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Honorable Chuck Moss, Chair
House Appropriations Committee
889 House Office Building
Lansing, Michigan

Dear Representative Moss and Members of the House Appropriations Committee:

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 and passed by the Senate.

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 pension plan investments 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 all members have signed it. These are two measures required in SB 797 that have already happened for the state employee pension system and we wanted to make note of it.

Bond obligation guarantees - 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. Our pension fund has recently had to make a second payment for the Raleigh Studios bond that our pension fund guaranteed. That is money that otherwise would be earning dividends and used to support pensions and retiree health care.

Expansion of Michigan private equity investments - We are concerned that the bill suggests in Section 19a. (1) and (2) [page 24 of S-3] 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 see potential abuse in this provision. We would like this language omitted for the following reasons:

- We do not want our pension funds used as an extension of the state’s economic development policies;
- We do not want our pension funds used as political rewards to Michigan-based businesses who support political candidates;

- We do not want our pension funds offered as an incentive to attract a business here.
- Giving a geographical preference potentially compromises the general standards for prudent investing.

Political Contributions - Michigan SERA appreciates the attempt in Section 13E [page 13 of S-3] to control political contributions from financial service providers to an official of a governmental entity during the preceding 24 months. However, we object to the three pages of exceptions in A through G that almost totally wipes out the good intention expressed in Section 13E(1). A simple prohibition should stand alone without any exceptions.

We believe that financial service providers and covered associates not only should be barred from making political contributions, but we also believe you need to add a section barring gifts (dinners, trips, event tickets, etc.) of any amount to elected officials.

The exceptions in the bill and omission of gifts would permit opportunities for corruption. We suggest removing exceptions A through G and adding language to prohibit gifts to office holders.

Asset classes -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.

Transparency for defined contribution retirement plans - We were disappointed that reporting and transparency for defined contribution retirement plans was not included in the bill. This is the way many public employers are designing their pension and retiree health care systems 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.

Aggregated information and audits are needed for these systems. 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