

November 5, 2009

Re: Comment on House Bill 5323

Chair and Members, Banking and Financial Services Committee:

I am offering comments on behalf of the Michigan Government Finance Officers Association (MGFOA). MGFOA's Legislative Committee has held a number of meetings, including meetings with other organizations, to discuss amendments to Public Act 314. MGFOA has advocated for inclusion of amendments requiring that professional education be provided to trustees, enabling them to fulfil their fiduciary responsibilities, and for full disclosure of investment advisory, investment management, custodial and transaction fees.

MGFOA has concern with amendments expanding the list of permissible investments or increasing current limits on riskier investments. Our concern is not that retirement systems be provided with the flexibility required in today's markets to meet prudent return/risk goals, but that an extraordinary level of risk may be assumed with a false sense of assurance that compliance with Public Act 314 represents an acceptable risk level.

If the Legislature chooses to expand the list of permissible alternative investments and/or increase permitted levels of investment in some currently allowed investment vehicles, MGFOA proposes that requirements to formally address risk allocation be included in the legislation. This could be done in a number of ways such as having the required Investment Policy address risk as well as asset allocation including appropriate benchmarks to measure risk/return; requiring periodic, professional risk assessments and evaluations; requiring investment advisors and managers to signoff on return/risk assessments, etc. MGFOA's Legislative Committee would be happy to provide additional input regarding the risk issue or expansion of investment authority.

During the recent financial markets meltdown, the largest and supposedly most sophisticated financial management firms made decisions to goose up returns by assuming colossal levels of risk, decimating the funding levels of many, if not most, public retirement systems around the world. Local communities can conceivably suffer their largest losses of public money through pension and pension like trust fund investments.

Expanded investment options offer the opportunity to increase return and reduce risk but careful assessment of the balance between risk and return is essential.

Patsy Cantrell
Member, MGFOA Legislative Committee
Chair, Subcommittee on Public Act 314