Defined Contribution Plan Investment Allocation Changes

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New law alert: relief associations with a defined contribution (split-the-pie) plan will see changes to how they must allocate investment return allocations to their members. If you are a member or trustee of a relief association impacted by these changes, please read this article and reach out to my Pension Division team for assistance with any questions.

Investment Return Allocations

The 2020 Pension and Retirement Bill that was passed into law last year includes changes to investment return allocations for members of relief associations with a defined contribution plan. Inactive members and deferred members must now be credited with investment returns on the assets of the special fund. Note that these changes apply to defined contribution plans only; no changes were made to interest options for defined-benefit plan members.

Investment gains or losses for **inactive members** must be credited on a pro rata basis, in proportion to the share of the special fund assets to the credit of each individual inactive member account. This means that investment returns for inactive members must now be allocated in the same manner as investment returns are credited to active members. This law change affects allocations to inactive members beginning with the 2020 Defined Contribution Allocation Table.

Beginning January 1, 2021, **deferred members** of defined contribution plans must be credited with investment returns. *This new requirement applies to members who are currently deferred, and to future deferred members.* There are three options for crediting investment returns to defined-contribution plan deferred members. The options are:

1. Crediting the rate actually earned on a separate investment account;
2. Crediting the rate actually earned on a separate investment vehicle;
3. Crediting full investment gains and losses, allocated in the same manner as for active members.

If a relief association's bylaws do not define a method for crediting investment returns, deferred members will be credited with full investment gains and losses under option 3 above, beginning on January 1, 2021.

Additional changes passed into law during the 2021 Legislative Session provide relief associations with a window of time during which the bylaws may be amended to modify the investment return allocation method for members who are currently deferred.

If a defined contribution plan does not currently provide investment returns to its deferred members and wishes to credit deferred members with the rate actually earned on a separate investment account or separate investment vehicle, the bylaws must be amended on or before January 1, 2022, to reflect the relief association's intent.

A relief association may choose to change the method used to provide investment returns to currently deferred members, by amending the bylaws on or before January 1, 2022. For example, if deferred members are receiving investment returns based on option 1 above, but the relief association would like all deferred members (both those who are currently deferred and those who will defer in the future) to receive investment returns based on option 3 above, the relief association may do so by amending the bylaws to reflect this intent on or before the January 1, 2022, deadline.

Additional Information

Helpful information about allocations for defined contribution plans is provided in a Statement of Position on the Office of the State Auditor's website. Go to www.osa.state.mn.us. Choose the "Training + Guidance" menu option, and then select "Statements of Position." A Statement entitled "Allocations and Deductions for Fire Relief Association Defined Contribution Plans" is posted under the "Pensions" category. If you have questions, please contact our Pension Division at (651) 296-5985 or at pension@osa.state.mn.us.