

April 8, 2010

PROPOSED PENSION FUND TAKEOVER LEGISLATION BAD FOR DETROIT

By: Sheila Wade Kneeshaw, Chair, General Retirement System of the City of Detroit

Proposed legislation has been introduced in the Michigan House and Senate that would take control of the General Retirement System of the City of Detroit and the Police and Fire Retirement System of the City of Detroit from the Funds' employee-elected Boards of Trustees and turn it over to the Municipal Employees Retirement System (MERS).

The Detroit Retirement Systems vehemently oppose this proposed takeover. A transfer of the City of Detroit's pension systems to MERS would unnecessarily give \$6 billion of Detroit's wealth to an entity over which the City would have no control and would bring no economic benefit to its people.

The Detroit Retirement Systems have managed the assets of the funds remarkably well in these turbulent times and the funds have performed in the top third of municipal funds nationwide. In fact, the Detroit Retirement Systems have not only outperformed MERS in recent years, they also have substantially higher funding levels.

Equally important, this transfer of the Detroit Retirement Systems would violate the will of the people of the City of Detroit, who created the systems in the Detroit City Charter and specified that they would be locally controlled pension funds directed by City officers and employee leaders elected by the people and employees of the City of Detroit.

This local control has been of great benefit to the City over the years. The Detroit Retirement Systems' investment strategies have helped grow Detroit's economy, create jobs and create wealth in the community because they invest in the City, are staffed by Detroit employees and rely on the expertise of many Detroit-based financial managers and consultants.

Given the tens of millions of dollars the Detroit Retirement Systems have invested in Detroit, transfer of local control also means a halt to local investments and their resulting economic impact, including but not limited to a reduction of job opportunities.

Bing Administration officials say that transferring control of the Detroit Retirement Systems would save the City vast sums of money, but this proposed takeover would not solve the City's budget problems. It could, in actuality, add to them because the proposed temporary savings that proponents of the pension takeover legislation promise are just that – proposed and temporary. To date, the City has not offered any detailed studies, reports or documentation to support the purported savings.

And, unlike the Detroit Retirement Systems, MERS charges penalties on late payments of its member's legally required employer contributions. Given the City of Detroit's longstanding record of late payments, this could further increase the amount the City would owe. Moreover, MERS can unilaterally report the City's failure to make its legally required employer contributions to the State Treasurer to begin the state takeover process *FOR THE ENTIRE CITY GOVERNMENT* under the Local Government Fiscal Responsibility Act – which it did in 2007 with a nearby Michigan city.

Another of the Bing Administration's arguments for transfer of the Detroit Retirement Systems to MERS revolves around travel and administrative costs of the Funds. It's critical that Detroiters understand the gross inaccuracy of this argument.

MERS actually spends a higher percentage of its total assets on administrative costs, including education and travel, than the Detroit Retirement Systems combined. Based on the MERS 2008 annual report, MERS incurred \$16.3 million in administrative expenses. Conversely, the Detroit Retirements Systems spent only \$8.8 million in administrative expenses, about half as much.

And, while it has been pointed out repeatedly that the Detroit Retirement Systems spent approximately \$380,000 on travel over an 18-month period from 2007-2008, that amount covered 21 trustees. In contrast, according to MERS 2008 annual report, MERS nine trustees spent \$320,000 for travel and meetings over only a 12-month period. We find it interesting that there has been no similar outrage about a board consisting of less than half the number of Detroit Retirement System Trustees, spending an equivalent amount -- or more when prorated.

There should be no outrage surrounding the reasonable education and travel expenses required to meet the standards of a prudent trustee. The law requires the standards of a prudent trustee be met by all trustees. The law also contemplates expenses for due diligence, education and related travel expenses.

The Detroit Retirement Systems believe it would be unwise for the state legislature even to consider taking control away from such a well-funded local pension plan and turn it over to a statewide pension plan whose performance does not exceed the locally controlled plans' performance, opening the City up to the increased risk of contribution liability and the potential for a state takeover of Detroit's finances.

The Detroit City Council agrees with the Detroit Retirement Systems on this and recently voted unanimously to join in opposing this proposed legislation -- which on its face is not only unconstitutional, it directly violates other statutes, including the Home Rule Cities Act and the Public Employees Relations Act.

We hope that you will join us in our fight against the latest in a series of ongoing attacks on Detroit and its right to govern itself, by writing or calling your State Senator and State Representative to urge them to vehemently oppose this ill-conceived legislation.