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BILL ANALYSIS

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Senate Bill 1192 (as introduced 9-28-22)
Sponsor: Senator Jim Runestad
Committee: Finance

Date Completed: 11-29-22

CONTENT

The bill would amend the Public Employee Retirement System Investment Act to require an investment fiduciary to consider only pecuniary factors when evaluating an investment.

The Act, among other things, governs the powers and duties of an investment fiduciary with respect to the investment of public employee retirement systems assets. "Investment fiduciary" means a person other than a participant directing the investment of the assets of his or her individual account in a defined contribution plan who does any of the following: a) exercises any discretionary authority or control in the investment of a system's assets; or b) renders investment advice for a system for a fee or other direct or indirect compensation.

An investment fiduciary must discharge his or her duties solely in the interest of the participants and the beneficiaries, and (among other things) must give appropriate consideration to those facts and circumstances that the investment fiduciary knows or should know are relevant to the particular investment or investment course of action involved, including the role the investment or investment course of action plays in that portion of the system's investments for which the investment fiduciary has responsibility, and act accordingly.

Under the bill, subject to Sections 13a, 13c, 13d, 14, and 20k, an investment fiduciary would have to consider only pecuniary factors in the evaluation of an investment (in addition to the considerations noted above). (Sections 13a, 13c, 13d, 14, and 20k pertain to the following items, respectively: investments pursuant to McBride principles (i.e., relative to companies doing business in Northern Ireland), procedures for dealing with scrutinized companies complicit in the Darfur genocide, procedures for dealing with scrutinized companies that do business with Iran, restrictions related to investments in certain stocks or global securities, and restrictions, and prohibited conduct with respect to investment in global securities.)

"Pecuniary factors" would mean 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. For purposes of this definition, "material effect" would not include an effect that primarily furthers nonpecuniary, noneconomic, or nonfinancial social, political, or ideological objectives.

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.

Fiscal Analyst: Kathryn Summers

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