Legislative Analysis

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TRAINING FOR PENSION FUND MANAGERS AND DISCLOSURE OF INVESTMENTS

House Bills 5293 & 5294
Sponsor: Rep. Marty Knollenberg
Committee: Intergovernmental and Regional Affairs

Complete to 1-19-10

A REVISED SUMMARY OF HOUSE BILLS 5293 AND 5294 AS INTRODUCED 9-2-09

The bills would amend the Public Employee Retirement System Investment Act (1) to establish training requirements for pension fund trustees and (2) to require disclosure of investment decision-making. A description of each bill follows.

House Bill 5293 would require that a board member of a public pension fund participate in a training program within one month after assuming that position and at annual intervals thereafter. The training program would have to include instruction in the requirements of applicable investment laws and in the ethical requirements of fiduciaries under the common law and this act.

The bill further requires that the Department of Treasury either offer the training program or review and certify the program content of the training program provider.

House Bill 5294 would require that a retirement system annually publish and make available to its plan participants and beneficiaries a list of all the investments made on their behalf and information from which a reasonable person could conclude the basis for the investment decisions.

The bill specifies that investment decisions and expenses made by a public pension retirement system that is a political subdivision must be at least as prudent as those made by a political subdivision that participates in the Municipal Employees Retirement Act of 1984.

MCL 38.1132 to 38.1140m

FISCAL IMPACT:

House Bill 5293 would have an indeterminate but likely negative fiscal impact on the Department of Treasury and local units of government. Any fiscal impact would be the result of the costs associated with annually training board members of a public pension fund. Costs associated with training could also fall on the individual pension boards, both at the local level and the state level. The cost would depend on the type and extent of training required for pension board members. The associated benefits from having pension board members trained on the requirements of the applicable investment laws and ethical requirements of investment fiduciaries are indeterminate.

House Bill 5294 would have an indeterminate, but likely negative, fiscal impact on the Michigan Department of Treasury and public pension retirement systems. First, the bill would require the department and retirement systems to annually publish and make available to plan participants and beneficiaries a list of investments made on their behalf and information from which a reasonable person could conclude the basis for the investment decision. The fiscal impact to each public pension retirement system would be related to the number of investment transactions made each year by the system. According to the department, they conduct over 100,000 investment transactions annually. Furthermore, the department noted that publishing each investment decision along with information that would allow a reasonable person to conclude the basis for the investment decision could have a large negative fiscal impact.

The final requirement under House Bill 5294 would require that investment decisions and expenses made by a public pension retirement system be at least as prudent as those made by a political subdivision that participates in the Municipal Employees Retirement Act of 1984. Requiring public pension retirement systems to make more prudent investment decisions would potentially lead to less risky and more stable investment decisions. It is unknown what kind of overall fiscal impact this would have on the public pension retirement systems. Market conditions would dictate the return on investment. Requiring more prudent expense decisions would have a positive fiscal impact on the department and public pension retirement system boards.

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