

## RETIREMENT SYSTEMS: DIVESTITURE OF INVESTMENTS IN STATE SPONSORS OF TERRORISM

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**House Bill 4903**

**Sponsor: Rep. Marty Knollenberg**

**Committee: Government Operations**

**Complete to 7-23-07**

### A SUMMARY OF HOUSE BILL 4903 AS INTRODUCED 6-12-07

The bill would amend the Public Employees Retirement System Investment Act (MCL 38.1132 et al) to prohibit an investment fiduciary for a state retirement system from encouraging or condoning governments that support terrorism and human rights abuses by:

- Making a new investment of retirement system assets in stock, securities, or other obligations of a franchise, company, or other business located in "a state sponsor of terrorism." (A "state sponsor of terrorism" would be defined as Iran, North Korea, Sudan, or Syria.)
- Failing to divest retirement system assets in stocks, securities, or other obligations of a national corporation of a state sponsor of terrorism or a United States company listed in the register of companies with investments, licensing agreements, or management agreements with a state sponsor of terrorism.
- Divestiture would have to be carried out as follows: At least 40 percent of retirement system assets divested not later than two years after the effective date of the bill; at least 60 percent of assets divested no later than three years; at least 80 percent divested no later than four years; and 100 percent of assets divested no later than five years. The state treasurer could extend those deadlines for up to one year if he or she determines that divestment would jeopardize the fiscal integrity of a retirement system.

The bill would apply the Michigan Legislative Retirement System, the Fire Fighters and Police Officers Retirement System, the Judges Retirement System, the State Employees Retirement System, and the Public School Employees Retirement System.

Register of Companies. The State Treasurer would be required to develop and maintain a register of United States companies that have one or more of the following: an investment in a state sponsor of terrorism, a franchise with an individual or company located in a state sponsor of terrorism, or a licensing agreement with, or management agreement with an individual or company located in a state sponsor of terrorism. The treasurer would have to provide the register to the board of each retirement system at least annually and whenever a change was made.

At least 90 days before the register is provided to the retirement systems, the State Treasurer would have to provide the chief executive officer of each U.S. company on the register and the Legislature notice that the company is being placed on the register, the reason why the company is being placed on the register, the current value of system assets invested in the company, and any other information considered appropriate and necessary.

Report to Legislature. The State Treasurer would be required to report annually to the Senate Majority Leader, the Speaker of the House, the Senate Minority Leader, and the Minority Leader of the House on divestment. The report would include all of the following: progress of retirement systems toward divestiture, the register itself, the reason companies have been added to the register, the names of companies the treasurer is considering adding to the register, the amount of retirement system assets invested in companies in the register, the financial cost to the state of divestment, and any other appropriate information the treasurer considers necessary.

Report by Investment Fiduciaries. The investment fiduciary of each retirement system report would have to report annually to the Governor, the Senate Majority Leader, Speaker of the House, Senate Minority Leader, and the Minority Leader of the House any gains or losses in the value of the investment portfolio of the retirement system and in the portfolio's investment performance attributable to the implementation of divestiture. If there is any gain in the investment value portfolio or the investment performance that is attributable to divestiture, then those gains would be recorded annually and would be used to compensate for any losses or diminution of value attributable to implementation in subsequent years.

Determination that a State No Longer Sponsors Terrorism. The bill would only apply until the state treasurer determines and notifies the investment fiduciaries of the retirement systems that the former state sponsor of terrorism no longer supports terrorist activity and no reasonable likelihood exists that it would support terrorist activity in the future. The treasurer would consult with other departments and agencies, including the United States Department of State in making this determination.

Fiduciary Obligations. The bill would specify that it would not alter or diminish the existing fiduciary or statutory obligation and other terms, conditions, and limitations on the investment of retirement system assets for the exclusive interest and benefit of participants and beneficiaries of the retirement system.

## **FISCAL IMPACT:**

A fiscal analysis is in process.

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.