

**Subject** Public pension benefit subtraction

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## Summary

The bill establishes a state subtraction for a portion of certain pension benefits. The subtraction would apply to pension benefits that were earned based on service for which the member or survivor did not earn Social Security benefits. The subtraction would apply to state or federal pension plans whose members do not qualify for Social Security benefits. The bill defines these benefits as “qualified benefits.”

The subtraction in the bill is modeled after the federal and state tax preferences for Social Security income. The amount of the subtraction equals the sum of the taxpayer’s “federal exclusion” and “state exclusion.” The federal exclusion equals 15 percent to 100 percent of qualified benefits, depending on the provisional income of the taxpayer.

For married taxpayers filing joint returns and surviving spouses, the state exclusion equals the first \$5,450 of qualified benefits not covered by the federal exclusion. The exclusion is phased down beginning at \$82,770 of provisional income. For single or head of household taxpayers, the exclusion equals the first \$4,260 of such benefits, and the phase down begins at \$64,670 of provisional income.

### Background on “basic plans” in Minnesota.

In Minnesota, pension plans whose recipients do not earn Social Security benefits are referred to as “basic plans,” and individuals participating in those plans are referred to as “basic members.”

The only basic plans in Minnesota that are currently accepting new basic members are the PERA Police and Fire Plan and the MSRS State Patrol Retirement Plan. However, there are basic members of other retirement plans who are active members, vested deferred members, retirees, survivors, and disabilitants. According to the Legislative Commission on Pensions and Retirement, the pension plans in Minnesota with basic members in one of those categories are:

- The State Patrol Plan
- Legislator’s Retirement Plan (for members elected before June 30, 1997)
- PERA General
- PERA Minneapolis Educators Retirement Fund (MERF)
- PERA Police and Fire

- Teachers Retirement Association (TRA)
- Saint Paul Teachers Retirement Fund Association (SPTRFA)



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