

DEFINED CONTRIBUTION HANDBOOK



PUBLIC EMPLOYEES
RETIREMENT ASSOCIATION

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WELCOME TO THE DEFINED CONTRIBUTION PLAN

The Defined Contribution Plan (DCP) is a tax-qualified retirement savings plan 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.

ARE YOU ELIGIBLE?

You are eligible to participate in DCP if you are an elected local government official, physician, city manager, ambulance service personnel, rescue squad or other positions listed under the Minnesota Statutes Chapter 353D.

Participation is optional for qualifying members. DCP participants contribute a percentage of their gross salary based on employment. The public employer may also make a contribution based on plan provisions.

As a DCP member, you designate a percentage of total contributions to be placed in one or more of seven accounts of the Minnesota Supplemental Investment Fund. Your contributions are combined with your employers to purchase shares in the investment accounts you select. Your investment selections and market conditions determine your DCP account balance. See page 4 for more information on investments.

The plan provides a lump-sum benefit, once eligible, of the value of your shares with accrued interest or dividends. No monthly retirement benefits are available.

eligibility and enrollment

DCP is a retirement savings program for elected local government officials, physicians, city managers, and other specific classes of positions listed under Minnesota Statutes Chapter 353D. Eligibility for the DCP can vary depending on your employment. An explanation of eligible DCP participant groups are provided below.

ELECTED OFFICIALS

Eligible local government officials include:

- Local elected officials or a person appointed to fill a vacant local elected position.
- **Examples of non-governing body positions:** local city or county auditors, treasurers, attorneys, clerks, certain township clerks.

A person elected to a non-governing-body position who earns more than \$5,100 per year may join the General Plan instead of the DCP. See page 7 for details.



- With some exceptions, an individual appointed to a board or commission of this governmental subdivision. The individual must earn at least \$5,100 per year.
- Elected county sheriff who is currently receiving retirement benefits from the PERA Police and Fire Plan.

Participation in DCP is voluntary for each individual. Also, there is no minimum salary requirement (with the exception of appointed members to a board or commission). Elected officials may also choose to discontinue DCP participation at any time.

<input checked="" type="checkbox"/>	YES
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- **Examples of governing body positions:** county commissioner, city council, school board, township supervisor, soil and water board, or other special district board.

HOW TO ENROLL

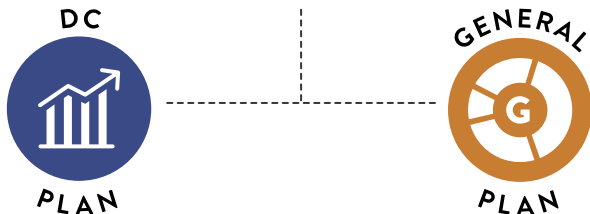
To enroll, the member and employer must complete the *Membership Election by Public Officials* form.

eligibility and enrollment

PHYSICIANS

Eligible physicians must be an employee of a governmental agency (not an independent contractor providing services to the facility).

Physicians may choose between DCP and the General Plan.



Under Minnesota law, physicians who earn at least \$5,100 per year must have salary deductions for Coordinated coverage in the General Plan, unless the person elects to participate in DCP within 90 days of the start of employment.

For physicians, an election to participate in the DCP is irrevocable.



HOW TO ENROLL

To enroll, the member and employer must complete the *Membership Election by a Governmental Physician* form.

CITY MANAGERS

Upon employment, city managers and administrators who earn at least \$5,100 per year are automatically enrolled as Coordinated members of the General Plan.

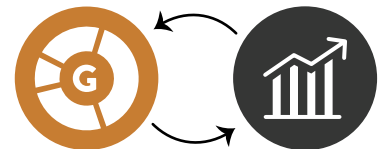
However, city managers can choose to withdraw from the General Plan, and

- ✓ Enroll in DCP, or
- ✓ Do not enroll in any PERA plan.

The election to withdraw from the General Plan must be made within the **first six months** of employment. City managers who opted out of enrolling in any PERA plan may later enroll in DCP.



membership. The City will stop withholding General Plan deductions from your earnings beginning the paid date following the date PERA receives this form, unless you request a later effective date (that is within your first six months of employment).



City managers who had previously elected to not participate in PERA's General Plan have the option to reverse that decision and become members of the General Plan prospectively by completing the *Election for Inclusion in the Coordinated Plan by a City Manager/Administrator*. Additionally, PERA requires a City Council resolution approving the exclusion revocation.

HOW TO ENROLL

The member and employer must complete the *Election for Exclusion in the Coordinated Plan by a City Manager/Administrator* form to switch from General Plan enrollment to DCP enrollment, or to elect to not enroll in any PERA

Once a city manager reverses the original decision to be excluded from the General Plan, the decision to contribute to the General Plan remains irrevocable until termination of service.



PERA's General Plan is a defined benefit plan where you and your employer contribute a percentage of your gross salary to PERA. New members are enrolled in Coordinated membership. Instead of providing a lump-sum benefit like the DCP, the General Plan is designed to provide you with a lifetime benefit based on a formula using your age at retirement, service, and salary.

eligibility and enrollment

OTHER GROUPS

AMBULANCE SERVICE PERSONNEL

Basic and advanced life-support emergency medical service personnel who are employed by any public ambulance service may elect to participate in DCP. Participation in the plan is optional and there is no minimum salary requirement.

Your DCP election must be made within 30 days of the service's election to participate or 30 days from the date the you begin providing service to the agency, whichever is later. You may revoke their DCP election at any time.



For rescue squad and volunteer firefighters, your DCP election is irrevocable and must be made with 30 days of the date on which you begin providing services to the agency.



HOW TO ENROLL

To enroll, the employer must complete the *Defined Contribution Plan Membership Certification for Certain Ambulance, Rescue, or Volunteer Firefighter Positions* form.

RESCUE SQUAD

Eligible groups include municipal rescue squads associated with City of Litchfield of 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.

HOW TO ENROLL

To enroll, the employer must complete the *Defined Contribution Plan Membership Certification for Certain Ambulance, Rescue, or Volunteer Firefighter Positions* form.

CERTAIN VOLUNTEER FIREFIGHTERS

DCP coverage is available to any volunteer or emergency on-call firefighters serving in a municipal fire department or an independent nonprofit firefighter corporation not eligible for PERA's Police and Fire Plan, the Statewide Volunteer Firefighter Retirement Plan or a municipal fire relief association. The decision to join is made on an individual basis by firefighters, but once made, it becomes irrevocable.

HOW TO ENROLL

To enroll, the employer must complete the *Defined Contribution Plan Membership Certification for Certain Ambulance, Rescue, or Volunteer Firefighter Positions* form.

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
Elected 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.	

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. *PERA Service Representatives 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 percent 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.

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 percent 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.

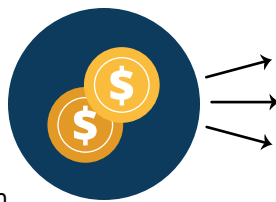
TERMINATION OF EMPLOYMENT

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 the DCP-covered employer are not eligible for a distribution, even if they have ceased contributing to the 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 institutions, they may allow different payout options (including annuities). PERA cannot provide financial

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.

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, located at mnpera.org.

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.

Please contact a PERA Service Representative to request disability information and application paperwork.

If you are actively contributing to another Minnesota public pension plan, such as the General Plan, but are no longer employed in the position in which you contributed

account distribution

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 DISTRIBUTION

The Internal Revenue Code mandates a Required Minimum Distribution (RMD) from your qualified retirement plan to

be paid by April 1 of the year that follows the later of:

- ✓ The calendar year in which you reach age 70 ½, or
- ✓ The calendar year in which you retire from employment with the employer maintaining the plan.

If an RMD is not taken by that date, the IRS may impose an excise tax equal to 50 percent of the amount that should have been taken from your DCP.

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 of 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 DCP distribution paid directly to you:

- **Federal Taxes.** The IRS requires PERA to withhold 20 percent of your distribution. PERA sends this amount to the IRS as federal income tax withholding.
- **State Taxes:** PERA does not withhold state tax from your distribution. You may owe state tax on your withdrawal, depending on your state of permanent residence at the time of distribution.
- **Early Withdrawal Tax:** If you receive the distribution before age 59½, you may be subject to an additional 10 percent federal early withdrawal tax. The tax penalty may not be applicable if you terminate public service during or after the year you reach age 55 (age 50 for qualified public safety employees) and then receive your refund. Other exceptions may apply. Consult this [IRS guide](#) or a tax specialist for details.
- **Sixty-Day Rollover Option:** You can still transfer all or part of the distribution to a tax-deferred qualified plan that accepts rollovers within 60 days of the payment date from PERA. You will not pay taxes on the portion of your distribution that is rolled over until you take it out of the qualified plan.



If you choose a direct rollover, your distribution will be sent directly to another tax-qualified plan:

- **Taxes:** If you transfer your distribution to a tax-deferred 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 tax-deferred qualified plan.
- **Roth IRA:** You may transfer after-tax contributions to a Roth IRA (an after-tax qualified plan). This can be done by PERA as a direct rollover, or PERA can send you the after tax amount and you can complete the rollover. If you wish to have PERA transfer any or all of the tax-deferred portion of your distribution to a Roth IRA, be aware that this is a taxable event and will be reflected in the Form 1099-R you receive from PERA. While this is a taxable event, the early withdrawal penalty does not apply. It is your responsibility to determine your ultimate tax liability and qualification for a Roth rollover.
- **Required Minimum Distribution (RMD):** If you are over age 70½ at the time you receive a distribution, a portion of your withdrawal may be an RMD and cannot be transferred to a qualified plan.

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:

- 1 Two percent of the employer contributions to DCP (2 cents for each \$1.00 contributed by the employer), and
- 2 0.25 percent 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

DISCONTINUING DCP PARTICIPATION

Depending on your position, you may or may not be able to discontinue participation in the DCP. See the table below:

Plan	Discontinue DCP?
Elected officials ¹	Yes
Physicians	No
City Managers ²	Yes
Ambulance emergency services	Yes
Rescue squad emergency services	No
Certain volunteer firefighters	No

Please note, discontinuing participation in the DCP plan does not entitle an active public employee to a distribution, unless you are 65 or older and have a balance of \$5,000 or more.

¹ Elected officials who discontinue DCP participation can choose to reinstate coverage at any time.

² City managers who discontinue DCP participation have the option to choose no PERA coverage, or with approval of the city council, to participate in the General Plan prospectively.

GENERAL PLAN – AN ALTERNATIVE OPTION

Some individuals who are eligible for the DCP may instead choose to participate in PERA's General Plan. Eligible participants include elected officials in non-governing body positions, physicians, and city managers. The individual's annual salary must exceed \$5,100.

The General Plan is a defined benefit retirement plan and a 401(a) tax-qualified plan. As a General 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 value of your individual benefit. Instead, the General Plan is designed to provide you a lifetime benefit based on a formula using your age at retirement, service, and salary.

If you are vested in the General 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 General Plan is 55.

Another option is a lump-sum refund of your member contributions plus interest. By taking a refund, you forfeit

other considerations

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.

Once General Plan enrollment is elected, Plan membership is irrevocable.

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 General Plan, Police & Fire, or Correctional Plan, you may begin 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 General Plan service and DCP service are with the same employer.

For more details on the General Plan, including contribution rates, vesting, termination requirements, and benefit information, please review the General Plan Handbook or contact a PERA Service Representative.



beneficiaries, MY PERA

BENEFICIARIES

Upon your death, your named beneficiary(ies) will receive any 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), whether or not a relative, 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, any 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 up to date. You can designate beneficiaries in your MY PERA account, or by

using a *Change Form* that can be found on mnpera.org or by contacting a PERA Service Representative.

MY PERA—YOUR 24/7 ACCESS

MY PERA makes it simple and fast to update your personal information, change your address, add beneficiaries, or view your benefits. At this time, it is not possible to change DCP investment selections in your MY PERA account.

Please visit mnpera.org and click on the **MY PERA 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 MY PERA registration process, or you can contact a PERA Service Representative. PERA will mail your ID to you. For account security, your PERA ID is not disclosed over the phone, fax, or e-mail.