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BILL ANALYSIS

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House Bill 6636 (Substitute H-1 as passed by the House)
House Bills 6638 and 6640 (as passed by the House)
Sponsor: Representative Joan Bauer (H.B. 6636)
Representative Hoon-Yung Hopgood (H.B. 6638)
Representative Robert Jones (H.B. 6640)
House Committee: Senior Health, Security and Retirement

CONTENT

House Bills 6636 (H-1), 6638, and 6640 would amend the State Employees' Retirement Act, the Public School Employees Retirement Act, and the Michigan Legislative Retirement System Act, respectively, to bring those statutes into compliance with Internal Revenue Service guidelines and the Internal Revenue Code.

Under the Michigan Legislative Retirement System Act, for eligible rollover distributions to a surviving spouse on or before December 31, 2001, an eligible retirement plan is defined as an individual retirement account or an individual retirement annuity. House Bill 6640 would remove this designation. (House Bills 6636 (H-1) and 6638 would retain this language in the State Employees' Retirement Act and the Public School Employees Retirement Act.)

All of the bills would include a Roth individual retirement account (IRA) in the definition of "eligible retirement plan" in the Retirement Acts. The Roth IRA would be subject to the rules that apply to rollovers from a traditional IRA to a Roth IRA in the State Employees' Retirement Act and the Michigan Legislative Retirement System Act.

The bills would require that beginning January 1, 2010, the State Employees Retirement System (SERS), the Public School Employees Retirement System (PSERS), and the Legislative Retirement System (LRS) be administered according to applicable provisions of the final regulations issued by the Internal Revenue Service on April 5, 2007.

The State Employees' Retirement Act and the Michigan Legislative Retirement System Act state that employer-financed benefits are subject to the adjusted limitations on the maximum amounts payable annually from the retirement systems to any individual member under Section 415 of the Internal Revenue Code. Under House Bills 6636 (H-1) and 6640, these benefits would include benefits payable to both retirants and retirement allowance beneficiaries.

House Bill 6638 would amend the Public School Employees Retirement Act to require compliance with the provisions of Section 415 of the Internal Revenue Code and require that employer-financed benefits, including benefits payable to retirants and retirement allowance beneficiaries, not exceed applicable limitations on the maximum amounts payable annually from the retirement systems to any individual member set forth in that section. The bill would remove outdated provisions relating to benefit limitations. (Amendments to the State Employees' Retirement Act and the Michigan Legislative Retirement System Act removed these outdated provisions in 2004.)

Under House Bill 6640, the benefit limitation requirements in Section 59a of the Michigan Legislative Retirement System Act would prevail over any section with which it is in conflict. (The other Acts currently state that sections relating to benefit limitations prevail over any sections with which they are in conflict.)

The bills would require that minimum distribution requirements imposed by Section 401(a)(9) of the Internal Revenue Code apply to the State Employees' Retirement Act, the Public School Employees Retirement Act, and the Michigan Legislative Retirement System Act and, in accordance with rules pursuant to the Federal Pension Protection Act of 2006, be administered in accordance with a reasonable and good faith interpretation of the required minimum distribution requirements for all years to which the required minimum distribution requirements apply to the retirement systems.

The bills also would require that beginning January 1, 2007, if a member of SERS, MPSERS, or LRS died while performing qualified military service, the member be treated as having resumed and then terminated employment because of death. This provision would bring the retirement systems into compliance with the Federal Heroes Earnings Assistance and Relief Tax Act of 2008.

MCL 38.1d & 38.49 (H.B. 6636)
38.1304 & 38.1408 (H.B. 6638)
38.1008a & 38.1059a (H.B. 6640)

FISCAL IMPACT

The bills would have no fiscal impact on State government or the retirement systems, as the bills reflect current practice. The bills would be "technical" in nature, and would bring the retirement acts into conformity with Federal statute and regulation. Under Internal Revenue Service rules, in order to obtain updated determination letters confirming their tax-qualified status, all governmental entities must refile their retirement plans by January 31, 2009.

Date Completed: 12-8-08

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.