

# Council Comments:

## Citizens Research Council of Michigan

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### UNFINISHED BUSINESS - THE MICHIGAN COUNCIL ON PUBLIC EMPLOYEE RETIREMENT SYSTEMS

In late 1980, the Michigan legislature adopted Public Act No. 520 (effective March 31, 1981) which established the Council on Public Employee Retirement Systems to monitor and provide information and advice on Michigan's public employee retirement systems. The law provides that the seven members of the Council on Public Employee Retirement Systems are to be appointed by the Legislative Council. The Legislative Council consists of the majority leaders and seven members each from the House of Representatives and the State Senate.

In the 15 months since the law took effect, the Legislative Council has not appointed the members of the Council nor have funds been appropriated for its operation.

Since the bill was adopted

- 88 bills dealing with public employee pensions were introduced in the Michigan legislature, 15 of which were enacted into law.
- The retirement boards of two of the large state plans changed the-actuarial assumptions regarding interest earnings which had the effect of reducing the state contribution by \$120 million annually.
- The state legislature rewrote the investment statute to permit greater latitude in the investment of pension funds, permit the use of a portion of the investment income to manage the assets, and adopt the federal standard of prudence, which applies to the private sector.
- One large city (Detroit) negotiated a major change in its police-fire pension system without complying with the city charter requirement that the city council obtain an independent actuarial report on the immediate and long-term costs of any proposed change and not take final action until at least three months after the report is made public.
- Another city (Highland Park) has failed to pay benefits to retirants of its police and fire pension system for the first five months of 1982. It owes the retirants \$725,000 in benefit payments.

The Council on Public Employee Retirement Systems was created to monitor and advise on these kinds of issues.

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### The Role of the Michigan Council on Public Employee Retirement Systems

The seven members of the Council on Public Employee Retirement Systems are to include two members of public employee retirement systems in Michigan and no fewer than five members are to have experience in pensions, investments, actuarial science, pension law, or governmental finance.

The Council on Public Employee Retirement Systems is to be established in two stages, a developmental stage and an operational stage. During the first stage, which will begin with the appointment of the council and will last six months, the council is to establish procedures and principles for reviewing retirement systems and pension-related issues.

During the operational stage, the council will

- review all public employee retirement systems;
- evaluate proposed legislation relating to pension issues;
- gather information on public employee retirement systems;
- conduct studies of the retirement needs of public employees;
- provide technical assistance to local units of government; and,
- issue written evaluations and recommendations to the legislature.

The level of funding of state and local retirement systems has risen substantially in the last 20 years. It is estimated that assets in Michigan's state and local retirement systems are about \$10 billion and accrued liabilities about \$17 billion. Government contributions to state and local retirement systems for fiscal year 1982 will approach \$1 billion.

Pension oversight units around the country have been credited with providing timely analyses of the long-term effects of proposed pension legislation thereby enabling the legislature to avoid uninformed, costly decisions on pension benefits or funding.<sup>1</sup> In addition, recent proposals for federal monitoring of state and local pension systems provide that states with an operational pension oversight unit may satisfy federal review requirements and avoid direct federal oversight.

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<sup>1</sup> See CFC Memorandum No. 237, *A Survey of State Pension Oversight Bodies*.