

# Situation in Brief

## THE PROBLEM

Public safety professionals born after 1952 and who were retired at the time PA 597 of 2012 went into effect are not eligible for the full social security deduction older retirees are entitled to.

## WHY IT HAPPENS

Some of Michigan's public safety retirees had employers that opted out of paying into social security. As a result, they are paying disproportionately more in taxes during retirement.

## THE SOLUTION

HB 4396 provides a social security deduction to public safety retirees not receiving social security who were born after 1952 and were retired when SB 409 went into effect January 1, 2013.

In 2011, the legislature amended the Income Tax Act by changing deductions on pension and retirement income, including social security income. Many public safety professionals such as police and firefighters do not receive social security because the governmental entity they worked for opted out. As a result, police and firefighter retirees are subject to a proportionately higher tax burden on their pension and retirement income as a result of not receiving tax-free social security.

Age discrimination against police and fire fighters is legal under federal law. This practice allows cities to require retirement at a much earlier age for this work force than the rest of its city workers. No one wants an elderly officer chasing a criminal or elderly fire fighter trying to scale a ladder to rescue a person from a burning building.

In 2011, Senate Bill 409 was passed by the legislature which increased the Social Security exemption for those born after 1952. However, if you were retired at the time these changes went into effect, but were born after 1952, you remained negatively affected by these changes. This legislation simply extends that benefit to the set group of retirees born after 1952 and retired as of Jan. 1, 2013.

**House Bill 4396 increases the deduction for retirement benefits for governmental employees that were not covered by Social Security bringing them in line with those workers born between 1946-1952.**

## By the Numbers

There are approximately 717 retired members of the Retired Detroit Police and Fire Fighters Association (RDPFFA) with 213 beneficiaries of pensions. The average retiree pension is \$33,457.46 and the average beneficiary pension is \$19,389.67. Based on these numbers, the highest annual loss of income tax revenue would be approximately \$1.2 million. However, because this is a finite group of individuals, the state budget impact will decrease annually due to mortality rates of RDPFFA members. (See attached for a more thorough explanation)

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## BY THE NUMBERS

Annual Pension	Number Beneficiaries	Total Pension	Number of Retirees	Total Pension
\$4,000	25	\$100,000	91	\$364,000
\$10,000	59	\$590,000	45	\$450,000
\$15,000	29	\$435,000	29	\$435,000
\$20,000	13	\$260,000	16	\$320,000
\$25,000	38	\$950,000	38	\$950,000
\$30,000	23	\$690,000	64	\$1,920,000
\$35,000	13	\$455,000	134	\$4,690,000
\$40,000	4	\$160,000	96	\$3,840,000
\$45,000	2	\$90,000	93	\$4,185,000
\$50,000	3	\$150,000	50	\$2,500,000
\$55,000	2	\$110,000	17	\$935,000
\$60,000	1	\$60,000	6	\$360,000
Over 60,000	1	\$80,000	38	\$3,040,000
	213	\$4,130,000	717	\$23,989,000
	<b>STATE REVENUE IMPACT: Peaks in year one (and declines thereafter) \$1,195,057</b>			
	<b>(\$28,119,000 pension payments taxed at State income rate of 4.25%)</b>			
	<b>Annual pension amounts assumed at highest levels: range is actually \$5,000-\$10,000</b>			