

Options for Improving PERA Investment Governance

Presentation to IPOC – October 31, 2023

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Background

- Think New Mexico studied ways to improve public pension performance as part of our 2019 report on retirement security
- PERA oversees a \$17 billion trust fund on behalf of more than 91,000 state employees and retirees
- Concerns have been expressed by the State Auditor, LFC, PERA members, and legislators about current PERA board performance



Pension Governance Matters

- Poor governance can cost pensions 1-2% annually according to research presented to IPOC in 2019
- 1-2% of the PERA fund is \$170-\$340 million dollars each year
- Requiring pension board members to have relevant qualifications tends to improve pension fund investment performance

NM Pension Board Qualifications

- Currently, no member of the PERA board is required by statute to have any relevant qualifications
- By contrast, in 2011, the legislature added qualifications for a majority of ERB board members:
 - the two ERB members appointed by the governor must have “a background in investments, finance, or pension administration”
 - designees by the Treasurer and Secretaries of Public Education and Higher Education must “possess experience relevant to the financial or fiduciary aspects of pension or investment fund management”

Best Practices for Pension Board Composition

“Representation on pension fund boards by state officials—often determined by statute decades past—is negatively related to the performance of private equity investments made by the pension fund, despite state officials’ relatively strong financial education and experience.

Boards dominated by elected rank-and-file plan participants also underperform...due to these trustees’ lesser financial experience.”

Source: Joshua Rauh, et. al., *Political Representation and Governance: Evidence from the Investment Decisions of Public Pension Funds*. The Journal of the American Finance Association, October 5, 2018.

Option 1: Restructure the PERA Board

- Change the PERA board from a 12-member board with 10 elected members to a 9-member board with mostly appointed members
- All nine board members would be required to have “skill, knowledge and experience in financial matters” and two public members would have “skill, knowledge, and experience related to investing”
- Along with adding qualifications, this proposal tracks with other best practices for pension boards from the Center for Retirement Research:
 - Ideal pension size = 6-10 members
 - Should consist of no more than 70% active & retiree membership
 - Removes elected officials from the board

Proposed new PERA board membership:

- one active member of a state general coverage plan appointed by the state personnel board
- one active county employee appointed by New Mexico Counties
- one active municipal employee appointed by the New Mexico Municipal League
- one active member appointed by the unions
- one public representative who is not a member and has skill, knowledge and experience related to investing appointed by the Speaker of the House
- one public representative who is not a member and has skill, knowledge and experience related to investing appointed by the Senate President Pro Tem
- the Secretary of Finance and Administration, and
- two retired members appointed as follows (alternately, these could remain elected):
 - one appointed by the Retired Public Employees of New Mexico, and
 - one appointed by the unions

Why Appointed vs. Elected Board

- PERA board elections have extremely low participation
 - Around 10% turnout for state and municipal active member positions
 - Just 35% turnout for retiree positions
- The board tends to be dominated by members from Albuquerque and Santa Fe, where it is easier to campaign among concentrations of public employees
- An appointed board can better balance geographic and stakeholder representation, along with ensuring financial expertise

Option 2: Consolidated Investment Board for PERA & ERB

- PERA and ERB boards would remain as they are, but their responsibilities would be limited to plan and benefit administration
- A new, qualified investment board would oversee assets of both funds
- This would likely reduce fees and result in better investment deals because the consolidated board would have more assets under management

Proposed Consolidated Investment Board membership:

- the Executive Director of PERA
- the Executive Director of ERB
- one finance/investment expert appointed by the Governor
- one finance/investment expert appointed by the Senate Pro Tem
- one finance/investment expert appointed by the Senate Minority Leader
- one finance/investment expert appointed by the Speaker and
- one finance/investment expert appointed by the House Minority Leader

Other States with Consolidated Pension Investment Boards

- Florida
- Indiana
- Maine
- Nevada
- Tennessee
- Washington
- West Virginia
- Wisconsin

Conclusion

We encourage IPOC to endorse one of the reform options presented here for the 2024 legislative session.

The PERA board urgently needs to be fixed for the sake of state taxpayers and the current and future retirees who depend on it.

Speaker bio



Fred Nathan, Jr., Executive Director, Think New Mexico

Fred founded Think New Mexico and is its Executive Director. Fred served as Special Counsel to New Mexico Attorney General Tom Udall from 1991-1998. In that capacity, he was the architect of several successful legislative initiatives and was in charge of New Mexico's \$1.25 billion lawsuit against the tobacco industry. He co-authored Think New Mexico's 2019 report, "Solving the Hidden Crisis: Achieving Retirement Security for All New Mexicans."