

Senate Fiscal Agency
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SFA**BILL ANALYSIS**

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Senate Bill 1255 (as reported without amendment)
Sponsor: Senator Joel D. Gougeon
Committee: Appropriations

CONTENT

The bill would amend the State Police Retirement Act to make changes to several provisions required under Federal law in order to maintain the tax-exempt status of the retirement system. In addition, the bill would add a provision to allow the retirement system to pay the benefits from an arrangement and fund (as created in Section 6 of the Public Employee Retirement Benefit Protection Act) out of a portion of the employer contributions.

The bill would make the following changes to the provisions to maintain tax-exempt status:

- Beginning January 1, 2002, the definition of "eligible retirement plan" (for purposes of rollover distribution of eligible distributions of employee contributions) would be amended to include annuity contracts described in Section 403(b) of the Internal Revenue Code (IRC), or an eligible plan under Section 457(b) of the IRC that is maintained by a State or local government, so long as amounts transferred into eligible retirement plans from the State Police Retirement System are separately accounted for by the plan provider.
- Beginning January 1, 2002, with regard to an "eligible rollover distribution", if a portion of a distribution that is not included in Federal gross income were paid to an individual retirement account or annuity described in Section 408(a) or 408(b) of the IRC or a qualified defined contribution plan described in Section 401(a) or 403(a) of the IRC, and the plan providers agreed to account separately for amounts paid, the portion of distribution that is not includable in Federal gross income would be an eligible distribution under the State Police Retirement Act.
- The bill provides that, notwithstanding any other provision of the Act, the compensation of a member of the retirement system would be taken into account for any year under the retirement system only to the extent that it does not exceed the compensation limit established in the IRC, as adjusted by the Internal Revenue Commissioner. This provision would apply to any person joining the retirement system on or after October 1, 1996.
- The bill specifies that, notwithstanding any other provision of the Act, contributions, benefits, and service credit with respect to qualified military service would be provided under the retirement system in accordance with the IRC. This provision would apply to all qualified military service on or after December 12, 1994.

Finally, the bill states that if the retirement board establishes an arrangement and fund as described in Section 6 of the Public Employee Retirement Benefit Protection Act, the benefits that must be paid from that fund would have to be paid from a portion of the employer contributions or other eligible funds. Once the retirement board determined the amount needed, that amount from the necessary portion of employer contributions or other eligible funds would have to be deposited in that fund before the deposit of any remaining employer contributions or other eligible funds into the pension fund.

MCL 38.1603 et al.

FISCAL IMPACT

Failure to comply with the proposed changes to the IRS provisions could result in the retirement system's losing its tax-exempt status. This would have serious financial implications for the State; however, the exact amount of the potential fiscal impact is indeterminate.

The bill would have no fiscal impact on local units of government.

Date Completed: 12-5-02

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