1966

PUBLIC RETIREMENT FUNDS

1 **PUBLIC RETIREMENT FUNDS.** Legislative Constitutional Amendment. Provides Legislature may authorize investment of moneys of any public pension or retirement fund, except Teachers' Retirement Fund, in stock or shares of any corporation or a diversified management investment company; provided that not to exceed 25% of the assets of the fund may be so invested and there is compliance with specified requirements as to registration of the stock in an exchange, financial condition of the corporation, and the percentage of stock which may be acquired in any one corporation.	YES	
	NO	

(For Full Text of Measure, See Page 27, Part II)

General Analysis by the Legislative Counsel

A "Yes" vote on this measure is a vote to permit the Legislature to enact a law to authorize the investment of up to 25 percent of the assets of a public retirement fund, other than the State Teachers' Retirement Fund, in common stock, and not to exceed 5 percent of the assets of such a fund in preferred stock, of any corporation which meets the conditions specified in the measure.

A "No" vote is a vote to deny the Legislature the authority to permit such investments.

For further details see below.

Detailed Analysis by the Legislative Counsel

Section 31 of Article IV and Section 13 of Article XII of the State Constitution now prohibit the state and all political subdivisions of the state from acquiring stock of any company or corporation, except where required in connection with the acquisition and furnishing of water.

This measure, if approved by the voters, would amend Section 13 of Article XII to authorize the Legislature to enact a law to permit the investment of moneys of a public retirement fund, other than the State Teachers' Retirement Fund, in stocks or shares of certain corporations, subject to the limitations that not more than 25 percent of the assets of the fund may be invested in common stock, and not more than 5 percent of the fund's assets may be invested in preferred stocks or shares.

The measure would require that any such investment be in stock listed on a national exchange except for (a) common stock in a bank which is a member of the Federal Deposit Insurance Corporation with capital funds of at least 50 million dollars, (b) common stock in an insurance company with capital funds of at least 50 million dollars, or (c) any preferred stock. It would further limit the investment to stock in a corporation (a) which has total assets of 100 million dollars or more, (b) whose bonds would be a legal investment for the retirement fund and which is not in arrears in dividend payments on its preferred stock, and (c) whose dividend payments meet certain prescribed standards. The fund could not be permitted to invest in more than 5 percent of the outstanding common stock of any one corporation, and the investment in a single corporation's common stock could not exceed 2 percent of the fund's assets.

The measure would further permit the investment of public pensions or retirement funds, other than the State Teachers' Retirement Fund, in stock or shares of a diversified management company registered under the Investment Company Act of 1940 which has total assets of 50 million dollars or more. Investments in such diversified management companies, together with investments in stocks or shares of other companies, could not exceed 25 percent of the assets of the fund.

Argument in Favor of Proposition No. 1

Proposition No. 1 was placed on the ballot by unanimous approval of the State Assembly and the State Senate and is supported by a wide range of groups and individuals.

Proposition No. 1 endorsements include labor unions, chambers of commerce, newspapers, taxpayers associations, financial and political leaders and many others.

The measure will permit selective investment of public employee retirement funds in common stocks on a restricted basis. It will improve an obsolete, 94-year-old law that impedes a businesslike approach to management of public retirement funds.

These funds come from three sources—contributions from employees, contributions from taxpayers and income from investments. Increased investment earnings obviously will benefit both taxpayers and employees.

The country's leading financial authorities such as First National City Bank of New York, Chase Manhattan Bank, and Moody's Investors Service have strongly recommended investing in corporate stocks to reduce retirement system costs. Moody's said, ". . . a systematic program of periodic purchases of diversified, professionally selected stocks is the soundest way to achieve the lowest cost and greatest retirement benefits."

Common stocks have been used for years by hundreds of organizations seeking to increase investment earnings. They include:

1. Retirement systems of more than 30 states, the Federal Reserve System, most private companies and many labor unions.
2. Sixty-seven colleges and universities which have invested 60 percent of their endowments, totaling $6 billion, in common stocks. The conservative "Big Four"—Columbia, Harvard, Princeton and Yale—have invested more than $1 billion in common stocks with great success.
3. Retirement systems of California's charter cities and of the University of California. San Diego, a charter city, started such an investment program five years ago and has raised investment earnings by 50 percent.

The largest system affected by Proposition No. 1 is the California State Employees' Retirement System which manages retirement funds of more than 300,000 members working for the State, nonteaching employees of most school districts, employees of most of California's counties and cities and many other public agencies. With an increase of only one-tenth of 1 percent in investment earnings, SERS income would grow by an additional $2 million a year—benefiting both employees and the public.

Proposition No. 1 strictly safeguards public retirement funds. Major restrictions include limitation of common stock investments to 25 percent of any fund's investment portfolio with no more than 5 percent of a stock of any company and no more than 2 percent of a fund's assets in a single common stock. Purchases would be limited to domestic corporations listed on a national exchange that have a capitalization of $100 million with a history of dividend payments in eight of the past 10 years, including the last three years. Banks and insurance companies with capital funds of $50 million or more would qualify.

Proposition No. 1 warrants a yes vote. It is one of those issues that will benefit every Californian.

ASSEMBLYMAN DON A. ALLEN, SR.
Chairman Joint Legislative Retirement Committee, California Legislature

ASSEMBLYMAN E. RICHARD BARNES
Member Joint Legislative Retirement Committee, California Legislature

LOUIS B. LUNDBORG, Chairman,
Californians for Yes on No. 1
Chairman, Board of Directors,
Bank of America

Argument Against Proposition No. 1

"Inflation nibbles; the stockmarket bites!" is a trite but true Wall Street cliché. The proponents of Proposition 1, however, would have you believe that they have found a system to beat the stockmarket. By the use of this system, called "dollar averaging", they claim that they will be able to obtain higher pensions for state employees at a lower cost to you, the taxpayer.

"Dollar averaging" consists of investing a fixed dollar amount of money in common stock at regular intervals. In this way the investor supposedly buys more shares of stock at low prices than at high prices and thus obtains the stock at a lower average cost per share than the average of the market prices. For this system to be successful, a doubtful assumption at best, the managers of the state employees' pension fund would need to have the cash to purchase stock at the bottom of a depression and they would also require the courage to do so. Human events and frailties being what they are, they probably would lack both and the system would then fail!

The state employees' pension fund must be prepared to meet two distinct obligations. It must pay earned pensions to employees when and after they retire, and it must be prepared to refund, in cash, the money contributed by employees whose employment is terminated for any reason prior to retirement. A major depression would result in reductions in force and forced early retirements when the stock market would be at a very low level. If the pension fund's investments should depreciate to the extent that it could not meet the demands for cash being made upon it, either the taxpayers would make up the difference, when they could least afford to, or the fund would default on its obligations.

A fundamental investment principle is that when investing other people's money for their and their families' security in their old age, safety should not be sacrificed for an increased return. This measure, proposed when stock prices are near an all time high and when gilt-edged bonds are paying the best interest rates in over forty years, would sacrifice both safety and a liberal return for the dubious prospect of speculative profits.

It is true that many other pension funds invest in common stocks and that investment dealers are recommending this proposal. With luck, taxpayers and state employees perhaps might benefit from . but the only assured benefit is to the investment community which is actively supporting this measure.

Californians, examine this Proposition 1 very carefully. Do not be influenced by what other states and other pension funds are doing. If, after considering both sides, you doubt the wisdom of speculating with your tax money and with the security of your public servants in their old age, stay off of this common stock bandwagon and vote NO!

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2 **FOR BONDS TO PROVIDE STATE COLLEGE AND UNIVERSITY FACILITIES.** (This act provides for a bond issue of two hundred thirty million dollars ($230,000,000).)	
AGAINST BONDS TO PROVIDE STATE COLLEGE AND UNIVERSITY FACILITIES. (This act provides for a bond issue of two hundred thirty million dollars ($230,000,000).)	

(For Full Text of Measure, See Page 28, Part II)

General Analysis by the Legislative Counsel

A "Yes" vote (a vote FOR BONDS) is a vote to authorize the issuance and sale of state bonds up to $230,000,000 to provide funds to meet the major building construction, equipment and site acquisition needs of the state for purposes of the University of California and the California State Colleges.

Sixth, That the provisions of the second resol[illegible] lause of this measure shall become operative only if the amendment to Article IV of the State Constitution proposed by Assembly Constitutional Amendment No. 90 of the 1965 Regular Session are approved by a majority of the electors, in which case **subdivision** (a) of Section 3, Section 4, subdivision (c) of Section 8, subdivision (a) of Section 10 and subdivision (b) of Section 23 of Article IV of the Constitution, as appearing in the first resolved clause of Assembly Constitutional Amendment (Revision) No. 13, shall not become operative.

1	**PUBLIC RETIREMENT FUNDS. Legislative Constitutional Amendment.** Provides Legislature may authorize investment of moneys of any public pension or retirement fund, except Teachers' Retirement Fund, in stock or shares of any corporation or a diversified management investment company; provided that not to exceed 25% of the assets of the fund may be so invested and there is compliance with specified requirements as to registration of the stock in an exchange, financial condition of the corporation, and the percentage of stock which may be acquired in any one corporation.	**YES**	
		NO	

(This amendment proposed by Assembly Constitutional Amendment No. 57, 1965 Regular Session, expressly amends an existing section of the Constitution, therefore, **NEW PROVISIONS** proposed to be **INSERTED** are printed in **BLACK-FACED TYPE.**)

PROPOSED AMENDMENT TO ARTICLE XII

SEC. 13. The state shall not in any manner loan its credit, nor shall it subscribe to, or be interested in the stock of any company, association, or corporation, except that the state and each poli[illegible] subdivision, district, municipality, and pub[illegible] gency thereof is hereby authorized to acquire and hold shares of the capital stock of any mutual water company or corporation when such stock is so acquired or held for the purpose of furnishing a supply of water for public, municipal or governmental purposes; and such holding of such stock shall entitle such holder thereof to all of the rights, powers and privileges, and shall subject such holder to the obligations and liabilities conferred or imposed by law upon other holders of stock in the mutual water company or corporati[illegible]n in which such stock is so held.

Notwithstanding provisions to the contrary in this section and Section 31 of Article IV of this Constitution, the Legislature may authorize the investment of moneys of any public pension or retirement fund other than the fund provided for in Section 13901 of the Education Code, or any successor thereto, not to exceed 25 percent of the assets of such fund determined on the basis of cost in the common stock or shares and not to exceed 5 percent of assets in preferred stock or shares of any corporation provided:

a. Such stock is registered on a national securities exchange, as provided in the "Securities Exchange Act of 1934" as amended, but such registration shall not be required with respect to the following stocks:

1) The common stock of a bank which is a member of the Federal Deposit Insurance Corporation and has capital funds, represented by capital, surplus, and undivided profits, of at least fifty million dollars ($50,000,000);

2) The common stock of an insurance company which has capital funds, represented by capital, special surplus funds, and unassigned surplus, of at least fifty million dollars ($50,000,000);

3) Any preferred stock

b. Such corporation has total assets of at least one hundred million dollars ($100,000,000);

c. Bonds of such corporation, if any are outstanding, qualify for investment under the law governing the investment of the retirement fund, and there are no arrears of dividend payments on its preferred stock;

d. Such corporation has paid a cash dividend on its common stock in at least 8 of the 10 years next preceding the date of investment, and the aggregate net earnings available for dividends on the common stock of such corporation for the whole of such period have been equal to the amount of such dividends paid, and such corporation has paid an earned cash dividend in each of the last 3 years;

e. Such investment in any one company may not exceed 5 percent of the common stock shares outstanding; and

f. No single common stock investment may exceed 2 percent of the assets of the fund, based on cost.

Notwithstanding provisions to the contrary in this section and Section 31 of Article IV of this Constitution, the Legislature may authorize the investment of moneys of any public pension or retirement fund other than the fund provided for in Section 13901 of the Education Code, or any successor thereto, in stock or shares of a diversified management investment company registered under the "Investment Company Act of 1940" which has total assets of at least fifty million dollars ($50,000,000); provided, however, that the total investment in such stocks and shares, together with stocks and shares of all other corporations may not exceed 25 percent of the assets of such fund determined on the basis of the cost of the stocks or shares.