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FISCAL IMPACT REPORT

ORIGINAL DATE 01/27/17
SPONSOR Ingle **LAST UPDATED** _____ **HB** _____

SHORT TITLE Educational Retirement Board Employee Salary **SB** 29

ANALYST Hanika-Ortiz

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY17	FY18	FY19	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		\$174.0	\$434.0		Recurring	Educational Retirement

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

Responses Received From
 Educational Retirement Board (ERB)

SUMMARY

Synopsis of Bill

Senate Bill 29 (SB 29) amends the Personnel Act, Section 10-9-4 NMSA 1978, to exclude from coverage the ERB chief investment officer (CIO) and those employed in the investment division as portfolio managers, investment analysts or supervisors. The bill also amends Section 10-9-5 NMSA 1978 relating to the exempt salaries plan under the governor’s approval, to exclude the ERB CIO and those employed in the investment division as portfolio managers, investment analysts or supervisors. Finally, the bill amends Section 22-11-7 NMSA 1978 to expand the authority of the director hired by ERB to include hiring and fixing salaries of investment staff.

FISCAL IMPLICATIONS

SB 29 would allow for an increase in the amount ERB spends on salaries and benefits for investment staff since it would allow salaries to be set outside of the classified service salary schedule and governor's exempt salaries plan. If SB 29 is enacted, ERB anticipates increasing salaries such that payroll would increase up to \$174 thousand in FY18, up to \$434 thousand in FY19, and up to \$481 thousand in FY20. Presumably, benefits would add to cost projections.

According to the most recent actuarial valuation, the funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) of the educational retirement trust fund is 64 percent and the unfunded actuarial accrued liability (UAAL), which refers to the excess of the actuarial accrued liability over the actuarial value of assets, is \$6.6 billion. The plan’s funding period is 45 years, which is the period of time required to amortize the UAAL under current assumptions.

SIGNIFICANT ISSUES

ERB reports it oversees the \$11.7 billion pension fund for state educational employees with a total of more than 150,000 members, retirees and beneficiaries with a current benefits payroll of \$974 million. Key to maintaining the viability of the fund is investment returns. Over the last three years, ERB notes that investment staff have created significant cost savings from internal management compared to hiring more expensive external managers. There has also been cost savings from custom-structured co-investment accounts created by ERB investment staff. The savings have come in two forms -- reduced asset management fees and reduced profit sharing.

ERB further reports that it has had difficulty recruiting and retaining competent investment staff due to limitations on salary it could offer. Investment staff, other than the chief investment officer, are covered by the State Personnel Act and must follow the classified service salary schedule set out by the State Personnel Board. ERB further notes it ranks in the bottom quartile for most investment positions when compared with many other public pension funds. The average median salary for investment and executive management staff for 2015 in a public pension fund survey was \$247 thousand while ERB's average salary was \$119 thousand.

Public pension fund compensation surveys do not always include data on fund performance, so it is unknown if the pension systems with the highest salaries saw better fund performance.

PERFORMANCE IMPLICATIONS

The statutory objective of the Legislature enacting the Personnel Act was to establish and create an effective system of state personnel administration. The Personnel Act (10-9-1 NMSA 1978) covers all state positions except: elected officials; members of boards and commissions and heads of agencies appointed by the governor; heads of agencies appointed by boards or commissions; directors of department divisions; those in educational institutions and public schools; those in the governor's office; those in the "state militia" (department of public safety); those in the judicial branch; those in the legislative branch; some temporary employees; those filled by patients or inmates; and certain disadvantaged youth employment opportunities.

The Act provides a classification plan; a pay plan; tests, if applicable, to determine abilities of job applicants; a probation period; employment lists identifying highest standing candidates; hours of work, holiday and leave; dismissal or demotion procedures; and the rejection of applicants who fail to meet reasonable requirements as to training, experience or moral conduct.

ADMINISTRATIVE IMPLICATIONS

Other investment positions at state agencies are not covered by this bill. However, it is likely these state investment agencies will seek similar treatment, if this legislation is successful. In addition, agencies with hard-to-fill positions may request similar treatment for those specialties. Over time, this may undermine existing employee pay plans.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

ERB would continue to partner with SPO and DFA to ensure fair, equitable compensation.