Legislative Analysis

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TAXING PUBLIC PENSIONS

House Bills 4480-4484
Sponsor: Rep. Jud Gilbert, II
Committee: Tax Policy

Complete to 3-28-11

A SUMMARY OF HOUSE BILLS 4480-4484 AS INTRODUCED 3-23-11

Generally speaking, the bills would amend acts dealing with public pensions and retirement allowances to specify that, as of January 1, 2012, payments to retirees would be subject to state taxes.

The bills would amend the State Employees Retirement Act, the Public School Employees Retirement Act, the Michigan Legislative Retirement System Act (for legislators), the Judges Retirement Act, and Public Act 339 of 1927, which provides for retirement allowances for employees of public libraries in cities over 250,000.

House Bill 4480 would amend the State Employees' Retirement Act (MCL 38.40). Currently, the act says "*The right of a person to a pension, an annuity, a retirement allowance, any optional benefit, any other right accruing to any person under the provisions of this act, the various funds created by this act, and all money and investments and income of the funds are exempt from any state, county, municipal, or other local tax.*" (Underlining added.)

The bill would say, instead, that as of January 1, 2012, the right of any person to a pension, an annuity, a retirement allowance, and any optional benefit, and any other right accrued or accruing to any person under the provisions of this act, is subject to state tax upon distribution to the person from the various funds created by this act.

House Bill 4481 would amend the Public School Employees Retirement Act (MCL 38.40) so that, as of January 1, 2012, a retirement allowance, optional benefit, or any other benefit accrued or accruing to a person under the act would be subject to state tax upon distribution to the person from the various funds created by the act. (Currently, they are exempt from state, county, municipal, or other local taxes).

House Bill 4482 would amend the Legislative Retirement System Act (38.1057), which applies to state legislators, to specify that all retirement allowances and other benefits payable under the act and all accumulated credits of members, deferred vested members, and retirants in the system would be subject to taxation by the state on distribution to a member, deferred vested member, or retirant. As with the other bills, this applies January 1, 2012. (Currently, they are exempt from taxation by the state or its political subdivisions.)

House Bill 4483 would amend an act that deals with retirement benefits for public library employees in cities over 250,000. (Only Detroit meets that population requirement.) Under the bill, annuities payable to the members of the staff would be subject to state taxes as of January 1, 2012. (Currently, they are exempt from state, county, city, village, and school district taxes.) The amendment is to Public Act 339 of 1927 (MCL 38.705).

House Bill 4484 would amend the Judges Retirement Act (MCL 38.2670) to say that distributions from employer contributions made under Sections 714(2) and (3) and earnings on those contributions, and distributions from employee contributions made under Section 714(3) and earnings on those employee contributions would be subject to state tax, as of January 1, 2012. (Currently, they are exempt from state, county, municipal, or other local taxes.) Section 714(2) requires an employer to contribute four percent of salary to a participant's Tier 2 (defined contribution system) account. Section 714(3) allows an employee to contribute up to three percent of salary to the account and requires the employer to match the amount contributed by the employee. In addition to judges, this system is open to the governor, lieutenant governor, secretary of state, attorney general, legislative auditor general, and the state court administrator.

FISCAL IMPACT:

These bills conform to the Executive Recommendation for public pension changes contained in House Bill 4361. HB 4361 would, among other changes, subject public pensions (except for military) to the state income tax, which would increase revenue an estimated $137.6 million in FY 2011-12 and $209.7 million in FY 2012-13.

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