

HOUSE RESEARCH

Bill Summary

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Overview

This bill conforms the Minnesota income tax to the provisions of the federal Pension Protection Act of 2006 that allow an annual \$3,000 exclusion for distributions from governmental pension plans to pay qualified health insurance premiums for eligible public safety retirees.

The bill also authorizes the public pension funds to withhold and pay insurance premiums in a manner that satisfies federal law and will enable the eligible retirees to exclude the payments from their incomes.

Section

1 **Definition of net income.** Adopts the provisions of section 845 of the Pension Protection Act of 2006 for purposes of the Minnesota definition of net income. This adopts the new annual \$3,000 exclusion for distributions from governmental pension plans for public safety retirees for purposes of the Minnesota individual income tax. To qualify, the following requirements apply:

- The individual or taxpayer must be an "eligible public safety retiree," which is defined as a public safety officer who separated from service by attaining normal retirement age or by reason of disability.
- Qualified health insurance includes accident and health insurance and long

Section

term care insurance.

- Amounts must be withheld and paid directly by the plan; the retiree cannot pay the premiums and be reimbursed with pension distributions.

2 Internal Revenue Code definition. Modifies the definition of the Internal Revenue Code for purposes of the individual income and corporate franchise tax chapter to include the \$3,000 health insurance exclusion for public safety retirees.

3 Pension fund withholding and payment. Authorizes Minnesota public pension funds to withhold qualifying health insurance premiums from pension distributions and transmit them to insurance providers. Eligible individuals must elect to have the premiums withheld on a form prescribed by the plan.

The pension plans granted this authority are:

- MSRS general and correctional plans
- PERA general, police and fire, and correctional plans
- TRA
- State Patrol plan
- St. Paul Teachers Retirement Fund Association
- Duluth Teachers Retirement Fund Association
- Minneapolis Employees Retirement Fund
- University of Minnesota faculty retirement and faculty supplemental retirement plans
- Judges retirement fund
- Police or firefighter's relief associations

The section defines "eligible persons" following the requirements in the federal law. Approved insurance providers include licensed insurers, fraternal beneficiary societies, and employer sponsored insurance programs.

The plans and plan fiduciaries are not liable for failure to properly withhold or transmit the premiums.