F I S C A L   I M P A C T   R E P O R T

SPONSOR Smith **ORIGINAL DATE** 2/01/07 **LAST UPDATED** 2/12/07 **HB**

SHORT TITLE Public School Insurance Fund Investments **SB** 754

ANALYST Propst

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY07	FY08		
	NFI		

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates HB 948

SOURCES OF INFORMATION
LFC Files

Responses Received From
Public School Insurance Authority (PSIA)
State Investment Council (SIC)

SUMMARY

Synopsis of Bill

Senate Bill 754 expands the Public Schools Insurance Authority's investment options with respect to long-term reserves. The bill would allow the PSIA Board to invest PSIA's long-term reserves with either the State Investment Council or with a registered investment adviser. Currently, long-term reserves must be invested with the State Investment Council.

SIGNIFICANT ISSUES

PSIA reports that long-term reserves are those monies needed to cover outstanding claims. In PSIA's Benefits Program, these reserves are commonly referred to as incurred but not reported (IBNR.) In the Risk Program, these reserves represent the estimate of future settlements of claims which are in progress, but have not closed, as well as incurred but not reported. PSIA uses an actuarial firm to determines the required IBNR reserves. PSIA's Risk Program third party administrator updates the estimated for claim reserves as they are reported and adjudicated.

As of December 31, 2006, PSIA has $34.5 million in long-term reserves invested with the State Investment Council. The investment portfolio has appreciated by 37.8% since the funds were placed with the State Investment Council in May 2004.

PSIA reports that the fiscal impact is unknown at this point given the lack of comparative information on how a private investment adviser would perform vs. the State Investment Council.

The State Investment Council notes that that for the fiscal year ending June 30, 2006, NMPSIA's fund under the SIC returned 10.1%, outperforming its total fund benchmark by 60 basis points, or 0.6%; the S&P 500 by 150 basis points (1.5%); and a "simple" 60/40 portfolio (60% S&P500 stocks/40% Lehman Aggregate Bond Portfolio) by 530 basis points (5.3%).

NMPSIA's return on a two year annualized return was 10.3% and 1% over its benchmark (9.3%), which reflects the historical asset allocations of the fund.

NMPSIA's Allocations as of 6/30/06:

	Actual	*Long Term Target*
US Equity	61.4%	62%
Non-US Equity	16.7%	13%
Core Bonds	21.9%	25%

NMPSIA's above average performance in FY 2006 is influenced significantly by their investment allocation, which is currently at 78.1% equities, including 16.7% in international markets and 13.4% in mid-cap stocks, both of which over performed during the year; and 48% in the Large Cap Index pool, which slightly underperformed the S&P500. NMPSIA also had 21.9% of its investments in fixed income and the SIC Core Bonds Pool, which while exceeding the negatively performing Lehman Aggregate (-0.8%) by 260 basis points (2.6%), returned a disappointing 1.8% overall.

ADMINISTRATIVE IMPLICATIONS

The SIC also reports that its management costs are currently less than 18 basis points, or .18%. Management fees charged by outside, institutional managers are usually two or three times that amount, depending on the type of investments and size of portfolio. However, it should be noted that outside active managers could also offer a greater variety of investment asset classes, including real estate and/or hedge funds, as well as the ability to shift investment allocations more frequently.

Investment through the State Investment Council involves minimal administrative oversight by PSIA. Enhanced oversight of a private investor would likely be required by PSIA staff and Board. If the Board wished to explore the option of an outside private investment firm, staff would be directed to issue a Request for Proposal, evaluate responses, and implement a contract for a four year maximum term.

DUPLICATES

HB 948

WEP/csd