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May 3, 2012

Honorable Mark Jansen, *Chair*
Senate Appropriations Committee, Retirement Subcommittee
310 Capitol Building
Lansing, Michigan

Dear Senator Jansen and Members of the Senate Appropriations Subcommittee on Retirement:

The Michigan State Employee Retirees Association, a 40-year old organization with 21 chapters across the state, generally supports SB 797, which amends the Public Employee Retirement System Investment Act. Most of our members are beneficiaries of the state employee defined benefit pension plan and we want to see it managed in the most prudent and effective way possible. We are pleased that this bill to promote transparency and efficiency in public pension operations has been introduced.

In the last year we have met with the managers of our pension plan at the Department of Treasury over some concerns about transparency and are pleased to report that they have responded by putting more information about investments supporting our pension plan on an enhanced Web site. The Office of Retirement Services, in turn, has included a link to that information on its Web site. We regularly refer to this material in our member newsletters. We appreciate the Code of Ethics and Standards of Conduct adopted by the Investment Advisory Committee last year and that the newest member has signed it in recent months. These are two measures required in SB 797 that have already happened and we wanted to make note of it.

We note and very much support the revised definition of “investment” in SB 797 to exclude using the pension system’s assets as collateral to guarantee repayment of obligations made by a third party to a borrower. We do not approve of using our pension assets to back risky ventures that private markets would be unwilling to guarantee.

In that regard, we are concerned that the bill suggests in Section 19a. (1) and (2) that an additional 5% of the system’s assets may be invested in Michigan private equity. Although we are loyal Michiganders who support our state and its businesses, we do not think our pension investment policy should include geographical preference or discrimination. We do not want our pension funds used as an extension of the state’s economic development policies or as political rewards to Michigan-based businesses or offered as an incentive to those who would base a

business here. Giving a geographical preference potentially compromises the general standards for prudent investing in our view. We would like this language omitted.

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In Section 13E (page 13) concerning political contributions from financial service providers to an official of a governmental entity during the preceding 24 months, we object to the three pages of exceptions in A through G. A simple prohibition should stand alone without any exceptions. We believe that financial service providers and covered associates should be barred from making political contributions or providing gifts (dinners, trips, event tickets, etc.) of any amount to elected officials. The exceptions in the bill would permit opportunities for corruption. As beneficiaries of one of the pension funds, we do not want to see any political hanky-panky permitted in this otherwise laudable bill. We suggest removing exceptions A through G and adding language to prohibit gifts to office holders.

We have no objection to the changes in asset class proportions described in the bill. We trust that our professionals have wisely suggested these proportions. We think the hard-dollar amounts in the bill need to be indexed in some way so that inflation and deflation can be taken into account without the need to amend the act.

We were disappointed that more reporting and transparency for defined contribution retirement plans was not included in the bill. In many cases public employers make a contribution to these plans and sometimes match employee contributions. These are a benefit of many public employers these days, and the state should be concerned with their effective operations. Defined contribution retirement plans need oversight and auditing in a fashion similar to the defined benefit plans. A board of control that includes the beneficiaries is needed. We especially want full disclosure of fees in both percentage and dollar amounts required to be reported to individuals. The effect that fees have on the long-term investments employees are making in their defined contribution retirement plan need to be reported as well. Moreover, we want published annual reports from the financial services companies managing these plans for public employers, and aggregated data available so that our members can see how the total defined contribution retirement plan is operating for its members. We are not asking for the amount of detail that the Comprehensive Annual Financial Report on the defined benefit pension plans provide, but we are asking for something in the way of aggregated information and audits that surely the financial management companies have in their possession. In our state employee defined contribution plan there is absolutely no aggregated data made available on the ORS or ING Web site about the defined contribution retirement plan despite our written requests to provide it. We urge you to look into model legislation to provide some oversight of public employee defined contribution retirement plans.

Thank you for the opportunity to comment on SB 797.

Sincerely,

/s/

Mary Pollock
Legislative Representative