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BILL ANALYSIS

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Senate Bill 1192 (Substitute S-1 as reported)
Sponsor: Senator Jim Runestad
Committee: Finance

CONTENT

The bill would amend the Public Employee Retirement System Investment Act to do the following:

-- Require an investment fiduciary to consider only pecuniary factors when evaluating an investment.
-- Define "pecuniary factors" as a factor that the investment fiduciary has determined would have a material effect on the risk or return of an investment based on appropriate investment horizons consistent with the funding objective of the system; "material effect" would not include an effect that primarily furthers nonpecuniary, noneconomic, or nonfinancial social, political, or ideological objectives.
-- Require an investment fiduciary's summary annual report to include tabulations of all proxy votes and all limited partnerships and specified information for each.
-- Prohibit an investment fiduciary under the Act from adopting a practice of following a recommendation of a proxy advisor or other service provider unless that service provider had a practice of, and committed to, following proxy voting guidelines that matched the investment advisor's obligation to act solely on pecuniary factors.
-- Specify that an investment fiduciary would be considered to have taken an action, or considered a factor, with a purpose to further social, political, or ideological objectives based on evidence indicating the purpose, including a fiduciary commitment to further, through portfolio company engagement, board or shareholder votes.
-- Prohibit the governing body of a governmental unit sponsoring a system from granting proxy voting authority to a person that was not part of the governing unit unless the person had a practice of, and committed to, following guidelines that matched the governmental unit's obligation to act solely on pecuniary factors.
-- Require all meetings of fiduciaries to be open to the public, publicly broadcast in audio and video when conducted, and archived on the system's website for future public access.

MCL 38.1133 Legislative Analyst: Jeff Mann

FISCAL IMPACT

To the extent the bill would limit the investment options that could be considered, the bill could have an impact on the investment returns of the retirement systems. However, that impact is indeterminate. The bill would require investments to focus only on pecuniary metrics when investment instruments are considered, but whether this would limit the opportunity for investment return growth or increase that potential, or have no impact, is indeterminate.

The Department of Treasury likely would see increased costs under the bill due to enhanced and additional reporting requirements and the potential for the Department's either having to vote its own proxies or be more limited in the number of outside vendors through which to grant proxy voting authority.

Date Completed: 12-2-22 Fiscal Analyst: Kathryn Summers