DOCUMENT RESUME

00306 - [A0590855] (Restricted)

The Investment Decisionmaking Process in Two Michigan Public Employee Retirement Plans. HRD-77-31; B-164292. December 29, 1976. 43 pp.

Report to Sen. Harrison A. Williams, Jr., Chairman, Senate Committee on Labor and Public Welfare; Sen. Jacob K. Javits, Ranking Minority Member; by Elmer B. Staats, Comptroller General.

Issue Area: Income Security Programs: Programs to Protect Workers' Income (1306).
Contact: Human Resources Div.
Budget Function: Income Security: General Retirement and Disability Insurance (601).
Organization Concerned: Department of Labor.
Congressional Relevance: Senate Committee on Labor and Public Welfare.
Authority: Employee Retirement Income Security Act of 1974. Michigan Executive Organization Act of 1965.

The Michigan Public School Employees' Retirement System, created in 1945, includes all public school districts and almost all universities employees, except those covered by Federal programs. The City of Detroit General Retirement System is open to all city employees, except those covered by specific other systems. Until July, 1977, the Michigan System is funded by both employers and employees, after which it will be funded by employers only. The Detroit System is funded by both, also. both systems provide guaranteed retirement income for life and financial protection for disability or death; but only the Detroit system has provision for automatic cost of living increases. Findings/Conclusions: The Michigan System is jointly administered by the Department of Management and Budget, which monitors the Bureau of Retirement Services, and the State treasurer, who directs the four investment divisions and three investment advisors through the Bureau of Finance. The administrators are monitored by a retirement board and an investment advisory committee. The Detroit System is administered by a board of trustees which oversees a pension bureau and an investment advisor. Both systems elected to be covered by State law which requires diversification of investments, and neither system will lend money to State and local governments. Both systems aim for maximum earnings and neither has a fixed rate of return goal. The Bureau of Retirement Services monitors pension plan assets for the Michigan system. The Detroit System's pension plan assets are managed by the Pension Bureau staff and the bank, which recommends investments and does the buying and selling of securities. The Michigan System is audited by the State auditor general, who retains a firm of accountants for this purpose. The Detroit System is audited by city auditor general and a firm of accountants. The Michigan System, for FY75, had a 5.14 percent rate of return and pension plan assets of $1,748,079,224. The Detroit System, for FY75, had a 6.32 percent rate of return and pension plan assets of $456,201,126. (SS)

REPORT TO THE
SENATE COMMITTEE ON
LABOR AND PUBLIC WELFARE

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

The Investment Decisionmaking Process In Two Michigan Public Employee Retirement Plans

This report is the fifth in a series of seven studies requested by the committee.

It contains case studies on the Michigan Public School Employees' Retirement System and the City of Detroit General Retirement System, giving details of the structure and operations of the plans.

HRD-77-31

DEC. 29, 1976

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-164292

To the Chairman and
Ranking Minority Member
Committee on Labor and
Public Welfare
United States Senate

In response to your June 14, 1976, letter, we are making a series of case studies of fiduciary standards and conduct of public employee pension plans maintained by State and local governments in Michigan, New Jersey, Georgia, Colorado, Tennessee, Virginia, and New York.

In Michigan, we studied the Michigan Public School Employees' Retirement System and the City of Detroit General Retirement System. Case studies of these plans are included as appendixes I and II; case studies of New Jersey, Georgia, Colorado, and Tennessee plans have previously been provided; and case studies for the other two States will be provided later.

Based on discussions with your office, we developed a framework for the case studies to provide the information needed to help the Committee fulfill its statutory obligation to study governmental retirement plans. The Employee Retirement Income Security Act of 1974 directed the Committee to undertake such studies and provided that the results should be reported to the Senate not later than December 31, 1976.

Because of time limitations, it was agreed that we would obtain information on the investment decisionmaking process from summary data and interviews with cognizant officials. We did not verify the information obtained, and we are not commenting on the adequacy of procedures and practices followed by the plans.

The Public School Employees' Retirement System has the largest membership of the six pension plans administered by the State. As of June 30, 1975, this plan had 275,643 active members while the five other plans had 58,860 members. At that time, this plan had about $1.8 billion in assets as compared with $653 million for the five other plans.

The plan is the result of a separate State statute. It is administered by the State's Department of Management and Budget. The State treasurer is responsible for its investments. These offices generally perform the same function for four of the five other pension plans. Their activities are monitored by a retirement board and an investment advisory committee.

The City of Detroit General Retirement System is the larger of two pension plans sponsored by the city. As of June 30, 1975, this plan had 17,935 members and assets in excess of $456 million, whereas, the other plan had 7,291 members and assets in excess of $370 million.

The plan was created by city charter and covers all city employees except policemen and firemen who are covered by the second plan. The plan is managed and operated by a board of trustees. The board uses employees of a city department and employs a local bank as an investment advisor to assist it in carrying out its responsibilities. Plan officials have voluntarily elected to administer this plan in accordance with the standards imposed by Michigan law.

The investment decisionmaking processes are discussed in detail in the case studies. As directed by your office, this report has been finalized without waiting for formal written comments from plan officials. However, we discussed the case studies with plan officials who agreed with the facts presented. Where appropriate, their comments were included in the case studies. We have requested formal written comments, which we will send to you when we receive them.

Comptroller General
of the United States

APPENDIX I

CASE STUDY

ON THE

MICHIGAN PUBLIC SCHOOL EMPLOYEES'

RETIREMENT SYSTEM

Contents

FINANCIAL STATEMENT

CHAPTER 1

BACKGROUND

The Michigan Public School Employees' Retirement System (hereafter referred to as the Plan) was created by State legislation under Act 136 of 1945. This act established a retirement program for all employees of public school districts outside Detroit and for employees of the State's public supported colleges and universities, except the University of Michigan, Michigan State University, Wayne State University, and Grand Valley State College. These four institutions maintain their own private plans. Coverage of the Plan was expanded to include employees of the city of Detroit's school district, effective July 1, 1975, by State legislation under Act 259 of 1974.

The Plan has the largest membership of the six pension plans administered by the State. As of June 30, 1975, the Plan had 275,643 active members while the five other plans had 58,860 members. At that time, the Plan had about $1.8 billion in assets compared to $653 million for the five other plans. Each of the State's six plans was created by a separate statute. The five other plans are the (1) State Employees' Retirement Fund, (2) State Police Pension, Accident and Disability Fund, (3) Legislative Retirement Fund, (4) Probate Judges' Fund, and (5) Judges' Retirement Fund.

The Plan is jointly administered by the State Department of Management and Budget and the State treasurer. With the exception of the Legislative Retirement Fund, which is administered separately, these offices generally perform the same administrative duties for the other State plans.

MEMBERSHIP REQUIREMENTS

Membership in the Plan is mandatory for all employees of public school districts and the State supported colleges and universities except for students and certain employees under federally sponsored programs, such as programs for disadvantaged children and the four colleges and universities excluded from the plan.

FUNDING

The Plan is financed by employee and employer contributions and investment income. Legislation in 1974 requires that by July 1, 1977, the employers adopt a noncontributory plan, i.e., the 5 percent currently being withheld from employee's pay will no longer be withheld. By June 30, 1975, about 6 percent of the 676 employers had assumed financing for member contributions.

State contributions which are made from appropriated funds were computed by the actuary for fiscal year 1975 at 9.19 percent of payroll for contributing members and at 8.11 percent of payroll for noncontributing members. Also, contributing members were to pay 5 percent, and employers were to pay 5 percent for noncontributing members.

BENEFITS

The Plan provides its members or beneficiaries with a guaranteed retirement income for life and financial protection in the event of disability or death.

Normal retirement benefits

Members are entitled to a monthly retirement allowance after reaching age 60 with 10 or more years of service. A member with 30 or more years of service is entitled to receive a retirement allowance at age 55. The Plan does not contain a mandatory retirement age since the various school districts and the participating colleges and universities set their retirement ages.

The retirement allowance is computed by multiplying the retiring members highest average earnings for 5 consecutive years by 1.5 percent. The results are then multiplied by the total years of service. For example, assuming a salary average for 5 consecutive years of $12,000, a member with 30 years of service would receive an annual allowance of $5,400 ($12,000 x 1.5% x 30).

Disability retirement and death benefits

Members of the Plan having 10 or more years of service, who become disabled from performing their duties while serving as school employees may qualify for a disability allowance. Receipt of this allowance is subject to the recommendations of the retirement fund physician and the retirement board's approval.

In the event of the death of a Plan member before retirement, who has 15 or more years of service before age 60 or who is at least age 60 and has 10 or more years of service, the member's spouse or children under age 18 can receive a monthly allowance. The member may also designate a beneficiary other than a spouse or children, if such beneficiary is dependent upon the member for 50 percent or more of their support. Computation of benefits is the same as for normal retirement.

Members may elect to provide protection to a beneficiary after a retiree's death. Two options which are available are (1) the same monthly allowance the retiree received is paid to the beneficiary or (2) one-half of the amount of the allowance the retiree received is continued to the beneficiary. Both options require that the retiree give up a portion of his monthly allowance. This reduction is an actuarial determination based on the joint life expectancy of the retiree and his beneficiary at time of retirement and varies case by case.

Deferred retirement benefits

All members' rights are vested, regardless of age, after completing 10 or more years of service. Any member who has vested rights and terminates employment before becoming eligible for retirement is entitled to receive a monthly allowance at age 60 providing the member leaves his accumulated contribution in the fund. The retirement allowance is computed on the same basis as for normal retirement. Members who have 30 or more years of service and quit before age 55 are entitled to a retirement allowance at age 55. If an employee quits prior to vesting, he is entitled to receive a refund of his retirement contributions plus 2.5 percent interest.

Cost-of-living annuity increases

The Plan does not contain a provision for automatic cost-of-living increases. However, legislation is generally enacted adjusting the retirement allowance in recognition of cost-of-living increases. Three cost-of-living increases were enacted by the legislature during the period 1971 through 1975. These increases were financed by the State through appropriations from general funds. Persons who retired before 1956 received cost-of-living increases for each year of service amounting to $80, $100, and $125 in 1971, 1972, and 1974, respectively. Persons who retired after 1956 were allowed a cost-of-living increase of 1 percent for each year of service to a maximum of 15 percent in 1972 and 17 percent in 1974.

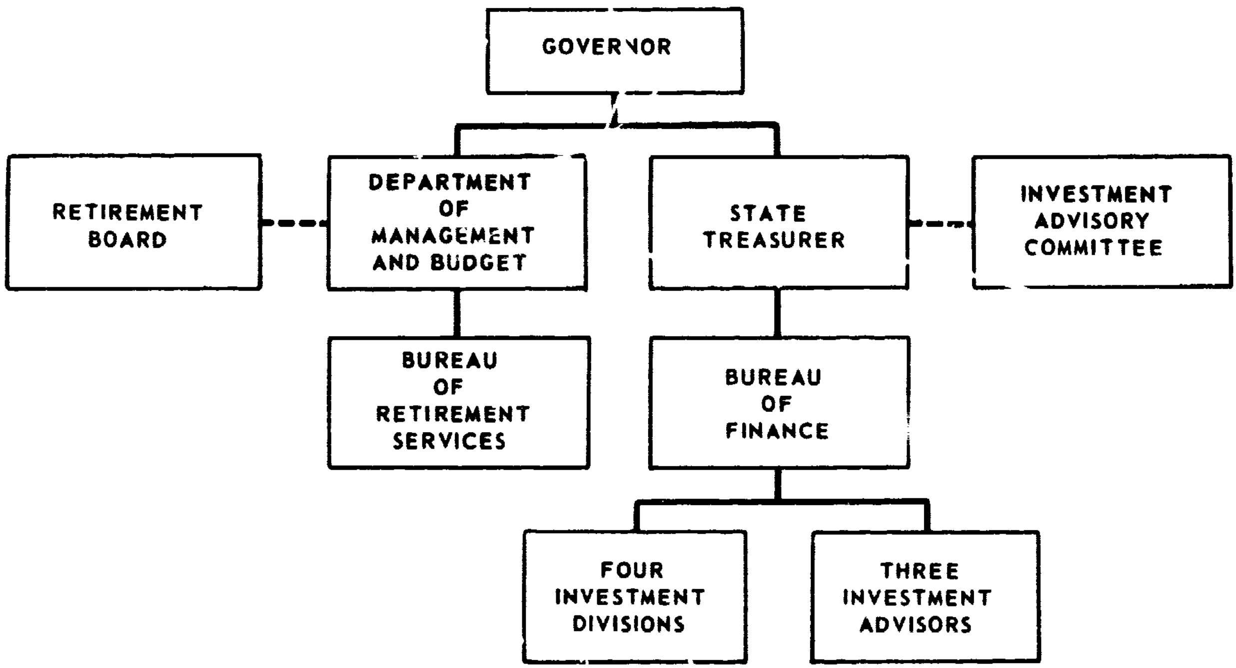
CHAPTER 2

FRAMEWORK FOR MANAGING INVESTMENTS

Overall administration of the Plan is a joint responsibility of the Department of Management and Budget and the State treasurer. Their activities are monitored by a retirement board and an Investment Advisory Committee.

ORGANIZATIONAL STRUCTURE

The following organizational structure was established to manage and control activities of the Plan.



Retirement board

The retirement board is responsible for determining retirement eligibility, certifying actuary recommended State contributions to the Plan, and approving retirement allowances. Regarding these responsibilities, the board makes the necessary rules and regulations. The board, in the opinion of the Michigan attorney general, has no fiduciary obligation or liability with respect to the investment of funds of the retirement system.

The board consists of the superintendent of public instruction and seven members appointed by the Governor with the advice and consent of the Senate. The seven appointed members serve for 4 years, and the number of nonteaching members cannot exceed the number of teaching members on the board. In addition, the members must include

--at least one woman teacher;

--at least one nonteaching public school employee;

--at least one retired public school employee receiving a retirement allowance;

--at least one public member with experience in the insurance, actuarial, or investment field; and

--one active or retired member of a major school district.

The board generally meets bimonthly. Members receive $25 for each meeting and reimbursement for expenses incurred while attending the meeting or performing services for the board. The director of the Bureau of Retirement Services serves as the board's executive secretary. A deputy director within the bureau serves as the executive director and acts as assistant to the executive secretary. The board also employs the consultant services of an actuary and two medical advisors.

Department of Management and Budget/Bureau of Retirement Services

Responsibilities for administration of State pension plans have been delegated to the Department of Management and Budget by the Michigan Executive Organization Act of 1965. These functions are handled by the Bureau of Retirement Services. The employees are members of the State's civil service system. Their responsibilities include

--maintaining individual service records;

--accounting for individual contributions;

--processing retirement, beneficiary, and disability applications; and

--requesting payments be made to retirees.

Investment Advisory Committee

The Investment Advisory Committee consists of five members--directors of the Department of Commerce and the Department of Management and Budget and three public members appointed by the Governor with the advice and consent of the Senate. Department directors are politically appointed and their term is generally controlled by the Governor's term in office. The public members serve 3-year terms without pay, but receive reimbursement for travel and other expenses.

The committee was created by special legislation to function as part of an internal control system for the State treasurer's investment activities and is required to meet at least quarterly. The committee, by majority vote, may direct the State treasurer to dispose of any investments which it believes are not suitable, and by unanimous vote, may direct the State treasurer to make specific investments.

State treasurer

In 1953 Michigan law designated the State treasurer as the ex-officio treasurer of the Plan and custodian of the fund. The treasurer selects depository banks and has physical possession of all securities. The treasurer is responsible for all investments. The Bureau of Finance does the actual investing and managing of the investment fund and portfolio.

Bureau of Finance

The bureau is headed by a director of finance who is responsible for making the investment decisions. The bureau is divided into four investment divisions to handle various investment responsibilities which include making recommendations on investments. The bureau also employs three investment advisors to provide advice on common stocks and mutual funds.

Each division has an administrator who is responsible for a portion of the investment fund and the portfolio. The administrators select brokerage firms which, in addition to executing the bureau's buy and sell orders, also furnish research data. The director and the four division administrators are appointed under the State's civil service system. The responsibilities of the divisions follow:

--Short-Term Investment Division assures that cash is invested in short-term investments such as U.S. Government securities, certificates of deposit, and prime commercial paper.

--Stock Investment Division researches the stock market, makes recommendations to the bureau director concerning stock investment, and performs the trading function.

--Bond and Corporate Investment Division performs bond research and makes recommendations to the bureau director concerning bond investment.

--Mortgage Service Division administers the mortgage investments including an inspection of all multiple dwelling mortgages.

Two of the bureau's advisors are Detroit banks and the third is a mutual fund brokerage firm. The investment advisors make investment recommendations for only a portion of the retirement fund. The bureau gives each of the two banks responsibility for making recommendations on one-third of investments in common stock. Personnel of the bureau's Stock Investment Division research and make recommendations on the remaining third. The bureau handles the mutual funds in a similar way. The brokerage firm is responsible for half of the mutual fund investments and the Stock Investment Division handles the other half.

MAKING AND IMPLEMENTING INVESTMENT POLICY

The Plan gives its officials full power to establish and implement investment policy subject to State laws. The basic Michigan law governing public retirement systems is Act 314, Public Acts of 1965, and later amendments. Although the act is not mandatory for political subdivisions of the State unless they elect to be governed by its provisions, State officials said the act is mandatory for State retirement plans. The principal provisions of the act follow:

--Investments in common stock shall be limited to 25 percent of a retirement system's assets.

--Not more than 5 percent of a retirement system's total assets may be invested in common stocks in any 1 year, except any unused portion of the 5 percent may be added to the amount for investment in a subsequent year, but in no event shall more than 8 percent of such assets be invested in common stocks in any 1 year.

--Any common stock purchased (1) must have paid dividends in at least 5 of the past 7 consecutive years during which period net earnings shall have exceeded dividends paid and (2) shall be registered on a national securities exchange regulated under the Securities Exchange Act of 1934.

--A public retirement system shall not invest in more than 5 percent of the common stock outstanding of any one corporation nor invest more than 1 percent of its assets in the common stock of any one corporation.

--A public employee retirement system may not invest more than 10 percent of its assets in the preferred stock of any one corporation.

--Investments in bonds or other fixed-interest-bearing obligations of any one corporation shall be limited to 10 percent of the assets of a public employee retirement system unless guaranteed by the U.S. Government.

--Investments in annuity investment contracts, mortgages, bonds, or other special investment accounts of life insurance companies or any other companies authorized to do business in the State shall not exceed 10 percent of the assets of a public employee retirement system.

--Any preferred stocks purchased must have paid dividends continuously and regularly during the preceding 10 years or since the date of issuance for companies in business for less than 10 years.

Although not prohibited by law, Plan officials said they do not lend money to State or local governments. We were also told that, as a matter of practice, investments are not routinely made in State or local government securities, although, occasionally investments are made if considered sound and the yield is satisfactory. The Plan does not give preferential treatment to investing in Michigan-based firms, and no information was available on the extent to which the Plan's assets are invested in such firms.

Investment policy

Investment activities are governed by legislation and investment policy must be made within this framework. The bureau's investment policy is twofold--selecting securities that will maximize earnings and maintain principal. The bureau has no set rate of return objectives. To fulfill its twofold policy, the bureau, when approving investments, generally adheres to the following rules:

--Never sell short. (A short sale is a transaction in which stock is sold at the current market price for future delivery. Such a sale is made in anticipation of a decline in the market price at or before the delivery date. The seller expects to make a profit by buying the stock at the lower price.)

--Never accept a due-bill (a due-bill is an instrument acknowledging a debt).

--Never sell or buy on option (an option is a right to buy a security under set terms).

--Avoid investing in municipal bonds.

--Avoid concentrating stock purchases in one organization.

--Invest in convertible bonds.

--Invest in Federal agencies' bonds, notes, mortgages and securities, including hospital construction loans guaranteed by the Federal agencies.

--Invest in only three classes of corporate bonds (public utilities bonds; bonds in which insurance companies may invest; and private placement bonds, which are sold by the issuer rather than through an investment broker).

--Invest in mortgages which are Government insured and have a high rate of return.

Implementing investment policy

The director of the Bureau of Finance and his staff are responsible for implementing investment policy and carrying out daily investment activities in accordance with the established policies. Bureau personnel monitor investment activities and market conditions daily and recommend ne sary changes in investments.

Experience of investment decisionmaking staff

Final investment decisions rest with the director of the Bureau of Finance. He is assisted by four administrators, as well as brokers and investment advisors. The director has held the position for 12 years, and he has an additional 18 years of experience in related fields. The administrator of the Short-Term Investment Division has served in this position for 27 years. The administrator of the Mortgage Service Division has held the position for 2 years with an additional 19 years of financial experience. The administrator of the Stock Investment Division has served in the position for 4 years. The position of administrator of the Bond and Corporate Investment Division was vacant at the time of our work, and the position was being filled by the director.

Selection of brokers

Bureau officials select brokerage firms on the basis of their size, as well as their national investment rating. During fiscal year 1975, the bureau placed orders through 71 brokerage firms. Many of these firms also provided research information and advice. Preference is not given to Michigan-based brokerage firms. State officials said they could not readily provide us with information on the amount of investment funds handled by individual brokers for the Plan.

Selection of investment advisors

The bureau does not give preference to Michigan-based firms when selecting advisors. Although two of the three current advisors are Michigan-based, out-of-State banks were employed before 1970. According to bureau officials, the rate of return on the out-of-state bank investments was unsatisfactory.

We were told that the selection of the Michigan banks was based on a credible investment performance in common stock and acceptance of a contract which can be dissolved by either party on a day's notice. These banks are two of the largest banks in Michigan and handle investments for many other retirement funds and trusts. One bank, for example, handles over 1,250 corporate retirement plans and annually invests over $1 billion for various corporate and State and local government retirement plans. The services provided by the banks are paid from Plan funds.

The third advisor--a brokerage firm--is located out-of-State and was selected in 1973 because of its expertise in mutual fund investments. The services are paid through commissions on mutual fund transactions.

MANAGEMENT AND CONTROL OF PENSION PLAN ASSETS

The bureau manages and controls Plan assets. Some controls to assure that funds are invested properly are presented below.

Money management techniques

Conforming to the limitations imposed by Act 314 on investments is considered a money management technique since the limitations in effect mandate diversification of fund investments. Another technique is the use of a common cash fund to assure that available cash is invested promptly.

The State treasurer's common cash fund is a cash clearing account for 63 State funds including the Plan and other State retirement plans. For example, Plan money received by the Department of Management and Budget is forwarded to the bureau for deposit in the common cash fund. The monies received by the bureau are then deposited in various banks to pay for Plan activities such as retirement allowances, long-term and short-term investment securities, and operating expenses.

At the beginning of each fiscal year, bureau officials project the purchase of long-term securities for each month of the year, based on anticipated revenue for that period. As funds become available during each month, the planned purchases are made.

Further, cash availability is also determined on a daily basis for short-term investments such as U.S. Government securities and certificates of deposit. Interest earned on these shor   rm investments is then allocated to each fund on the basis of its average equity in the common cash account. Although the intent is to maintain a zero cash balance, it is possible that individual funds may have a positive or negative balance at different times because of the amount of cash being received and disbursed.

Monitoring investment performance

Investment activities of the Plan are monitored by the Investment Advisory Committee. The committee meets at least every 3 months. The committee reviews and evaluates investment reports and other information furnished by the bureau. The committee does not issue reports on its monitoring efforts; however, the State auditor general has recently suggested that minutes of their meetings be sent to the Governor.

The bureau contracted with a brokerage firm to furnish investment performance analysis reports beginning in January 1974. The evaluation consisted of a monthly comparison of common stock and short-term investments by the investment advisors and the Bureau of Finance against 3,000 other investment managers. In its evaluation, the firm considered simple return on investment   such factors as (1) time value of the funds used   ing, (2) interest on short-term investments, (3) gains   osses on stock sales, and (4) gains and losses in market value on investments.

The evaluation shows that the rates of return for fiscal year 1975 on investments recommended by the two banks were 16.52 percent and 8.74 percent, respectively; while investments recommended by the bureau were 11.58 percent. The director of the bureau said he is generally satisfied with the firm's evaluation, and the above results are helpful in evaluating their own performance.

Disclosure statements

The Plan does not require its employees to file a disclosure statement showing potential conflicts of interest. However, in October 1975 the State civil service commission ruled that certain employees and members of their families should disclose all personal or financial interests in any business which they deal with while performing official duties. This requirement applies to employees and their supervisors who recommend or have the authority to make procurements or award contracts. Although this ruling affects Plan employees, no efforts had been made at the time of our study to obtain disclosure statements.

AUDIT AND DISCLOSURE OF INVESTMENT ACTIVITIES

The auditor general is required by law to make an annual audit of the Bureau of Finance which includes investment activities for the Plan. The auditor general retains a firm of certified public accountants to assist in this audit. The auditor general also conducts an audit every 2 years of the activities of the Department of Management and Budget as they relate to the administration of the Plan. The auditor general submits all audit reports to the Michigan legislature.

Scope of audits

The audit report on the Bureau of Finance for fiscal year 1975 showed that the tests included:

- --Physically confirming all securities held by the treasurer.
- --Reviewing investment practices and controls.
- --Confirming the amount of cash shown in the common cash fund, investments in stocks and bonds, and outstanding mortgages serviced.

The auditor general report on the Plan for the 2 years ending June 30, 1974, showed that tests included:

- --Analysis and reconciliation of general ledger accounts.
- --Reconciliation of cash and cash items with related records.
- --Examination of records maintained for employee and employer contributions.
- --Examination of records to determine that retirees were eligible and that allowances were correct and in accordance with statutory provisions.
- --Review of timekeeping and payroll procedures.
- --Verification of investment records with records of the State treasurer.

The certified public accounting firm assists the auditor general in solving problems and by performing a limited review of the results of the auditor general's audit. This review, pursuant to the terms of the agreement between the auditor general and the firm, was limited to reading the report, accompanying financial statements, and supporting workpapers. The firm also obtained written representation from State officials that consistent application of generally accepted accounting principles was applied in preparing the financial statements. The firm noted some significant inconsistencies in the amounts shown in the accompanying financial statements. Furthermore, they stated their limited procedures and inquiries would not necessarily reveal any other departure than already identified.

Reports issued on retirement fund activities

Individual reports are not issued to participating members or retirees nor are reports required by the Plan. However, the annual financial statements, auditor general reports, and minutes of board meetings are public documents and available for review. Also, annual actuarial reports submitted by the private actuarial firm retained by the board are available to the public.

CHAPTER 3

INVESTMENT EXPERIENCE

ANNUAL RATE OF RETURN

The following table shows the annual rate of return on investments for fiscal years 1971-75, both excluding and including realized gains and losses.

Fiscal year	Percentage rate of return: Including gains and losses	Percentage rate of return: Excluding gains and losses
1971	4.47	(a)
1972	5.75	5.14
1973	6.91	5.23
1974	5.46	5.47
1975	5.14	6.20

a/Information to calculate a return rate excluding gains and losses for 1971 was not readily available.

We computed the above percentages including gains and losses based on earnings and asset values shown in the State's audited financial statements. We computed the percentage, excluding gains and losses based on data provided by the bureau and auditor general records. Brokerage commissions and fees paid are included in the cost of securities.

PENSION PLAN ASSETS

The values of Plan assets at cost shown in audited financial statements for fiscal years 1971-75 were as follows:

Fiscal year	Asset value at cost
1971	$ 949,124,000
1972	1,090,127,603
1973	1,328,173,433
1974	1,541,811,417
1975	1,748,079,224

A comparison of the Plan's assets by category for fiscal years 1972-75 is shown on the schedule on page 21.

(Information on the Plan's assets by category for fiscal year 1971 was not readily available.) During the 4-year period, most of the Plan's assets--about 88 to 92 percent--were invested in long-term securities such as bonds, stocks, mortgages, railroad securities, and mutual funds.

FUNDS IN NON-INTEREST-BEARING ACCOUNTS

The Plan does not maintain any non-interest-bearing accounts because all cash is deposited in the State treasurer's common cash fund as previously discussed on page 15. As of June 30, 1975, cash on hand in the common cash fund totaled $85,000 compared to total assets of $855 million--$103 million consisted of short-term investments.

OPERATING COSTS

Administrative expenses included salaries and external investment advisor fees, however, a breakdown of these fees was not readily available. The following table shows administrative expenses for fiscal years 1971-75. It also compares the administrative expenses to net contributions for providing retirement benefits.

Fiscal year	Administrative expenses	Net contributions	Expenses as a percent of net contributions
1971	$ 845,859	$135,241,594	0.63
1972	1,020,163	161,187,393	.63
1973	1,204,897	202,261,507	.60
1974	1,373,093	204,280,351	.67
1975	1,525,305	255,191,912	.60

SCHEDULE 1

THE MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

COMPARATIVE STATEMENT OF ASSETS AS OF

JUNE 30, 1972, 1973, 1974, AND 1975 (note a)

Assets	1972 Amount	1972 Percent	1973 Amount	1973 Percent	1974 Amount	1974 Percent	1975 Amount	1975 Percent
Short-term investments	$ 41,193,583	3.8	$ 49,289,809	3.7	$ 81,480,549	5.3	$ 103,511,000	5.9
U.S. Government securities	47,751,616	4.1	68,049,445	5.1	85,807,502	5.6	113,522,545	6.5
Corporate bonds	389,432,528	35.8	475,389,963	35.8	546,081,005	35.4	620,276,990	35.5
Convertible bonds	68,803,813	6.3	88,908,468	6.7	93,199,363	6.0	103,833,878	5.9
Preferred stock	3,170,813	.3	3,170,813	.2	5,892,500	.4	3,000,000	.2
Common stock	184,605,255	17.0	255,987,395	19.3	301,901,288	19.6	334,552,430	19.1
Mortgages	211,584,548	19.5	216,844,021	16.3	241,411,265	15.9	277,544,242	15.9
Railway equipment securities	112,541,550	10.3	134,815,728	10.2	149,280,000	9.7	156,932,533	9.0
Mutual funds	31,043,898	2.9	35,717,792	2.7	36,757,944	2.3	34,905,606	2.0
Total	$1,090,127,603	100.0	$1,328,173,433	100.0	$1,541,811,417	100.0	$1,748,079,224	100.0

a/Data obtained from financial documents and records of the Plan and the auditor general.

b/Totals may not add due to rounding.

APPENDIX II

CASE STUDY

ON THE

CITY OF DETROIT

GENERAL RETIREMENT SYSTEM

Contents

CHAPTER 1

BACKGROUND

The City of Detroit General Retirement System (hereafter referred to as the Plan) was created by Title IX, Chapter VI of the City of Detroit Charter adopted October 5, 1937, effective July 1, 1938. The Plan provides for retirement and death benefits for all employees of the city except policemen and firemen who are covered by a separate system. For the fiscal year ended June 30, 1975, the Plan had 17,935 active members and assets in excess of $456 million. During this period, the system's 8,642 retirees and beneficiaries received over $25 million in retirement benefits.

A board of trustees is responsible for the overall management of the Plan; however, day-to-day activities are administered by the city's Pension Bureau. The bureau also administers the city's Policemen and Firemen Retirement System which has its own board of trustees. As of June 30, 1975, the Policemen and Firemen Retirement System had 7,291 active members and assets in excess of $370 million.

MEMBERSHIP REQUIREMENTS

Under provisions of the city charter, all persons employed by the city shall become members of the Plan from the first day of employment. This does not include (1) persons who are members or retirees of the Policemen and Firemen Retirement System or (2) persons who are members of any other public employee pension or retirement plan adopted by the State of Michigan or any of its political subdivisions.

FUNDING

Funds needed to finance the Plan are obtained from employee and employer contributions as well as investment income. Employees contribute 3 percent of their pay, which is subject to the Federal social security tax deduction, and if their pay exceeds this amount, they contribute 5 percent of the excess. An employee may elect in writing, however, to have 5 percent deducted from his entire pay to obtain larger retirement benefits.

The Plan's actuary--using information on benefits and other employee data--determines the city contribution rates needed to support the benefits. The actuary computes a separate rate for each of the six city employing divisions. For example, the general city division currently contributes 18.43 percent of their gross payroll.

BENEFITS

The Plan provides its members or beneficiaries with a guaranteed retirement income for life and financial protection in the event of disability or death.

Normal retirement benefits

Retirement benefits are based on years of service, age, and the highest average annual compensation for 5 consecutive years within the last 10 years of employment. Pension benefits for retired employees would be derived as follows.

--A basic pension of $12 for each year of service, but not more than $120 annually.

--A pension allowance, in addition to the basic pension, which is computed by multiplying the retiring member's average compensation by 1.4 percent. The results are then multiplied by the total years of service. For example, if an employee worked 30 years and had an average final compensation of $10,000, the employee's annual pension allowance would be $4,200 (.014 x 30 x $10,000).

--In addition, an annuity is provided for the 5 percent payroll deduction from the employees' pay. This will vary from 0.3 to 0.4 percent of the average compensation multiplied by the years of service. This figure varies for each employee depending on age at retirement and whether the employee chose a 5-percent deduction on his entire pay or a 3-percent deduction on the amount of pay subject to social security taxes and 5 percent above that. If an employee in the above example had an annuity percent of 0.35 for each year of service, the annual annuity would be $1,050 (.0035 x 30 x $10,000).

Thus, as the example shows, an employee with an average yearly compensation of $10,000 and 30 years of service could receive annual retirement benefits of:

Basic pension	$ 120
Pension allowance	4,200
Annuity	1,050
Total	$5,370

The Plan also pays a supplementary pension of $40 per month to employees who retired before August 13, 1956, and $20 per month to those who retired between August 13, 1956, and July 1, 1966.

Prior to July 1, 1976, an employee--to be eligible to receive retirement benefits--had to be (1) age 60 with 10 years of service or (2) age 55 with 30 or more years of service. Employees may now retire with 30 years of service regardless of age. However, under provisions of the city charter, any employee who entered city employment before July 1, 1938, may retire after 25 years of service and before age 60 upon written notice to the board of trustees.

The mandatory retirement age is 65. However, any employee may be continued in service until age 69 provided his request for continuance in service is (1) written, (2) approved by his department head, and (3) approved by the board.

Disability retirement and death benefits

The Plan provides its members with both duty and nonduty connected disability benefits. If the disability is duty connected, an employee is eligible for a disability allowance as long as the employee is under 60 years of age. If the disability is nonduty connected, the employee must be a member of the Plan at least 10 years and under the age of 60 before becoming eligible for a disability allowance. In both cases when the employee becomes 60 years of age, the disability allowance ends and the employee becomes eligible for normal retirement benefits.

The Plan also provides death benefits to its members. If an employee has 20 years of service, regardless of age, or is over age 60 with 10 years of service, his beneficiary will receive a lifetime benefit as if the employee had met eligibility requirements. If the beneficiary does not qualify for retirement benefits, the amount contributed by the employee plus 6.25 percent interest is paid to the beneficiary.

Deferred retirement benefits

Members at age 40 or over with 8 years of service who terminate employment may retain a vested right to retirement benefits by leaving their contributions in the fund. They can begin receiving monthly benefits after reaching age 60. Members who terminate employment before a vested right is obtained, receive a refund of their contributions plus 6.25 percent interest upon request.

Cost-of-living
annuity increases

The Plan provides that on July 1, the pension allowance portion of any retirement benefit is to be increased at the rate of 2 percent. The increase is computed on the basis of the amount of pension received at the time of retirement including, if applicable, the supplementary pension. This increase is paid from Plan funds.

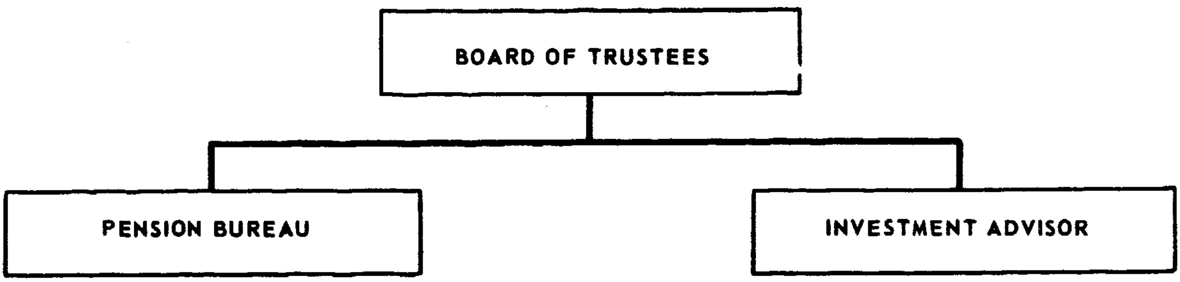
CHAPTER 2

FRAMEWORK FOR MANAGING INVESTMENTS

The Plan is managed and operated by a board of trustees selected under provisions of the city charter. To assist in carrying out its responsibilities, the board employs a professional investment advisor and uses city employees to handle day-to-day administrative duties.

ORGANIZATIONAL STRUCTURE

The following organizational structure was established to manage and control activities of the Plan.



Board of trustees

Subject to all terms, conditions, limitations, and restrictions imposed by the laws of the State of Michigan and the city charter, the board has full power to invest, reinvest, purchase, sell, hold, assign, transfer, and dispose of any of the securities and investments of the Plan.

The board consists of ten members, including the mayor, president of the city council, and the city treasurer who are ex-officio members named in the city charter. The mayor and president of the city council are elected by popular vote in citywide elections--each for a 4-year term. The treasurer is appointed by the city finance director. The remaining board members are:

--Five employees who are members of the Plan and are elected by Plan members.

--One citizen appointed by the mayor, subject to the board's approval, who is neither a city employee nor eligible to receive benefits under the Plan.

--One retired employee of the Plan who is elected by retirees of the Plan.

The regular term of office for each of the five elected employees and the appointed citizen trustee is 6 years, with one to be elected or appointed each year. The regular term of office for the retired employee is 2 years. There are no legal restrictions regarding political party affiliations or experience in the pension field. All board members must be city residents except the retired employee. Each trustee is paid $1 per year as compensation and $25 as expenses for each meeting attended, providing the trustee is not a city employee. Meetings are held at least weekly and each trustee is entitled to one vote.

Pension Bureau

The bureau consists of about 21 employees and is responsible for the day-to-day administration of the city's two retirement plans. The director of the bureau is executive secretary to both boards and is the administrator of both plans. The director and Pension Bureau staff are appointed civil service employees. All city employees must be residents of the Plan's geographical jurisdiction. The administrative duties performed by the bureau staff include

--determining eligibility requirements,

--processing retirement applications,

--paying benefits,

--distributing general information, and

--maintaining pertinent records.

Also, the bureau staff is responsible for making recommendations on short-term investments. To keep excess cash fully invested, the staff conducts continuous research and makes daily recommendations to the board on both the purchase and sale of short-term investments.

Investment advisor

The board contracts with a Detroit bank to provide investment advice and services. This includes recommendations on investments, the purchase and sale of investments approved by the board, and the selection of brokers. In addition, the bank is the depository for the Plan and has physical custody of its assets.

MAKING AND IMPLEMENTING INVESTMENT POLICY

The board has full power to establish and implement policy subject to the laws of the State of Michigan. The basic Michigan law governing public retirement systems is Act 314, Public Acts of 1965, and later amendments. However, according to a Plan official, the act is not mandatory unless a political subdivision elects to be covered by its provisions. The board of trustees has elected to be covered by the act. The principal provisions of the act are as follows:

--Investments in common stock shall be limited to 25 percent of the retirement system's assets.

--Not more than 5 percent of a retirement system's total assets may be invested in common stocks in any 1 year, except any unused portion of the 5 percent may be added to the amount for investment in a subsequent year, but in no event shall more than 8 percent of such assets be invested in common stocks in any 1 year.

--Any common stock purchased (1) must have paid dividends in at least 5 of the past 7 consecutive years during which period net earnings shall have exceeded dividends paid and (2) shall be registered on a national securities exchange regulated under the Securities Exchange Act of 1934.

--A public retirement system shall not invest in more than 5 percent of the common stock outstanding of any one corporation nor invest more than 1 percent of its assets in the common stock of any one corporation.

--A public employee retirement system may not invest more than 10 percent of its assets in the preferred stock of any one corporation.

--Investments in bonds or other fixed interest bearing obligations of any one corporation shall be limited to 10 percent of the assets of a public employee retirement system unless guaranteed by the U.S. Government.

--Investments in annuity investment contracts, mortgages, bonds, or other special investment accounts of life insurance companies or any other companies authorized to do business in the State shall not exceed 10 percent of the assets of a public employee retirement system.

--Any preferred stocks purchased must have paid dividends continuously and regularly during the preceding 10 years or since the date of issuance for companies in business less than 10 years.

Although city and State governments are not prohibited by law from borrowing from public retirement systems, the director of the Pension Bureau said that it is against board policy to lend money to the city.

Investment policies

Investment policy is set by the board. The director of the Pension Bureau said their formal investment policy is to adhere to the limitations and restrictions established by law and to use prudent judgment on all investment transactions. We were told the board relies substantially on the investment expertise of the bank and the bureau's staff.

The board does not establish a fixed rate of return as an earnings objective. Instead, it attempts to earn as much as possible with the underlying objective of earning at least a rate of return equal to the rate of interest credited to the individual employee's retirement account. The approved interest rate was 5.75 percent in fiscal year 1975.

Implementing investment policy

The board is responsible for all investment decisions. To fulfill this responsibility, the board relies on the advice of bureau staff who make recommendations on short-term investments and its professional investment advisor--the bank. While the final decisions on investments are always made by the board, we were told the board invariably accepts the advice of the bureau staff and the bank.

Experience of investment decisionmaking staff

A brief summary of the investment experience of bureau staff and the bank follows.

The director of the bureau has 30 years and his assistant has 20 years of investment experience. The investment experience of other employees ranges from 8 to 20 years. All employees are members of the city's civil service system.

The bank is one of the largest banks in the State of Michigan and has extensive investment experience. For example, the bank handles 1,250 corporate retirement plans and on a yearly basis invests $365 million in State, city, and county retirement funds, and $650 million in corporate retirement funds for a total investment responsibility of over $1 billion annually.

The bank was selected on the basis of competitive bidding which included bids from institutions both within and outside of the Detroit geographical area. The selection was not based on location, but rather on the bank's ability to make recommendations on investments. The recommendation to select the bank was made by the board and final approval given by the city council. During fiscal year 1975, the city paid $102,235 for the bank's services.

Selection of brokers

The bank is responsible for selecting brokerage firms to handle security transactions approved by the board. According to a bank official, when selecting brokerage firms, they give preference to those firms which provide the bank with investment research and other services.

The bank selected 32 brokerage firms during fiscal year 1975 to handle Plan purchases and sales transactions amounting to over $84 million. Most of these transactions--about $72.7 million--were handled by 14 brokerage firms.

MANAGEMENT AND CONTROL OF PENSION PLAN ASSETS

The board manages Plan assets through the bureau staff which performs research and makes recommendations on short-term investments; and the bank, which in addition to making recommendations on investments, places orders to buy and sell securities for the Plan.

Money management techniques

Bureau and bank officials noted that the limitations imposed by Act 314 require diversification of Plan investments and this is considered an acceptable money management technique. Another technique is to closely monitor available cash and invest any excess in short-term investments such as certificates of deposit and commercial paper. The bureau staff is responsible for monitoring the Plan's cash position and making recommendations on short-term investments to the board.

A technique employed by the bank is to use bond specialists and research analysts. According to a bank representative, each type of bond (i.e., industrial, utility, municipal, and Government) is handled by a different specialist. Also, periodic analyses are performed by research analysts. These analysts make projections on stock and bond performance. The results are coded and provided to the bank's investment advisors for use when making recommendations to the Board.

A bank official said that the bank has established controls to prevent its investment advisors from channeling commissions to broker dealers who maintain deposits with the bank.

The bank also attempts to keep its bond portfolio current by swapping bonds. Recommendations on the securities to be swapped are made by the bank subject to the board's final approval. According to a bank official, two kinds of swaps in which they participate are (1) substitution swapping and (2) sector swapping. Substitution swapping involves the selling of a certain quality bond in exchange for a similar quality bond but with a greater yield advantage. Sector swapping involves the exchange of bonds from one rate classification to another (e.g., AAA to AA) to realize greater returns. We were also told they believe the bond portfolio should be updated just as the stock portfolio in an attempt to maximize return on investments.

Monitoring investment performance

The board employs a national brokerage firm to monitor the investment practices of the bank. The evaluations are done on a quarterly and annual basis and the results compared to other retirement funds, commingled funds, and mutual funds. An evaluation is also conducted on the performance of bank investment advisors based on their investments in bonds, stocks, etc. This results in either a positive or negative performance rating. The primary features of this study include a comparative analysis on

--the stock portfolio,

--fixed income investments, and

--rate of return on total portfolio investments.

The brokerage firm has numerous accounts including insurance companies, union pension funds, and corporate profit-sharing plans. The firm services about 50 plans in Detroit alone. The board's decision to employ the firm was based on its evaluation of proposals received in 1970. The firm's annual fee is $12,000.

Disclosure statements

The city charter does not require board members or any of its employees to file disclosure statements showing potential conflicts of interest. The board believes that safeguards such as reviews by the city auditor general and independent accounting firms, as well as a civil service requirement forbidding outside employment, preclude the necessity of requiring disclosure statements.

AUDITS AND DISCLOSURE OF INVESTMENT ACTIVITIES

The board uses the city auditor general and an independent certified public accounting firm to audit the Plan's activities. Under provisions of the city charter, the Plan is audited annually by the city auditor general, and a financial audit is performed every 5 years by an independent firm of certified public accountants.

Scope of audits

The auditor general's annual report is basically financial in nature and describes the position of the Plan. While the audit is conducted annually, the report is printed bi-annually. The latest auditor general report covers fiscal years 1974 and 1975. At the time of our review the report was not complete and, therefore, unavailable to us. A review of a similar 1972-73 report showed that its scope included:

--A review and test of accounting procedures and related internal controls.

--A verification of assets, liabilities, and fund balances of the retirement system.

--A test of the operating transactions.

--A physical verification of Plan securities held by the bank.

The latest independent audit of the Plan was performed by a national certified public accounting firm for the year ended June 30, 1972, and was primarily financial in nature. The audit included (1) a verification of assets, liabilities, and fund balances, (2) a test of operating procedures, (3) a review and detailed tests, as necessary, of the bureau accounting procedures, and (4) evaluation of the actuarial assumptions.

Reports issued on
retirement plan activities

The city charter states that the board shall give a report to the mayor and the city council on or before January 15 of each year showing the fiscal transactions for the preceding fiscal year. Also, direct mailings are made to certain libraries and universities as well as Federal, State, and city regulatory agencies. Copies are also available to all members upon request.

The report contains statements of cash receipts and disbursements, pension payments, annuity payments, member contributions withdrawn, annuity balances to beneficiaries, and investments. It also shows the number of active and retired members and beneficiaries for each fiscal year, as well as the rate of return for the past 5 fiscal years including the current one.

In addition to the annual report, annual bulletins are prepared and made available to the members. These bulletins contain current balance sheet totals, number of active and retired members and beneficiaries, statement of cash receipts and disbursements, retired employees and beneficiaries benefits and approved rates of interest on individual employees' retirement accounts. Also, employees receive an annuity statement at the close of each fiscal year showing their beginning balance, interest earned, and closing balance.

In addition to publishing annual reports, the board is required to keep minutes of all its meetings which are open to public inspection. A review of the June 1975 minutes showed that covered items included:

--Approval of individual requests for retirement after assuring individuals meet requirements for retiring.

--Authorization of bonds, stocks, and other security purchases as recommended by the bank.

--Approval of refunds of accumulated contributions to terminated employees.

CHAPTER 3

INVESTMENT EXPERIENCE

ANNUAL RATE OF RETURN

The following table shows the annual rate of return on investments for each of the fiscal years 1971-75 which we computed.

Fiscal year	Rate of return: Excluding gains and losses	Rate of return: Including gains and losses
1971	4.57	4.55
1972	4.74	4.98
1973	5.25	5.30
1974	5.49	5.57
1975	5.82	6.32

We computed the above rates of return based on earnings and asset values from the Plan's audited annual statements and data obtained from the records of the Pension Bureau's Finance Department. Brokerage commissions and fees paid are included in the cost of securities.

PENSION PLAN ASSETS

The value of assets of the Plan as shown in annual reports to the mayor and city council for fiscal years 1971-75 is as follows:

1971	$265,404,781
1972	307,285,388
1973	353,467,796
1974	405,874,465
1975	456,201,126

A comparison of the Plan's assets by category for the 5-year period is shown on the schedule on page 43. During the 5-year period, most of the Plan's assets--about 68 to 80 percent--were invested in stocks and bonds.

Corporate bonds represent the largest type of investment, although the bond portion of the Plan's assets has declined from about 62 percent in 1971 to about 45 percent at the close of fiscal year 1975. The second largest investment is common stocks which at the close of fiscal year 1975, amounted to about 23 percent of the Plan's assets. The common stock investments are diversified into securities of 48 corporations. The third largest investment is in group annuities amounting to about 10 percent of the Plan's assets at the close of fiscal year 1975.

Although the city charter provides for unlimited purchases of city of Detroit obligations, the board, as a matter of practice, does not invest heavily in city obligations. Also, as a matter of practice, the board does not give preferential treatment to the purchase of stocks, bonds, and mortgages of State-based corporations or political subdivisions.

As of June 30, 1975, investments in Michigan political subdivisions and Michigan-based corporations represented about 3 percent of total assets as the following shows.

	Amount
City of Detroit and Wayne County bonds	$ 375,283
State-based corporate bonds	7,522,540
State-based corporate common and preferred stock	6,088,545
Mortgages on property located in Detroit	949,803
Total	$14,936,171

FUNDS IN NON-INTEREST-BEARING ACCOUNTS

The Plan maintains only one commercial non-interest-bearing checking account. This account is used for all Plan transactions which include both employee and city contributions toward retirement benefits, purchases and sales of Plan investments, and monies used to pay monthly retirement benefits. The following table shows the average monthly balances and expenditures in the Plan's non-interest-bearing account for the last 6 months of fiscal year 1975.

	Non-interest-bearing account	
Month	Average monthly cash balance	Expenditures
January	$205,027	$31,435,362
February	339,227	41,293,675
March	383,814	14,549,107
April	298,019	20,654,582
May	123,769	48,084,460
June	91,230	46,440,664

We computed the average monthly balances by adding the beginning and ending cash balances for each month and then dividing the total by 2. As previously mentioned, the bureau attempts to keep excess cash at a minimum by making daily investments in short-term securities. According to one bureau official, they try to keep the monthly cash balances at about $100,000. However, because of constant buying and selling, this balance will vary and frequently exceeds $100,000.

OPERATING COSTS

All costs incurred from operating the Plan are financed from the city's general fund. These costs include salaries of bureau personnel, as well as fees paid the bank and the national brokerage firm providing performance monitoring and evaluation for both plans administered by the Pension Bureau. During fiscal year 1975 these costs totaled $526,915.

The following table shows the administrative expenses incurred for fiscal years 1971-75 for the two city of Detroit retirement plans. The table also compares the two plans' administrative expenses to the employees and city's contributions to the plans. Combined expenses and contributions are shown since the bureau administers both the General and Policemen and Firemen Retirement Plans and because separate administrative costs could not be identified.

Fiscal year	Administrative expenses	Net contributions	Expenses as a percent of net contributions
1971	$291,390	$ 78,129,393	.37
1972	320,345	94,229,188	.34
1973	336,051	105,462,700	.32
1974	375,629	116,515,028	.32
1975	526,915	122,893,555	.43

THE CITY OF DETROIT GENERAL RETIREMENT SYSTEM

COMPARATIVE STATEMENT OF ASSETS AS OF

JUNE 30, 1971, 1972, 1973, 1974, AND 1975 (note a)

Assets	1971 Amount	1971 Percent	1972 Amount	1972 Percent	1973 Amount	1973 Percent	1974 Amount	1974 Percent	1975 Amount	1975 Percent
Cash	$ 179,764	.07	$ 122,173	.04	$ 142,927	.04	$ 118,152	.03	$ 125,509	.03
Temporary investment:										
Commercial paper	-	-	9,950,000	3.24	13,375,000	3.78	-	-	14,200,000	3.11
Certificates of deposit	-	-	-	-	-	-	30,800,000	7.59	28,250,000	6.19
Accounts receivable	15,762,604	5.94	14,311,600	4.65	19,169,311	5.42	2,483,769	.61	1,796,199	.39
U.S. Government securities	13,533,600	5.10	7,865,000	2.56	19,982,100	5.65	32,7[illegible]4,248	8.08	33,403,750	7.32
Corporate bonds	163,439,000	61.58	186,203,000	60.60	176,647,000	49.98	182,900,000	45.07	206,207,[illegible]	45.20
State and local government securities	6,608,000	2.49	6,053,000	1.97	2,420,000	.69	710,000	.17	375,283	.08
Common stocks	46,925,039	17.68	59,980,920	19.52	76,009,523	21.50	94,315,964	23.24	106,777,298	23.41
Group annuity contracts	-	-	4,043,420	1.31	27,228,819	7.70	37,784,617	9.31	44,934,500	9.85
Mortgages	15,956,614	6.01	15,687,629	5.10	14,897,386	4.22	14,619,451	3.60	10,970,289	2.40
Other (note b)	3,000,158	1.13	3,068,645	1.00	3,595,860	1.02	9,343,265	2.30	9,160,581	2.01
Total	$265,404,779	100.00	$307,285,388	100.00	$353,467,796	100.00	$405,874,466	100.00	$456,200,409	100.00

a/Data obtained from General Retirement System annual reports.

b/This total includes accrued interest and dividends, unamortized premiums and discounts, and deferred interest. It also includes Province of Ontario bonds in the amount of $1 million each for fiscal years 1973 and 1974 and $3.5 million for fiscal year 1975.

c/Totals may not add due to rounding.

SCHEDULE 1