



# Defined Contribution Plan

The Defined Contribution Plan (DCP) administered by PERA is a tax-deferred retirement savings program for elected and appointed public officials, city managers, and several other specific groups of public employees in Minnesota. DCP participants determine how both employee and employer contributions are to be invested through the purchase of shares in accounts of the Minnesota Supplemental Investment Fund. Total contributions plus investment performance determine the ultimate benefit, which is paid as a lump sum upon withdrawal.

## Eligibility

All local public officials elected to their positions by the public at large are eligible to participate in the plan, as are those first appointed to a board or commission of a political subdivision after June 30, 2010, if the earnings exceed \$5,100 per year. Elected county sheriffs may participate only if excluded from participation in PERA's Police & Fire Plan. Officials appointed to vacant elective positions are also eligible for the plan for the remainder of the office's term. DCP is the only PERA retirement plan available to officials first elected to governing body positions (ex: city council, county board, school board, etc.) after June 30, 2002.

For elected officials, participation in the plan is voluntary for each individual and there is no minimum salary requirement. Elected officials may also choose to discontinue participation at any time.

## How It Works

Public officials contribute 5 percent of their elective salary and their employers contribute an identical amount. Salary includes compensation the official receives for services rendered in the elected position as well as compensation received by the official for services rendered to a board or commission not filled through election by the public at large. It does not include pay for actual or anticipated expenses.

Plan participants designate a percentage of total contributions to be placed in one or more of seven accounts of the Minnesota Supplemental Investment Fund. This investment fund is administered by the Minnesota State Board of Investment (SBI) and includes actively and passively managed stock funds, an international stock fund, a bond fund, a balanced fund, a money market account and a fixed interest fund. The investment goals of these accounts and the returns they have actually achieved are described in *Investment Options, Minnesota Supplemental Investment Fund*, published by the Minnesota State Board of

Investment. This publication is posted on both PERA's and SBI's websites.

Shares belong entirely to the participant. Except for the money market and fixed interest funds, whose shares are always one dollar each, shares are purchased at market prices.

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.

DCP participants may change their investment selections any time and may also transfer all or portions of previously purchased shares from one account to another. Some special restrictions apply, however, to transferring funds to other accounts from the Fixed Interest Account. (These restrictions are explained in the brochure *Changing Investment Selections*.)

DCP members receive account statements by mail once each year. They may also monitor their accounts online through MY PERA at [www.mnpera.org](http://www.mnpera.org).

## Benefits

Upon termination of covered service, the DCP participant is entitled to a **lump-sum payment** of the value of shares held in the account at the time payment is issued. The final value of the account is determined by economic and market conditions. Thus, 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.

Participants who qualify for permanent disability under Minnesota statutes governing PERA have the option of receiving monthly payments from their account instead of a lump-sum distribution. The amount of the payments must be in \$100 increments and may not exceed ten times the combined employee and employer contributions for the month preceding the disability. The benefit ends when the disability status ends or when the account is depleted, whichever is sooner.

Proceeds of an account are payable 30 days or more after the date of termination of elected office, approval of disability, or death. An application for withdrawal of the funds must be filed with PERA by the member or by someone acting on the participant's behalf before payment can be made. Upon the member's death, the value of all accounts is payable, upon application, to the participant's designated

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beneficiaries, or, if none, to the participant's estate.

The payment may be rolled over to another tax-qualified plan or used to purchase an annuity from an insurance company. PERA will, at the direction of the participant, send the payment to an insurance company licensed to do business in Minnesota for the purpose of purchasing an annuity.

## The Defined Contribution Plan And Taxes

Participants do not pay taxes on contributions withheld from earnings and those made on behalf of the participant by the employer. However, because the DCP is a tax-deferred program, these contributions and any account appreciation become taxable upon withdrawal, unless rolled over to another tax-qualified plan. If taken out before age 59½ and not rolled over, withdrawals are, with a few exceptions, also subject to a 10 percent tax surcharge.

Employee payments for past service are recorded in the participant's account as taxed contributions. Consequently, the participant will not have tax liability for these contributions upon withdrawal.

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 Charges

Two percent of the employer contributions to the DCP (2 cents for each \$1.00 contributed by the employer) is used by PERA for administrative costs of the plan. In addition, 0.25 percent of the value of the participant's shares are also retained by PERA to help defray the costs of administering the plan. This asset-based charge amounts to \$2.50 for each \$1,000 of the participant's account value.

## Medicare and Social Security Withholdings

Participation in Medicare is required for all DCP members elected or appointed after March 31, 1986. With limited exceptions, members are excluded from participating in Social Security. For some positions, however, Social Security participation is required due to a Section 218 agreement between the federal government and either PERA or a single governmental unit. For details, contact your governmental unit's human resources office or PERA.

For retirement purposes, 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 after terminating public service. For details, contact the Social Security Administration and request information on the Government Pension Offset and the Windfall Elimination provision.

## Contact PERA

If you have questions about your account or PERA's Defined Contribution Plan, you can contact PERA at 1-800-652-9026.

PERA also has a website with regular updates on share values and rates of return for the DCP investment accounts. The address is [www.mnpera.org](http://www.mnpera.org).

*This publication is intended to provide general information; the rights and obligations of PERA members are governed by state and federal laws, rules and regulations. The Minnesota Legislature or the federal government may change the statutes, rules and regulations governing PERA at any time. If there is a discrepancy between the law governing PERA and the information contained in this publication, the statutes and regulations shall govern.*

**This document is available in alternative formats to individuals with disabilities by calling (651) 296-7460 or 1 800 652-9026, or through the Minnesota Relay Service at 1 800 627-3529.**

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**A retirement program for elected & appointed government officials**

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