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SB797 AS PASSED BY THE SENATE

Sponsor: Sen. Valde Garcia

Committee: VETERANS AFFAIRS

Analyst(s): Jen, Kyle

Completed: 11/28/01

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

Senate Bill 797 would amend Public Act 9 of 1946 (Extra Session) to provide for the state treasurer to direct the investment of the Michigan Veterans' Trust Fund, with the same authority as for state-managed retirement funds. Current statute restricts investment of the trust fund's assets to specified categories of government-backed securities, consistent with the provisions of article IX, section 19 of the State Constitution. Investment of retirement system assets is much less restricted; up to 70% of assets may be invested in stock, with certain other restrictions.

The bill is tie-barred to Senate Joint Resolution T, which--among other changes--amends article IX, section 19 of the State Constitution. That section currently prohibits the state from investing in the stock of any company, association, or corporation--with exemptions for retirement funds and funds created for charitable or educational purposes. The joint resolution would--pending approval by the state's voters--extend this exemption to funds held as permanent funds or endowment funds. This change would allow for the expanded investment options provided for in Senate Bill 797.

Assuming Senate Joint Resolution T were approved by a vote of the people, Senate Bill 797 could potentially increase future earnings of the Veterans Trust Fund. Over the last three years, the trust fund had an annualized investment rate of return of 6.8%. From 1982 through 2001, the Michigan Public School Employees' Retirement System (MPSERS) had an annualized rate of return of 12.2%. Assuming (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, earnings from the trust fund's $50 million principal would increase by an average of $2.7 million 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, earnings would increase by an average of $600,000 annually.

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.