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BILL ANALYSIS



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House Bill 4073 (Substitute S-2)  
Sponsor: Representative Richard Hammel  
House Committee: Appropriations  
Senate Committee: Appropriations

Date Completed: 10-27-09

### **CONTENT**

House Bill 4073 (S-2) would enact the "Public Employee Retirement Health Care Funding Act" to create a Section 115 trust for each of the State's five retirement systems pursuant to the Internal Revenue Code, 26 USC 115. The governing board of each retirement system would be designated as the trust grantor and would be required to administer the trust to pay select retirement health care benefits. Members of the respective governing boards would be designated as trustees of the individual Section 115 trusts and each irrevocable trust would be managed and operated separately. The bill would prohibit the refusal or refund of assets specifically designated to the trusts. In addition, the bill would prohibit the use of assets held by the trusts for purposes not related to retirement health care benefits and the administrative costs of providing those benefits.

The bill would require that assets held by each trust be invested in accordance with the Public Employee Retirement System Investment Act, and would designate the State Treasurer as investment fiduciary of the trusts. The bill also would provide further specifications on annual contributions. All assets and income of the trusts would be exempt from all State and local taxes.

### **FISCAL IMPACT**

The bill would have an indeterminate fiscal impact on the State and local units of government. It should be noted that while this bill would create a statutory framework for the prefunding of retirement health benefits, it would not explicitly institute any change in the current pay-as-you-go funding arrangement. To the extent that the establishment of Section 115 retirement trusts would have an impact on the State's overall credit rating, some fiscal benefit could be realized. At this time, however, it is not clear how House Bill 4073 (S-2) would affect the State spending on retiree health benefits.

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