Retirement Plan Alternatives

PERA Membership for Elected & Appointed Government Officials

Public Employees
Retirement Association
of Minnesota

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Local elected officials in Minnesota and people appointed to elected positions or boards and commissions have the option to participate in the Public Employees Retirement Association (PERA). Eligible officials, who wish to exercise this option, must do so in writing by signing PERA's *Membership Election by Persons Holding Elective Office* form provided by the governmental subdivision or PERA.

PERA administers two retirement plans in which elected officials may choose to enroll, one of which, the Defined Contribution Plan (DCP), is open to all local elected officials. The other plan, the Coordinated Plan, (a defined benefit plan) is available to non-governing-body elected officials who earn at least $5,100 per year. *Non-governing-body* elected officials usually serve the public as city or township clerks, county auditors, treasurers or attorneys. Officials in non-governing-body positions may not participate in both the DCP and the Coordinated Plan for a single elected position. Elected county sheriffs can participate only if they are excluded from mandatory Police and Fire Plan coverage.

As a newly elected or appointed official, or an official who has been in office but has not yet chosen to join PERA, you have an important retirement planning decision to make. This publication will acquaint you with the eligibility requirements of the DCP and the Coordinated Plan, summarize how these plans work, and briefly point out how PERA membership could affect other retirement plan coverage under Social Security or in an Individual Retirement Account (IRA). Before making a decision about joining a PERA plan, you may want to talk with a financial advisor about the potential impact such participation could have on your income tax liabilities and future Social Security benefits.

Additional information on the two retirement plans is available at PERA's website (www.mnpera.org).

This booklet is available in alternative formats to individuals with disabilities by calling 1 800 652-9026 or through the Minnesota Relay Service at 1 800 627-3529.

Defined Contribution Plan

The Defined Contribution Plan (DCP) is a tax-deferred retirement savings program in which employee and employer contributions are deposited into a member's individual PERA account and invested as directed by the member. Participants invest by purchasing shares in accounts of the Minnesota Supplemental Investment Fund. Total contributions plus investment gains and losses in the shares the person owns determine the ultimate lump-sum payment the member should expect from PERA.

DCP Eligibility and Contributions

Membership in the Defined Contribution Plan (DCP) is voluntary and open to local elected officials and people appointed to a board or commission of a governmental subdivision, except for county sheriffs who qualify for membership in PERA's Police and Fire Plan. Officials appointed to vacant elective positions are also eligible for the remainder of the position's term. An eligible public official may exercise the option to enroll in the DCP at any time during tenure in office, but must do so in writing on PERA's form *Membership Election by Persons Holding Elective Office*.

Public officials contribute 5 percent of their position salary to the DCP and the subdivision they serve contributes an identical amount. Officials who join the DCP may choose to discontinue the membership at any time; however, a refund of the value in the account may not be taken until the official leaves office.

Investments

DCP participants designate a percentage of total contributions to be placed in one or more of seven accounts of the Minnesota Supplemental Investment Fund. The investment goals of these accounts and the returns achieved are described in *Investment Options, Minnesota Supplemental Investment Fund*, published by the Minnesota State Board of Investment.

Contributions made by the participating official and employer are combined and used to purchase shares in accounts selected by the participant. Similar to mutual funds, purchases of shares and the gains and losses in market value of the stocks and bonds held in the accounts are reflected in the value of the accounts' shares. Shares belong entirely to the elected official.

Members may change their investment selections and transfer all or portions of previously purchased shares from one account to another. However, some special restrictions apply to transferring funds to other accounts from the Fixed Interest Account.

Medicare & Social Security Withholdings for DCP Members

There are two elements of the Federal Insurance Contributions Act (FICA) about which you need to be familiar: a 6.2 percent salary withholding commonly referred to as Social Security tax and a contribution of 1.45 percent for Medicare.

Participation in Medicare is required for all officials taking office after March 31, 1986, including those who enroll in PERA's Defined Contribution Plan. However, due to federal restrictions, a DCP participant may not contribute simultaneously to Social Security and the DCP on wages from a single position unless the Social Security participation is authorized by a "Section 218 Agreement" between Minnesota and the federal government. Your elected position could be covered by a Section 218 Agreement in one of two ways as described below.

First, if you hold a *non-governing-body* position that provides an annual salary of $5,100, your position is covered by the 218 Agreement established by PERA in 1968. Among other things, this agreement calls for Social Security coverage of officials who hold positions that *qualify* for coverage under the Coordinated Plan, even if the official does not choose such coverage. *Governing-body* officials elected after June 30, 2002, are excluded from joining the Coordinated Plan; therefore, they are not covered by the 218 Agreement of 1968.

Second, your position could be covered by a 218 Agreement that was enacted under Minnesota laws which became effective in 2006. Under these provisions, a single city, township, county, school, or special district may, at the option of its board or council, establish a 218 Agreement to provide Social Security participation to its current and future elected officials. Before establishing the federal-state agreement, the subdivision must provide all current elected officials—contributing into the DCP or eligible for DCP membership—the right to individually vote on whether they wish to have the 6.2 percent Social Security tax withheld from their salary. Once the 218 Agreement is approved for a subdivision, *all* future elected officials of the respective entity would pay into Social Security, including officials in positions that are excluded from PERA's Coordinated Plan and sheriffs who are DCP members.

To obtain more information about Social Security coverage under a Section 218 Agreement, please contact your payroll/personnel office or PERA's Employer Services at 651-296-3636 or 1-888-892-7372. This and other related information is available at PERA's website, *www.mnpera.org,* under the Employer section and Social Security Resources.

For retirement planning purposes, you should be aware that if you join the DCP and are not

eligible to have Social Security taxes withheld from your elective salary, the lump-sum benefit you receive from PERA upon termination of service may reduce, or in some cases eliminate, your future Social Security benefits. For details, please contact the Social Security Administration and request information on the Windfall Elimination Provision and the Government Pension Offset.

PERA DCP Benefits

Upon death or termination of public office, the DCP participant (or designated beneficiary) is entitled to a lump-sum payment from PERA of the value of the shares held. The final value of the shares is determined by economic and market conditions. Neither PERA nor the State of Minnesota can guarantee the value of an account will not decrease to a level below the original amount invested.

The proceeds of an account are payable upon application 30 days or more after the date of termination of elected service, approval of disability, or death. At the direction of the participant, the lump-sum benefit payment may be rolled over to another tax-qualified plan or sent to an insurance company licensed in Minnesota. These private-sector financial institutions normally have products that permit varying pay-out options, including annuities.

DCP participants who qualify for permanent disability under the laws governing PERA have the option to receive monthly payments from their accounts instead of a lump-sum distribution. The amount of the payments cannot exceed ten times the combined employee and employer contributions for the month preceding the disability. Further, disability payments must be in $100 increments. The benefit ends when the disability status ends or when the account is depleted.

Purchasing Past Uncovered Service

By law, the purchase of past elected service had to be initiated prior to July 1, 2011. It applies to elected officials who are current members of the Defined Contribution Plan and who had service as an elected official prior to June 30, 1991, that was not covered by a retirement plan. **PERA can no longer accept requests to begin the purchase process**.

Taxes

The Defined Contribution Plan is qualified under Section 401(a) of the Internal Revenue Code. Thus, contributions deducted from the official's earnings and those made by the employer are not immediately subject to income tax. Taxes on these contributions and any gains are deferred until the balance in the DCP account is withdrawn, unless rolled over directly into another tax-qualified plan. If taken out before age 59½, withdrawals are generally subject to an additional 10 per-

cent tax surcharge, unless rolled over. Employee payments for past service are recorded in the participant's account as already-taxed contributions and will not again be subject to tax when withdrawn.

Since the DCP is a tax-qualified plan, enrollment may, depending upon income level, lower or eliminate the tax deductibility of contributions to a traditional IRA. Please consult a tax advisor for details.

Administrative Charges

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

Coordinated Plan

PERA's Coordinated Plan is a Defined Benefit Plan into which members contribute during their public careers and, after becoming vested in the plan, qualify for a monthly pension when they reach retirement age. The monthly benefit continues for the lifetime of the retiree and a survivor, if named.

Eligibility and Contributions

Membership in the Coordinated Plan is voluntary for those serving in *non-governing-body* positions such as county attorneys and auditors, as well as clerks or treasurers of a city, township, or county. These officials may enroll prospectively if their projected annual salary is to exceed $5,100. This election must be done in writing on PERA's *Membership Election by Persons Holding Elective Office* form. Once enrolled, the non-governing-body official may not discontinue the Coordinated Plan membership until he or she vacates office.

Coordinated Plan members contribute 6.5 percent of earnings for elected service, while the governmental subdivision contributes 7.5 percent of salary.

Participation begins on the first day of the pay period in which the elected official opts to enroll, provided that the membership election form is received by PERA within 60 days of the receipt of the initial contributions.

Medicare & Social Security

Elected officials participating in the Coordinated Plan contribute 1.45 percent of their earnings to Medicare and 6.2 percent to Social Security under PERA's 1968 Section 218 Agreement with the federal government.

Coordinated Plan Benefits

To be eligible for a monthly retirement benefit from PERA's Coordinated Plan, the elected official member must terminate public service as defined under Minnesota Statutes § 353.01, subd. 11a and subd. 28. The amount of the monthly pension is based on years of service and the member's age and average salary over the five consecutive years when earnings were the greatest. A vested Coordinated Plan member may retire as early as age 55, but the pension will be permanently reduced for early retirement when collected before the normal retirement ages of 65 or 66.

Retiring members have the option of selecting a Single-life benefit, which is paid to the member only and ends upon his or her death. As an alternative, the retiring member may choose a Survivor Option pension that provides a lifetime benefit for a designated survivor upon the member's death in increments of 25, 50, 75 or 100 percent of the amount of the member's monthly pension. Selection of a Single-life or Survivor pension is made at the time the member makes application for a retirement benefit.

Coordinated Plan retirees also receive annual adjustments to their pensions. Increases in 2011 and succeeding years will be 1 percent until the plan achieves 90 percent funding. At that time the benefit will increase 2.5 percent per year. Should funding again fall below 90 percent, increases will revert to the 1 percent level.

The Coordinated Plan also provides disability benefits for eligible members and survivor benefits to a spouse, if the member dies before retiring. Additional information about these benefits is discussed in the PERA booklet, *Your Coordinated Plan Benefits*.

Finally, any Coordinated Plan member who terminates service and remains out of public employment may choose to take a lump-sum refund of his or her employee contributions, plus interest.

Repaying a Refund

Participants of the Coordinated Plan who previously received a refund from PERA for prior covered service (either elected or non-elected) may repay a portion or all of the refunded contributions and interest to restore past covered service. This will increase a pension at retirement.

Taxes

As participants in a qualified plan under Section 401(a) of the Internal Revenue Code, members do not pay income taxes on their Coordinated Plan contributions when the amounts are withheld from earnings. When members retire, however, they will have a tax liability on that

portion of their monthly pension representing untaxed contributions. Additionally, officials who choose a lump-sum refund of their member contributions, rather than monthly benefits upon termination of service, will pay taxes on the untaxed employee contributions unless rolled over into another tax-qualified plan. With a few exceptions, a refund of member contributions is subject to an additional 10 percent tax surcharge if taken before age 59½ and not rolled over to another plan.

Participating in the Coordinated Plan could—depending upon income level—lower or eliminate the tax deductibility of contributions to a traditional Individual Retirement Account (IRA).

You will find more information about the DCP and Coordinated Plan on the PERA website at *www.mnpera.org*. The website contains links to information about investments and their performance, as well as brochures and forms discussed in this pamphlet. Questions about the benefits you could receive from either tof these plans can be directed to PERA's Member Services phone line at 651-296-7460 or toll-free at 1-800-652-9026.

If You Do Not Choose PERA Membership

As indicated previously, no elected official is required to participate in a PERA pension plan. However, the Omnibus Budget Reconciliation Act of 1990 mandates that all individuals who are not participants of a qualifying retirement system, such as PERA's DCP or Coordinated Plans, must participate in Social Security. Therefore, elected officials who do not choose to participate in a PERA retirement plan (DCP or Coordinated, as applicable) will have the mandatory Social Security portion of FICA withheld from their elective salary. Additionally, Medicare withholding must occur for all officials taking office after March 31, 1986.

This publication is meant to explain the provisions of the Minnesota Public Employees Retirement Association law as simply and accurately as possible. If there is any discrepancy between this booklet and the actual law, the provisions of the law will govern.

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