



**Senate Fiscal Agency**  
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BILL



ANALYSIS

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House Bill 4870 (as reported without amendment)

Sponsor: Representative Kim A. Rhead

House Committee: Appropriations

Senate Committee: Appropriations

## **CONTENT**

The bill would amend the State Police Retirement 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 8% with utilization of the 1983 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 38.1603 et al.

## **FISCAL IMPACT**

Passage of House Bill 4870 would have no fiscal impact on State or local government. Failure to enact this legislation, however, could result in the State Police Retirement System losing its tax-exempt status. This would result in the State's having to pay a 35% tax on both the contributions made to the retirement system and the investment income earned. 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. Based on fiscal year 1993-94 data, the State Police Retirement System would have to pay an estimated \$12.6 million in taxes for contributions and \$11.8 million in taxes for investments.

Date Completed: 10-16-95

Fiscal Analyst: J. Carrasco

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