Senate Fiscal Agency
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BILL ANALYSIS

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House Bill 4869 (as passed the House)
Sponsor: Representative Kim Rhead
Committee: Appropriations

Date Completed: 10-10-95

CONTENT

The bill would amend the Municipal 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 38.1502 et al. Legislative Analyst: G. Towne

FISCAL IMPACT

Passage of House Bill 4869 would have no fiscal impact on State or local government. Failure to enact this legislation, however, could result in the Municipal Employees Retirement System losing its tax-exempt status. This would result in the municipalities' 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 municipalities to cover the taxes. Based on fiscal year 1993-94 data, the municipalities would have to pay an estimated $22.1 million in taxes for contributions and $49.9 million in taxes for investments.

Fiscal Analyst: J. Carrasco

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