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SFA BILL ANALYSIS

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House Bill 5754 (Substitute H-1 as reported without amendment)
Sponsor: Representative Jerry Vander Roest
House Committee: Senior Health, Security and Retirement
Senate Committee: Appropriations

CONTENT

The bill would amend the Public Employee Retirement System Investment Act as follows:

-- The bill would include any nationally recognized statistical rating organization in the definition of "national rating service".
-- Currently, an investment fiduciary must meet certain requirements and be a registered investment advisor under *both* the Federal Investment Advisors Act and the Michigan Uniform Securities Act. The bill would allow an investment fiduciary to comply with either the Federal *or* the State requirements.
-- The bill specifies that the MacBride principles would apply only to direct stock investments, including stocks and foreign securities, as qualified under Section 14 or 20k. (The MacBride principles are requirements for companies doing business in Northern Ireland designed to end discriminatory employment practices.)
-- The bill would raise the percentage of a system's assets that may be invested in stock by an investment fiduciary from 65% to 70%. Also, the bill would allow an investment fiduciary to designate an American depository receipt that satisfied the requirements to be qualified as either direct stock investments, or an investment in foreign securities.
-- Currently, investments in publicly or privately issued "real estate investment trusts" (REITs) are not considered to be investments in stock and thus not subject to the 65% ceiling. The bill would delete this provision, thus allowing an investment fiduciary to designate an investment in a REIT either as domestic stock or as a real estate investment.
-- The bill would add trust companies to the list of companies that may be retained as an investment fiduciary to invest the assets of a retirement system in a collective investment fund, a common trust fund, or a pooled fund that is established and maintained for investment of those assets by the trust fund. Currently, only financial institutions or management companies are allowed to invest a system's assets in such funds.
-- Currently, a system with assets under $250 million may invest up to 5% of the system's assets in investments not otherwise qualified under the Act. A system with assets of $250 million or more may invest up to 10%, while the State Treasurer may invest up to 15% of the system's assets in this manner. The bill would amend this "basket clause" to increase the percentage of a system's assets that may be invested by the State Treasurer in nonqualified investments to 20%. The bill also would allow a system with assets of $1 billion or more to invest up to 15% of its assets in investments not otherwise qualified under the Act.
-- Currently, the Act allows an investment fiduciary to loan bonds, stocks, or other securities as long as the loan is secured by collateral of cash that can be invested in investment grade securities (defined as securities graded in the top four major grades as determined by *two* national rating services). The bill would delete the term "investment grade securities" and instead allow the use of unrated securities in addition to securities graded in the top four major grades as determined by at least *one* national rating service. Also, an investment fiduciary could use unrated securities only if they were determined to be of comparable quality to the eligible rated securities.
-- The bill would repeal Section 20i, which allows the investment fiduciary of a city retirement system with assets of $100 million or more to invest in certain loan guarantees.

MCL 38.1132b et al.

FISCAL IMPACT

The bill could have a fiscal impact on the assets of the State's retirement systems. Though a thorough analysis has not yet been conducted by the Michigan Department of Treasury, there are some preliminary data to indicate that the changes proposed by the bill could have a positive effect on the growth of a retirement system's assets. For example, the State Employees Retirement System currently has assets valued at about $11 billion. The impact of the changes proposed in this bill over a period of time (say, five years) could result in an increase of an estimated five basis points in the value of this system's assets, equating to more than $20 million over that period of time. While exact figures are not available, it is believed that the proposed changes would have a positive effect on the retirement systems' assets.

Date Completed: 9-28-00 Fiscal Analyst: J. Carrasco

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