Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bill 549 (as reported by the Committee of the Whole)
Sponsor: Senator Glenn D. Steil
Committee: Finance

CONTENT

The bill would amend the Michigan Legislative Retirement System Act to place in the Act provisions that conform to the Internal Revenue Code (IRC) regarding direct trustee to trustee rollovers of eligible distributions of employee contributions; and provisions to conform to IRC requirements that a public retirement system be operated as a trust, and abide by limitations in employer-financed benefits.

Currently, the IRC provides that a trust cannot constitute a qualified trust (and thus remain tax exempt) unless the plan provides for rollover distribution in the form of direct trustee to trustee transfer to the eligible retirement plan, as specified in the IRC (Section 401(a)(31)) . The bill would amend the Act to comply with the IRC provisions.

The bill provides that the required beginning date for retirement allowances and other distributions could not be later than April 1 of the calendar year following the calendar year in which the employee attained age 70-1/2, or April 1 of the calendar year following the calendar year in which the employee retired. Further, for purposes of determining actuarial equivalent retirement allowances, the actuarially assumed interest rate would have to be 7% with utilization of the 1971 group annuity and mortality table. Under the Act, retirement allowances are equated on an actuarial basis for persons who retire before age 65.

The bill also would place in the Act provisions to conform with IRC administrative requirements and benefit limitations on qualified governmental plans; and would specify that the State "intends that the retirement system be a qualified pension plan created in trust" under the Internal Revenue Code's provisions on qualified pensions, and that the trust be exempt from Federal taxes under the Code.

MCL 38.1007a et al. Legislative Analyst: G. Towne

FISCAL IMPACT

Passage of Senate Bills 547 through 552 would have no fiscal impact on State or local resources. Failure to enact this legislation, however, could result in the State's retirement systems' losing their tax-exempt status. This would result in the State's having to pay a 35% tax on both the contributions made to the retirement systems and the investment income earned by each system. These taxes would have to be paid by either a lump sum payment equal to the taxes, or an increase in the contributions made by the State to cover the taxes. Data on the amount of taxes that would have to be paid by the Legislative Retirement System are unavailable.

Date Completed: 9-14-95 Fiscal Analyst: J. Carrasco

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