Presidential Advisory Committee of Michigan Technological University

PROPOSAL 8-05

(Voting Units: Full Senate)

Reinvestment of the R&I Account Reserve Funds in a Balanced Portfolio of Stocks and Bonds

Background

The R&I Account holds reserves to balance certain liabilities of MTU, and these reserves are to be used only in the event that MTU became insolvent. The current amount of these reserves is about $7,000,000. The two primary items the reserves cover are accrued vacation and health care expenditures that have been provided but not yet paid for. There is no intention to ever spend these reserves; other accounts pay the expenses as they occur during normal business.

These funds were invested in a balanced portfolio between 1994 and 2003, when the funds were transferred to entirely short-term bonds. During this period a total of $3,900,000 of investment gains was transferred to the General Fund. The tenured faculty members of the Investments Committee, Jim Gale, Dean Johnson, and Jim Pickens, have since worked with the Board of Control Finance Subcommittee with the goal of reinvesting these funds in a balanced portfolio of stocks, bonds, and cash. This past summer the BOC Finance Committee tentatively agreed to reinvest the funds, but asked that the Senate be given an opportunity to speak on the issue before the decision becomes final.

Proposal

The Senate supports the reinvestment of reserve funds in the Reserves and Insurance Account in a balanced portfolio of stocks, bonds, and cash. The stock and bond holdings should be invested in mutual funds. The asset allocation and mutual fund selection should be decided by the Investment Committee, a group of faculty, staff, and administrators appointed by the Chief Financial Officer. The portfolio's asset allocation should generally be adjusted only once each year, and this adjustment should be on the last business day of January. The stock portion of this portfolio should not exceed 80% of the total value after the annual asset allocation adjustment. Investment returns should generally be retained in the portfolio until the portfolio balance is 120% of the liabilities that these funds were set aside to cover. If the amount in the fund exceeds 120% on July 15, then the surplus above 120% is to be transferred to the General Fund and treated as one-time revenue to be allocated through the normal budget allocation process. The faculty representatives on the Investment Committee should report annually to the Senate on the investment portfolio performance.

Introduced to Senate: 27 Oct 2004
Approved by Senate: 10 Nov 2004