is completely voluntary for the basic and advanced life-support emergency medical service personnel who are employed by or providing service for a public ambulance service in Minnesota. There are no minimum salary requirements.

A person's decision to participate in the DCP must be made within 30 days of the date the service joined, or 30 days from the date the individual became employed or began providing service to the agency, whichever is later.

Volunteer ambulance personnel who are paid wages for their services or those who are largely uncompensated may participate in the DCP, as long as they are not contributing to another public or private pension plan for the same ambulance service.

### **Membership Election**

If an eligible ambulance service chooses to participate in the DCP, each of its eligible personnel may decide to participate in the plan.

An individual's election to participate must be made within

30 days of either the date the ambulance service elects to participate in the plan or the date the individual begins employment with the service or began to provide services for the ambulance service.

If an ambulance service employee who participates in the DCP changes employment to a different ambulance service that is under the DCP, membership in the plan may continue under the other ambulance service. The DCP coverage continues if the employment with the other participating ambulance service commences within 30 days of terminating employment with the original service.

### **Member Enrollment**

Once an ambulance service worker has authorized the withholding of DCP deductions, the employer must enroll the person by providing specific personal and employment data to PERA.

If you have access to PERA's Employer Reporting and Information System (ERIS) you will create the individual account directly. ERIS is a web system maintained exclusively for use by PERA-covered employers. Please refer to Chapter 6 for more information.

On the other hand, if you do not have the technology necessary to use ERIS, PERA staff will create the DCP account for the new

employee upon receipt of the signed Notice to Discontinue Defined Contribution Plan Participation.

If an ambulance service employee who participates in the DCP changes employment to another governmental ambulance service covered by the DCP, membership in the plan may continue under the new service. The DCP coverage continues if the employment with the other participating ambulance service commences within 30 days of terminating employment with the original service.

**Contributions**

An ambulance service that elects to participate in PERA’s DCP determines the rate at which they will contribute on behalf of covered personnel. For employees who are paid wages, the ambulance service must establish a fixed percentage of that compensation to contribute on behalf of the employees. For employees who are volunteer or largely uncompensated, the employer may assign a unit value for each call or each period of alert duty and establish a contribution amount based on those units.

Paid personnel may choose to make a member contribution up to the amount the ambulance service makes on his or her behalf. A member’s payroll deductions are sheltered from federal or state income taxes. Please refer

to Chapter 7 Contribution Reporting for instructions on remitting contribution payments and payroll data to PERA after each pay period.

**Social Security and Medicare**

Ambulance service employees hired after March 31, 1986, pay into Medicare. However, as shown in Figure 5, the worker is exempt from paying the Social Security portion of FICA if the combined required employee and employer contributions made to the DCP (as set by the employer) total at least 7.5 percent of the worker’s compensation.

**Figure 5**  
**Social Security Participation for Ambulance Service Personnel**

Total Employee and Employer Contributions	Did worker choose DCP?	Withhold Social Security Tax?
Combined required contributions are 7.5 percent or more	Yes	No. Mandatory Social Security participation does not apply.
Combined required contributions are 7.5 percent or more	No	Yes. Participation in Social Security is mandatory.
Combined required contributions are less than 7.5 percent	n/a	Yes. Participation in Social Security is mandatory.

**Discontinuing DCP Participation**

An ambulance service may choose to discontinue participation in the plan by submitting a written statement to PERA. In this situation, the law gives each member the right to revoke the DCP membership at any time.

Once PERA receives a written notice to discontinue the DCP membership, PERA staff will close the membership record of the applicable DCP member. Discontinuing participation does not, however, allow the worker to withdraw the account balance. The balance cannot be withdrawn until the individuals no longer hold the ambulance service positions.

Of course, DCP participation also ends when the worker terminates service, or moves from an ambulance service position to a non-ambulance position, or to an ambulance service not participating in the DCP. In these cases, the ambulance service must report the termination status and its effective date to PERA. See [Updating Member Data](#) later in this chapter for details on reporting a status change.



## Coverage for Volunteer or On-call Firefighters

State laws passed in 2006 provide that certain volunteer or emergency on-call firefighters who serve as members of a municipal fire department or an independent nonprofit firefighting corporation may elect to participate in the DCP administered by PERA.

Any independent nonprofit firefighting corporation wishing to extend DCP coverage for its eligible firefighters must contact PERA to obtain a questionnaire to determine its eligibility to participate in the DCP.

Any municipality that is already participating in a PERA retirement plan may extend the DCP coverage to its firefighters who meet the eligibility criteria in Minnesota Statutes § 353D.01, subd. 2(a)(7) as described below.

### **Member Eligibility**

Volunteer or paid on-call emergency firefighters of a municipality or independent nonprofit firefighting corporation are eligible to participate in the DCP if they are not contributing to the PERA Police and Fire Plan or to a volunteer firefighter relief association under Chapter 424A for the same firefighter services.

If a person serves a single municipality as both an employee (on

a full or part-time basis) and a volunteer firefighter, the person has the right to obtain membership in the DCP for the volunteer service earnings even if he or she is a member of the PERA Defined Benefit Plan for the non-volunteer services. See the following examples.

**Example 1:** John Smith is a full-time fire inspector for “City A” and contributes to the PERA Coordinated Plan. John also volunteers as a firefighter for “City A” during evening hours. John is not covered for the volunteer firefighter service by a relief association and is not eligible to pay into the PERA Police and Fire Plan on any compensation received for the volunteer services. In this situation, John and “City A” could contribute to the DCP on the earnings of the volunteer firefighting services. Any DCP membership that John would have for the volunteer duties and compensation would be separate from and in addition to the Coordinated Plan membership he has as a full-time fire inspector with this city.



**Example 2:** Tom Jones is a full-time police officer for “City B” and contributes to the PERA Police and Fire Plan. Tom also volunteers as a firefighter for this city. Tom is not earning any credit in a volunteer relief association and is not eligible to pay into the PERA Police and Fire Plan on the compensation he receives for the volunteer firefighting services. In this situation, Tom and “City B” could contribute to the DCP on the compensation for the volunteer firefighting services. Tom’s DCP membership for the volunteer duties and compensation would be separate from and in addition to the Police and Fire Plan membership he has as a full-time police officer with this city.



### **When Participation Begins**

An individual's participation is to begin once the person has provided to the employing unit a written request to have the DCP coverage. An individual's election into the DCP is irrevocable.

### **Member Enrollment**

If a volunteer or paid on-call emergency firefighter authorizes DCP membership, the employer must send a completed Defined Contribution Plan Membership Certification form to PERA. This form is available for printing from the PERA website or it can be mailed upon request.

Each DCP member must have an individual account in PERA's records that includes specific personal and employment data. If you have access to PERA's Employer Reporting and Information System (ERIS) you will create the individual account directly. (ERIS is a web system maintained exclusively for use by PERA-covered employers. Please refer to Chapter 6 for more information.)

On the other hand, if you do not have the computer technology necessary to use ERIS, PERA staff will create the DCP account for the new employee upon receipt of the completed Defined Contribution Plan Membership Certification form.

### **Contributions**

The employing entity may establish any percentage of compensation that it will contribute on behalf of the covered firefighters as long as the *total member and employer amount* is at least 7.5 percent of any compensation received by the firefighter for the firefighting services.

Generally, the amounts contributed are made solely by the covered member. The member's payroll deductions are made from his or her compensation on a pre-tax basis and DCP contributions are subject to the annual limit set by the IRS. Refer to Chapter 7 Contribution Reporting for additional details.

However, the employing unit may choose to make a contribution in addition to or in place of a contribution from the firefighter. If contributions are made through combined member and employer contributions, the municipality or eligible nonprofit fire fighting corporation is to provide written authorization to PERA indicating that it chooses to contribute an amount on behalf of its firefighters who elect to join the DCP.

### **Social Security and Medicare**

Paid on-call emergency firefighters who are members of the DCP do not pay Social Security contributions. The firefighters' compensation is exempt because the DCP is considered a public retirement system that is an alternative to Social Security due to its required combined DCP member and employer contributions of 7.5 percent or more of the firefighter's compensation. Firefighters pay the Medicare portion of FICA taxes, however, unless they have continuous employment with a municipality that began on or before April 1, 1986.

### **Discontinuing Participation**

Eligible firefighters who join the DCP must remain in the plan until they no longer provide services to the fire department or nonprofit fire fighting corporation. Upon terminating firefighting services, the individual may apply for a refund of the value in the DCP account.

The employer must report the termination status and effective date to PERA. See [Updating Member Data](#) later in this chapter for more details.



## Chart of Enrollment Forms

Figure 6 will help you determine the form to use for DCP enrollments. All forms are available online for printing or can be mailed upon request.

**Figure 6**  
Enrolling an Eligible Person in the Defined Contribution Plan (DCP)

Position	PERA Form	Filing Requirement
Governing-body elected officials	<b>Membership Election by Public Officials</b> (Employer completes Part A and the official completes Part B)	The public official may choose to join the DCP any time after taking office.
Non-governing body elected officials <sup>1</sup>	<b>Membership Election by Public Officials</b> (Employer completes Part A and the official completes Part B)	The individual may opt to join the DCP any time after taking office.
Persons first appointed after June 30, 2010 to a board/commission of a local governmental unit	<b>Membership Election by Public Officials</b> (Employer completes Part A and the official completes Part B)	The new appointee may join the DCP if compensation for the services rendered will exceed \$5100 in a year.
City manager hired after June 30, 2006 <sup>1</sup>	<b>Membership Election by a City Manager</b> (Employer completes Part A; the city manager completes Part B)	A city manager who opts within the first 6 months of employment to be excluded from the Coordinated Plan may join the DCP at any time during employment.
Physician <sup>1</sup>	<b>Membership Election by a Governmental Physician</b> (Employer completes Part A; the physician completes Part B)	The physician may choose to join the DCP within the first 90 days of employment. (If DCP membership is not selected, the physician must join the PERA Coordinated Plan.)
Basic or advanced life support emergency medical personnel with a public ambulance service	<b>Defined Contribution Plan Membership Certification.</b> (Form is completed by the employer.)	The individual may elect DCP coverage within 30 days of the date on which s/he began to provide services.
Volunteer or paid on-call emergency firefighter	<b>Defined Contribution Plan Membership Certification.</b> (Form is completed by the employer.)	The firefighter may join the DCP at any time during employment provided s/he is not participating in a public retirement system.

<sup>1</sup>If the earnings of the position are expected to exceed \$5100 in a year, the public employee may under conditions set in Minnesota law be eligible to join the PERA Coordinated Plan as an alternative to the Defined Contribution Plan.

### Missing Forms

You should mail completed, signed membership election forms to PERA before or at the same time in which the first DCP deduction is sent to PERA for the particular individual. Upon receipt of the membership form and deduction, we will mail to each new member a "welcome" letter, DCP brochure, and forms for designating investments.

If you submit retirement plan deductions before having provided the proper membership form and enrollment data, we will create a partial account for the individual using the limited identification information provided with the first payroll deduction. The contributions made on behalf of the DCP member will be invested in the Balanced Fund until the individual provides investment selections to PERA in writing.

On a periodic basis, we will notify employers of the DCP members who have been reported without being properly enrolled. If the signed membership form is not received within the time limit set in law, PERA must declare the person's DCP membership to be in error and issue the appropriate refund. Information about processing deductions made in error is in Chapter 7 Contribution Reporting.

## Updating Member Data

You must keep the personal and employment information on your DCP members up to date.

If you have computer capabilities at work, you will report changes in a member's name or address, or a termination of public service, electronically using PERA's Employer Reporting and Information System (ERIS). If you do

not have the necessary computer capabilities, you will report these changes using the Member Information Change Report.

To report a member's termination of public service, please be sure to report the status code "T" and the effective date of the separation. Timely submission of terminations in employment

or plan membership discontinuations will help to ensure that we provide accurate information about the rights available to the former members.

Complete information about reporting employment status changes can be found in Chapter 6.

## Investment Options

Employer and employee contributions for DCP participants are combined and used to purchase shares in the account(s) selected by the employee.

Two percent of the employer contributions to the Defined Contribution Plan (2 cents for each \$1.00 contributed by the employer) are used by PERA for administrative costs of the plan. In addition, 0.25 percent (one quarter of one percent) of the

value of the member's shares is retained by PERA each year to help defray the costs of administering the plan. This asset-based charge amounts to \$2.50 for each \$1,000 in a member's account.

PERA's DCP members choose to invest in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. As directed by law, undesignated contributions are placed

in the Balanced Fund. Brief descriptions about each of the seven accounts can be found in the Member Benefits Chapter. Comprehensive information can be found in the [Minnesota Supplemental Investment Fund Prospectus](#) brochure published each year by the Minnesota State Board of Investment. The brochure is available from PERA upon request and is mailed to each DCP participant annually.





## Refund Options

Members who terminate public service have three options as to what to do with their DCP funds as stated below.

1. Leave the money in the account – Once participation is discontinued, no additional contributions (employee or employer) will be put in the member's account. The value of the account will be solely affected by the performance of the fund(s) in which the money is invested.
2. Roll the account balance over to another tax-deferred account through one of two types of rollovers.
  - A direct rollover in which the untaxed funds are transferred by PERA into the qualified tax-deferred plan of the member's choice. By using a direct rollover, the employee does not face an IRS early withdrawal penalty or income tax liabilities at the time the rollover is made.
  - An indirect rollover in which the funds are paid to the employee and then transferred to a different tax-deferred plan by the employee. This rollover may result in the employee paying an early withdrawal IRS penalty on untaxed amounts if the member is under age 59 ½ at the time of withdrawal.
3. Withdraw the funds – A terminated member leaving the DCP can withdraw the funds and have the account balance paid by PERA to him or her directly. The withdrawal is subject to federal and state taxation and, possibly, an IRS early withdrawal penalty tax. Under current rules, PERA must withhold federal tax of 20% on amounts over \$200 before issuing payment to the terminated member. For information on possible IRS penalties for withdrawal of tax-deferred funds, employees should consult with the IRS or a qualified tax advisor.

Inactive members may leave their employee contributions with PERA for up to five years after their last member contribution was made. Inactive members who remain out of PERA service and do not apply for a refund within five years after their last member contribution was made, will forfeit their member contributions and interest from PERA.

