

356.635 INTERNAL REVENUE CODE COMPLIANCE.

Subdivision 1. **Retirement benefit commencement.** (a) The retirement benefit of a member or participant must begin to be distributed or, if a lump sum, be distributed no later than the member's or participant's required beginning date. "Required beginning date" means April 1 of the calendar year following the later of (1) the calendar year in which the member or the participant attains the age specified in section 401(a)(9)(C)(i)(I) of the Internal Revenue Code, or (2) the calendar year in which the member or participant terminates employment.

(b) A pension or defined contribution plan shall not be required to obtain the consent of a member or participant to a distribution if the distribution is required to satisfy the requirements of paragraph (a).

Subd. 2. **Distributions.** Distributions shall be made as required under section 401(a)(9) of the Internal Revenue Code and the treasury regulations adopted under that section, including, but not limited to, the incidental death benefit provisions of section 401(a)(9)(G) of the Internal Revenue Code.

Subd. 3. **Direct rollovers.** A distributee may elect, at the time and in the manner prescribed by the plan administrator, to have all or any portion of an eligible rollover distribution paid directly to an eligible retirement plan as specified by the distributee.

Subd. 4. **Eligible rollover distribution.** An "eligible rollover distribution" is any distribution of all or any portion of the balance to the credit of the distributee.

Subd. 5. **Ineligible amounts.** An eligible rollover distribution does not include:

(1) a distribution that is one of a series of substantially equal periodic payments, receivable annually or more frequently, that is made for the life or life expectancy of the distributee, the joint lives or joint life expectancies of the distributee and the distributee's designated beneficiary, or for a specified period of ten years or more;

(2) a distribution that is required under section 401(a)(9) of the Internal Revenue Code; or

(3) any other exception required by law or the Internal Revenue Code.

Subd. 6. **Eligible retirement plan.** (a) An "eligible retirement plan" is:

(1) an individual retirement account under section 408(a) or 408A of the federal Internal Revenue Code;

(2) an individual retirement annuity plan under section 408(b) of the federal Internal Revenue Code;

(3) an annuity plan under section 403(a) of the federal Internal Revenue Code;

(4) a qualified trust plan under section 401(a) of the federal Internal Revenue Code that accepts the distributee's eligible rollover distribution;

(5) an annuity contract under section 403(b) of the federal Internal Revenue Code;

(6) an eligible deferred compensation plan under section 457(b) of the federal Internal Revenue Code, which is maintained by a state or local government and which agrees to separately account for the amounts transferred into the plan; or

(7) in the case of an eligible rollover distribution to a nonspousal beneficiary, an individual account or annuity treated as an inherited individual retirement account under section 402(c)(11) of the federal Internal Revenue Code.

(b) For distributions of after-tax contributions which are not includable in gross income, the after-tax portion may be transferred only to an individual retirement account or annuity described in section 408(a) or (b) of the federal Internal Revenue Code, to a Roth individual retirement account described in section 408A of the federal Internal Revenue Code, or to a qualified plan described in either section 401(a) of the federal Internal Revenue Code or to an annuity contract described in section 403(b) of the federal Internal Revenue Code, that agrees to separately account for the amounts transferred, including separately accounting for the portion of the distribution which is includable in gross income and the portion of the distribution which is not includable.

Subd. 7. **Distributee.** A "distributee" is:

- (1) an employee or a former employee;
- (2) the surviving spouse of an employee or former employee;
- (3) the former spouse of the employee or former employee who is the alternate payee under a qualified domestic relations order as defined in section 414(p) of the federal Internal Revenue Code, or who is a recipient of a court-ordered equitable distribution of marital property, as provided in section 518.58; or
- (4) a nonspousal beneficiary of an employee or former employee who qualifies for a distribution under the plan and is a designated beneficiary as defined in section 401(a)(9)(E) of the federal Internal Revenue Code.

Subd. 8. **Forfeitures.** For defined benefit plans, unless otherwise permitted by section 401(a)(8) of the Internal Revenue Code, forfeitures may not be applied to increase the benefits that any employee would otherwise receive under the plan.

Subd. 9. **Military service.** Contributions, benefits, including death and disability benefits under section 401(a)(37) of the federal Internal Revenue Code, and service credit with respect to qualified military service must be provided according to section 414(u) of the federal Internal Revenue Code. For deaths occurring on or after January 1, 2007, while a member is performing qualified military service as defined in United States Code, title 38, chapter 43, to the extent required by section 401(a)(37) of the Internal Revenue Code, survivors of a member in the system are entitled to any additional benefits that the system would have provided if the member had resumed employment and then died, including but not limited to accelerated vesting or survivor benefits that are contingent on the member's death while employed. In any event, a deceased member's period of qualified military service must be counted for vesting purposes.

Subd. 9a. **Definitions.** (a) The following definitions apply for purposes of this subdivision and subdivisions 10 to 12.

(b) "Annual addition" means the sum for the limitation year of all pretax and after-tax contributions made by the member or the member's employer and credited to an account in the name of the member in any defined contribution plan maintained by the employer.

(c) "Compensation" means the compensation actually paid or made available to a member for any limitation year, including all items of remuneration described in Code of Federal Regulations, title 26, section 1.415(c)-2(b), and excluding all items of remuneration described in Code of Federal Regulations, title 26, section 1.415(c)-2(c). Compensation for pension plan purposes for any limitation year shall not exceed the applicable federal compensation limit described in section 356.611, subdivision 2.

(d) "Limitation year" means the calendar year or fiscal year, whichever is applicable to the particular pension plan.

(e) "Maximum permissible benefit" means an annual benefit of \$160,000, automatically adjusted under section 415(d) of the Internal Revenue Code for each limitation year ending after December 31, 2001, payable in the form of a single life annuity. The new limitation shall apply to limitation years ending with or within the calendar year of the date of the adjustment, but a member's benefits shall not reflect the adjusted limit prior to January 1 of that calendar year. The maximum permissible benefit amount shall be further adjusted as follows:

(1) if the member has less than ten years of participation, the maximum permissible benefit shall be multiplied by a fraction, the numerator of which is the number of years, or part thereof, but not less than one year, of participation in the plan, and the denominator of which is ten;

(2) if the annual benefit begins before the member has attained age 62, the determination as to whether the maximum permissible benefit limit has been satisfied shall be made, in accordance with regulations prescribed by the United States secretary of the treasury, by reducing the limit so that the limit, as so reduced, equals an annual benefit, beginning when the annual benefit actually begins, which is equivalent to a \$160,000, as adjusted, annual benefit beginning at age 62; and

(3) if the annual benefit begins after the member has attained age 65, the determination as to whether the maximum permissible benefit limit has been satisfied shall be made, in accordance with regulations prescribed by the United States secretary of the treasury, by increasing the limit so that the limit, as so increased, equals an annual benefit, beginning when the annual benefit actually begins, which is equivalent to a \$160,000, as adjusted, annual benefit beginning at age 65.

Subd. 10. **Annual benefit limitations; defined benefit plans.** (a) The annual benefit payable to a member shall not exceed the maximum permissible benefit. If the benefit the member would otherwise receive for a limitation year would result in the payment of an annual benefit in excess of the maximum permissible benefit, the benefit shall be reduced to the extent necessary so the benefit does not exceed the maximum permissible benefit.

(b) For purposes of applying the limitation in paragraph (a), an annual benefit that is payable in any form other than a single life annuity shall be adjusted to an actuarially equivalent single life annuity that equals, if the annuity starting date is in a plan year beginning after 2005, the annual amount of the single life annuity commencing at the same annuity starting date that has the same actuarial present value as the member's form of benefit, using whichever of the following produces the greatest annual amount:

(1) the interest rate and the mortality table or other tabular factor specified in the plan for adjusting benefits in the same form;

(2) a 5.5 percent interest rate assumption and the applicable mortality table; or

(3) the applicable interest rate under section 417(e)(3) of the Internal Revenue Code and the applicable mortality table, divided by 1.05.

(c) If a member participated in more than one pension plan in which the employer participates, the benefits under each plan must be reduced proportionately to satisfy the limitation in paragraph (a).

Subd. 11. **Annual addition limitation; defined contribution plans.** The annual additions by or on behalf of a member to a defined contribution plan for any limitation year shall not exceed the lesser of (1) 100 percent of the member's compensation for the limitation year or (2) the dollar limit in effect for the limitation year under section 415(c)(1)(A) of the Internal Revenue Code, as adjusted by the United States secretary of the treasury under section 415(d)(1)(C) of the Internal Revenue Code.

Subd. 12. **Incorporation by reference.** Any requirements of section 415(b) and (c) of the Internal Revenue Code and related regulations and agency guidance not addressed by subdivisions 10 and 11 shall be considered incorporated by reference, including provisions applicable to qualified police and firefighters and to survivor and disability benefits. Subdivisions 10 to 12 shall be interpreted in a manner that is consistent with the requirements of section 415(b) and (c) of the Internal Revenue Code and the related regulations.

Subd. 13. **Correction of errors.** The executive director of each plan may correct an operational, demographic, employer eligibility, or plan document error as the executive director deems necessary or appropriate to preserve and protect the plan's tax qualification under section 401(a) of the Internal Revenue Code, including as provided in the Internal Revenue Service's Employee Plans Compliance Resolution System (EPCRS) or any successor thereto. To the extent deemed necessary by the executive director to implement correction, the executive director may:

(1) make distributions;

(2) transfer assets; or

(3) recover an overpayment by reducing future benefit payments or designating appropriate revenue or source of funding that will restore to the plan the amount of the overpayment.

History: 2004 c 267 art 10 s 2; 2009 c 169 art 4 s 45,46; 2012 c 286 art 9 s 6,7; 2013 c 111 art 3 s 30; 2014 c 296 art 13 s 20; 2015 c 68 art 12 s 40,41; 2018 c 211 art 13 s 3-7; 2021 c 22 art 10 s 2