

Commission Letter #166-10

Commission Meeting: 5/17/2010

RE: Senate Bill 1239 and House Bill 5976

May 17, 2010

The Honorable Mayor
and
Members of the City Commission

On March 18, 2010, legislation was introduced which would identify Michigan public retirement systems for takeover by the Municipal Employees Retirement System (MERS). The Distressed Municipal Pension System Act (Senate Bill 1239 and House Bill 5976) would mandate that local municipal pension plans participate in MERS upon failing to meet certain criteria established in the legislation.

The bill provides a method to identify a distressed municipal system, and to provide a mandatory remedy for those identified systems. The bill establishes the mandatory remedy as participation in Municipal Employees Retirement System (MERS). It does not provide any guarantee of improved performance under MERS.

Some of the critical negative implications are:

- The legislation mandates a transfer of local pension plans to MERS without citizen, trustee, or employee approval. It would require a vote of the full electorate to terminate MERS participation.
- The legislation assumes that MERS results are and will be better than locally controlled results. It establishes MERS performance as the gold standard. This is unsupported by fact.
- Legislation does not recognize the ability and successes of local boards to prudently administer, manage and operate local pension plans.
- Any investment errors made by MERS would need to be paid for by local municipalities. Who will oversee MERS performance?

This legislation appears to have unstated objectives, which may not be in the City's or the public's best interests.

A few years ago, the City of Royal Oak and the Pension Board reviewed a MERS proposal. After deliberation, it was decided that there were too many questions and that participation was not the best option at the time. In the opinion of the Pension Board, mandatory participation does not serve the best interests of our employees, our trustees, nor our citizens. The Retirement Board has authored a letter, opposing this legislation, and invites the City Commission to join them in opposition to these bills. If you agree with the Retirement Board's recommendation, the following resolution would be appropriate.

BE IT RESOLVED, The City Commission or the City of Royal Oak concurs with the Retirement Board's assessment of the Distressed Municipal Pension System Act and directs the City Clerk to prepare a resolution opposing this legislation. Furthermore, copies of this resolution should be sent to all surrounding municipalities.

Respectfully submitted,

Patricia Capello
City Commissioner