Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986

Senate Bill 552 (as reported without amendment)
Sponsor: Senator Glenn D. Steil
Committee: Finance

CONTENT

The bill would amend the Public School Employees 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.

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 provides that, notwithstanding any other provision (under the Act) to the contrary that would limit a distributee's election, a distributee could elect, at the time and in the manner prescribed by the retirement board, to have any portion of an eligible rollover distribution paid directly to an eligible retirement plan specified by the distributee in a direct rollover, for distributions made on or after January 1, 1993.

Further, 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. 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.

MCL 38.1304 & 38.1408 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. Based on fiscal year 1993-94 data, the Public School Employees Retirement System would have to pay an estimated $307.1 million for contributions and $389.4 million for investments.

Date Completed: 9-13-95 Fiscal Analyst: J. Carrasco

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