



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



BILL ANALYSIS

Telephone: (517) 373-5383  
Fax: (517) 373-1986  
TDD: (517) 373-0543

Senate Bills 1638 through 1642 (as reported without amendment) *(as passed by the Senate)*  
Sponsor: Senator Mark C. Jansen (S.B. 1638, 1641 & 1642)  
Senator Michael Switalski (S.B. 1639 & 1640)  
Committee: Appropriations

### **CONTENT**

The bills would amend the State Employees' Retirement Act, the Michigan Legislative Retirement System Act, the Public School Employees Retirement Act, the State Police Retirement Act, and the Judges Retirement Act to bring those statutes into compliance with Internal Revenue Service guidelines and the Internal Revenue Code.

Under the Michigan Legislative Retirement System Act, the State Police Retirement Act, and the Judges Retirement Act, for eligible rollover distributions to a surviving spouse on or before December 31, 2001, an eligible retirement plan is defined as an individual retirement account or an individual retirement annuity. The bills would remove this designation. The bills would retain this language in the Public School Employees Retirement Act and the State Employees' Retirement Act.

The bills would include a Roth individual retirement account (IRA) in the definition of "eligible retirement plan" in the State Employees' Retirement Act, the Michigan Legislative Retirement System Act, the Public School Employees Retirement Act, the State Police Retirement Act, and the Judges Retirement Act. The Roth IRA would be subject to the rules that apply to rollovers from a traditional IRA to a Roth IRA in the State Employees' Retirement Act, the Michigan Legislative Retirement System Act, the State Police Retirement Act, and the Judges Retirement Act.

The bills would require that beginning January 1, 2010, the State Employees Retirement System (SERS), the Legislative Retirement System (LRS), the Public School Employees Retirement System (PSERS), the Judges Retirement System (JRS), and the State Police Retirement System (SPRS) be administered according to applicable provisions of the final regulations issued by the Internal Revenue Service on April 5, 2007.

The State Employees' Retirement Act, the Michigan Legislative Retirement System Act, and the State Police Retirement Act state that employer-financed benefits are subject to the adjusted limitations on the maximum amounts payable annually from the retirement systems to any individual member under Section 415 of the Internal Revenue Code. Under the bills, these benefits would include benefits payable to both retirants and retirement allowance beneficiaries.

The bills would amend the Public School Employees Retirement Act and the Judges Retirement Act to require compliance with the provisions of Section 415 of the Internal

Revenue Code and require that employer-financed benefits, including benefits payable to retirants and retirement allowance beneficiaries, not exceed applicable limitations on the maximum amounts payable annually from the retirement systems to any individual member set forth in that section. The bills would remove outdated provisions relating to benefit limitations. (Amendments to the State Employees' Retirement Act, the Michigan Legislative Retirement System Act, and the State Police Retirement Act removed these outdated provisions in 2004.)

Under the bills, the benefit limitation requirements in Section 59a of the Michigan Legislative Retirement System Act would prevail over any section with which it is in conflict. The other Acts currently state that sections relating to benefit limitations prevail over any sections with which they are in conflict.

The bills would require that minimum distribution requirements imposed by Section 401(a)(9) of the Internal Revenue Code apply to the State Employees' Retirement Act, the Michigan Legislative Retirement System Act, the Public School Employees Retirement Act, the State Police Retirement Act, and the Judges Retirement Act, and, in accordance with rules pursuant to the Federal Pension Protection Act of 2006, be administered in accordance with a reasonable and good faith interpretation of the required minimum distribution requirements for all years to which the required minimum distribution requirements apply to the retirement systems.

The bills also would require that beginning January 1, 2007, if a member of SERS, LRS, MPSERS, JRS, or SPRS died while performing qualified military service, the member be treated as having resumed and then terminated employment because of death. This provision would bring the retirement systems into compliance with the Federal Heroes Earnings Assistance and Relief Tax Act of 2008.

MCL 38.1304 & 38.1408 (S.B. 1638)  
38.1d & 38.49 (S.B. 1639)  
38.1603 & 38.1614a (S.B. 1640)  
38.2105 & 38.2604 (S.B. 1642)  
38.1008a & 38.1059a (S.B. 1643)

### **FISCAL IMPACT**

The bills would have no fiscal impact on State government or the retirement systems, as the bills reflect current practice. The bills would be "technical" in nature, and would bring the retirement acts into conformity with Federal statute and regulation. Under Internal Revenue Service rules, in order to obtain updated determination letters confirming their tax-qualified status, all governmental entities must refile their retirement plans by January 31, 2009.

Date Completed: 11-25-08

Fiscal Analyst: Lindsay Hollander

floor\sb1638

This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.