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HOUSE FISCAL AGENCY

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SB472 AS PASSED BY THE SENATE

Sponsor: Sen. Shirley Johnson

Committee: HOUSE APPROPRIATIONS

Analyst(s): Black, Erin
Freeman, Myron

Completed: 12/4/01

State Fiscal Impact		Local Fiscal Impact	
Cost:	None	**Cost:**	None
Revenues:	Indeterminate	**Revenues:**	None

Senate Bill 472 would amend the Children's Trust Fund Act to provide for the state treasurer to direct the investment of the Children's Trust Fund with the same authority as for state-managed retirement funds. The legislation also requires the state treasurer to prepare an annual report on revenues and expenditures from the Children's Trust Fund.

Current statute requires that the investment of the trust fund's assets be made in the same manner as state surplus funds. Investment of retirement system assets is much less restricted; up to 70% of assets may be invested in stock, with certain other restrictions.

Senate Bill 472 would have an indeterminate impact on Children's Trust Fund revenue. From 1999 through 2001, the trust fund had an annualized investment rate of return of 8.4%. From 1982 through 2001, the Michigan Public School Employees' Retirement System (MPSERS) had an annualized rate of return of 12.2%. If (1) this rate were realized in future years and (2) the investment of the trust fund was directed in the same manner as the MPSERS, investment earnings from the trust fund's $20 million principal would increase by an average of $760,000 annually.

Given the inherent nature of investments, however, past rates of return cannot necessarily be assumed for the future. A more conservative estimate for investment return in future years would be the MSPERS actuarial assumption of 8.0%. Using this figure, investment earnings could decrease slightly.

Regardless of the actual rate of return, investment of the fund's assets in the stock market would increase investment risk and result in larger differences in investment return from year to year--with the potential for negative earnings in any given year.