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FISCAL IMPACT REPORT

ORIGINAL DATE 1/27/22

SPONSOR Anderson LAST UPDATED _____ HB 110

SHORT TITLE Judicial Retirement Fund Solvency SB _____

ANALYST Jorgensen

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY22	FY23		
	\$35,000.0	Nonrecurring	Judicial Retirement
	\$10,000.0	Nonrecurring	Magistrate Retirement

(Parenthesis () Indicate Expenditure Decreases)

Duplicates, Relates to, Conflicts with multiple bills. See narrative.

SOURCES OF INFORMATION

LFC Files

Responses Received From

Administrative Office of the Courts (AOC)

Public Employees Retirement Association (PERA)

SUMMARY

Synopsis of Bill

House Bill 110 (HB110) changes the membership of the PERA Board from a 12-member elected board to a 9-member hybrid board with 2-elected members and 7-appointed members. It also removes the Secretary of State and the State Treasurer as ex-officio members.

Under provisions of HB110, members of the PERA Board would include

1. Two retired members who have skill knowledge and experience in financial matters to be elected by retired PERA members;
2. One active member of a municipal general coverage plan where the 1st term is appointed by a largest police labor organization and the 2nd term is appointed by a largest fire labor organization, then it repeats;
3. One active municipal member of a municipal coverage plan who has skill, knowledge and experience in financial matters appointed by New Mexico Municipal League;

4. One active county member of a municipal coverage plan who has skill, knowledge and experience in financial matters appointed by New Mexico Association of Counties;
5. One active member from the state general plan appointed by a largest labor organization;
6. Two active members from the state general plan who have skill, knowledge and experience in financial matters appointed by the New Mexico Legislative Council;
7. One public member who is not a member of any coverage plan who has experience in the financial, actuarial or fiduciary aspects of pension or investment fund management, appointed by the governor.

HB110 includes requirements of skill, knowledge and expertise for the two retired members, two municipal members, two of the state members, and the public member.

HB110 also amends statutes creating the judicial and magistrate retirement funds to allow them to receive direct appropriations and appropriates \$35 million to the judicial retirement fund and \$10 million to the magistrate fund. Both appropriations are from the general fund.

FISCAL IMPLICATIONS

The appropriation of \$45 million (\$35 million for the judicial retirement fund and \$10 million to the magistrate retirement fund) contained in this bill is a nonrecurring expense to the general fund, and appropriated funds do not revert.

While improving the functioning of the governing board may result in improved investment performance, the extent of improved performance is not known and therefore not considered in this analysis.

SIGNIFICANT ISSUES

Over the past several years, multiple PERA board members have been censured for conduct, and board members have referred matters to the attorney general and state auditor for investigation. Despite investigations that ended with no findings of wrongdoing on the part of PERA staff, lawsuits against PERA staff were pursued by outside groups, members of which are represented on the PERA board. Additionally, few members have a strong understanding of either investments or state finances. The board's inability to provide leadership over the past several years resulted in PERA operating without a number of key staff positions, including a chief investment officer, in 2021.

The lack of stability in key investment positions has likely diminished fund returns. In FY21, PERA performed in the bottom quartile for every period when compared with other public funds over \$1 billion (see attachment 1).

The appropriation to the judicial retirement equates to \$106.1 thousand per member and \$57.1 thousand per member for the magistrate fund. As of June 30, 2021, there were 330 active and retired members in the judicial retirement fund and 175 members in the magistrate retirement fund.

According to the 2021 valuations of the PERA plans, the judicial and magistrate retirement plans pay the greatest benefit and are the worst funded of all plans under PERA as shown in the table below:

Comparison of PERA Pension Plans

Plan	Employee Contribution	Employer Contribution	Total Contribution	Service Credit Multiplier	Benefit at 25 Years	Funded Ratio
Judicial Retirement	10.5%	15.0%	25.5%	3.5%	85%	53.3%
Magistrate Retirement	10.5%	15.0%	25.5%	3.5%	85%	54.1%
State General	9.9%	18.2%	28.2%	2.5%	63%	60.6%
State Police/Corrections	9.0%	25.6%	34.6%	3.0%	75%	129.1%
Municipal General	10.0%	13.5%	23.5%	2.5%	63%	78.0%
Municipal Police	17.3%	19.0%	36.3%	3.0%	75%	76.2%
Municipal Fire	17.6%	21.8%	39.4%	3.0%	75%	60.9%

PERA notes that a \$35 million appropriation to the judicial retirement fund would allow the plan to achieve full funding by 2036 and a \$10 million appropriation to the magistrate retirement fund would allow full funding by 2034. As of the 2021 valuation, the judicial retirement fund was not anticipated to reach full funding until 2062 and the magistrate retirement fund will not reach full funding until 2067.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Relates to:

- HB92, magistrate retirement changes (includes \$10 million appropriation);
- HB94, judicial retirement changes (includes \$35 million appropriation);
- HB51, changing the composition of the PERA board;
- SB2, judicial and magistrate retirement changes (includes \$45 million appropriation);
- SB102, changing the composition of the PERA board.

Attachment

1. Investment Performance Quarterly Report, Fourth Quarter, FY21

CJ/al/acv



Investment Performance Quarterly Report, Fourth Quarter, FY21

In FY21, soaring markets resulted in record gains for state investments. Driven by the largest recorded federal stimulus, vaccine distribution, and a reopening world, a resurgent economy buoyed asset values and confidence in the economic outlook. However, the state’s investments performed worse than peer funds over the fiscal year as stability and risk-aversion continue to be sought by investment management.

Investment Performance Highlights

- For fiscal year 2021, the value of New Mexico’s combined investment holdings for the pension and permanent funds grew by \$11.7 billion, or 22.7 percent annually, to an ending balance of \$63.5 billion. Over the last five years, the state’s combined investment holdings grew \$19 billion, or 42.7 percent.
- In a banner year of growth, one-year returns ranged from 22.4 percent (STPF) to 28.8 percent (ERB), and average investment returns over the last 10 years ranged from 7.6 percent (PERA) to 8.6 percent (ERB).
 - Public equities were very strong, driving growth across investments with returns between 35 and 65 percent for the one-year period.
- All funds outperformed their targets for every period, when annualized.¹
- Despite record annual growth in excess of 20 percent, when compared with peer funds greater than \$1 billion on a net-of-fee basis, only ERB performed above the median for all periods, ranking near the top for the quarter. Similarly, PERA’s private equity returns supported top quartile rankings for the quarter, though PERA’s rankings for all other periods remain in the lowest quartile. The STPF performed near or in the lowest quartile for all periods, while the LGPF performed above the median in the quarter and ten-year periods and in the third quartile for all other periods.

THIS REPORT details the comparative investment performance of the three investment agencies: the Educational Retirement Board (ERB), the Public Employees Retirement Association (PERA), and the State Investment Council (SIC), which manages the land grant permanent fund (LGPF) and the severance tax permanent fund (STPF).

Agency performance and market environment information are derived from the investment performance reports submitted by PERA, ERB, and SIC.

Returns as of June 30, 2021 (Net of Fees)¹

Returns (%)	<u>PERA</u>		<u>ERB</u>		<u>LGPF</u>		<u>STPF</u>	
	Fund	Policy Index						
Quarter	6.74	6.54	8.36	4.86	5.43	5.51	5.01	5.00
1-Year	24.02	24.17	28.76	24.26	25.73	25.20	22.35	23.80
3-Year	9.12	9.36	11.01	10.78	10.04	10.27	8.62	9.90
5-Year	9.07	8.98	10.62	10.56	10.28	10.11	9.41	9.95
10-Year	7.62	7.61	8.61	8.27	8.30	8.42	7.70	8.34

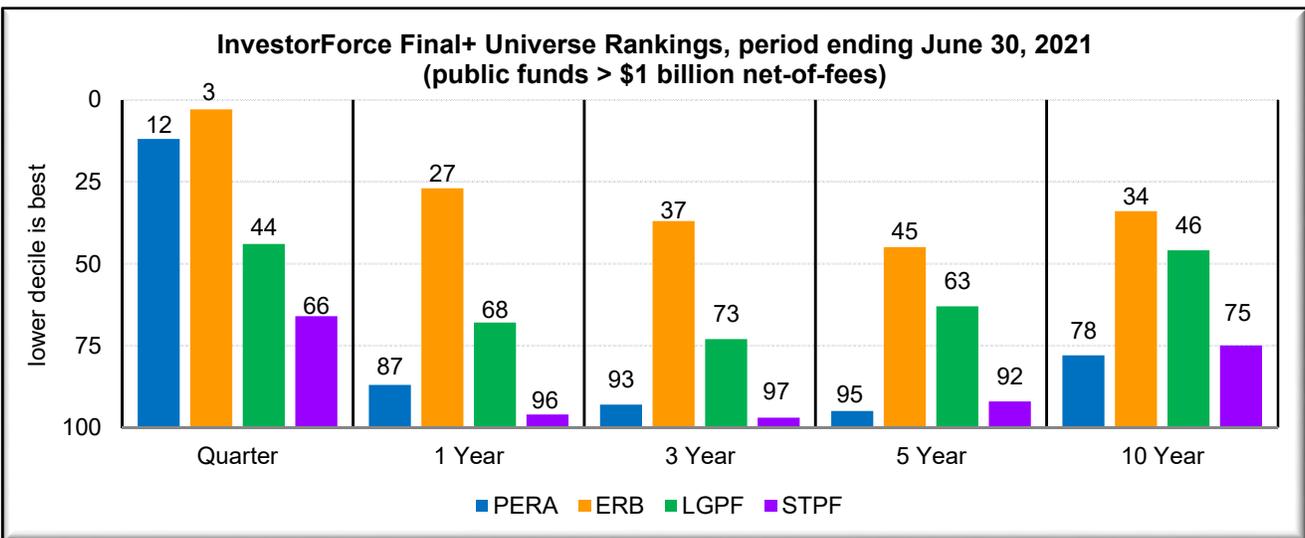
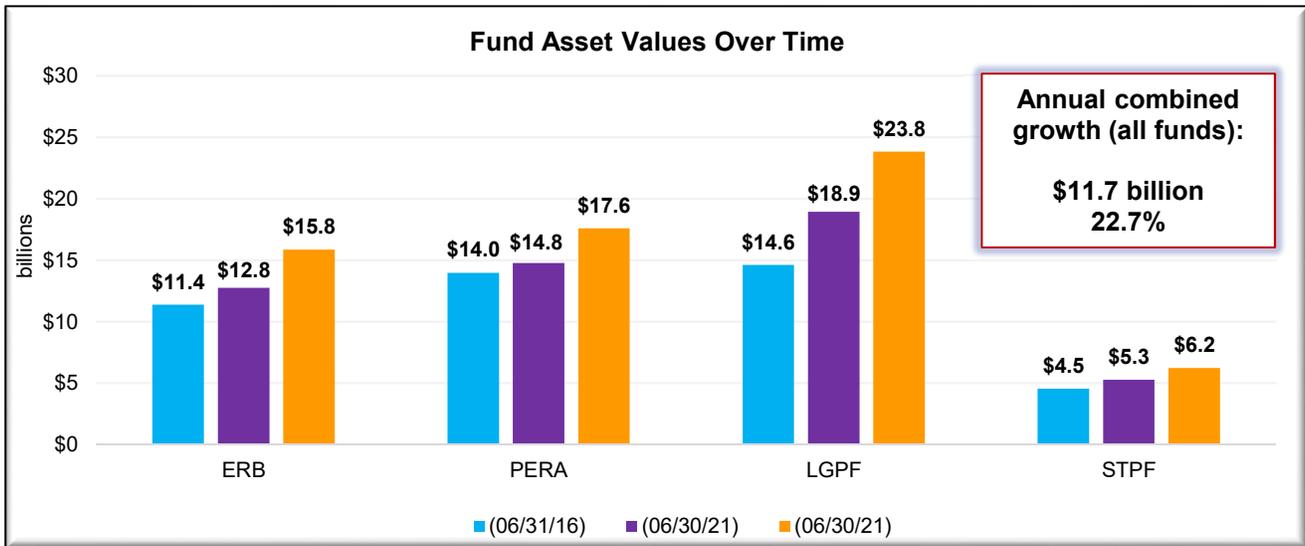
Note: bold indicates returns that exceed the fund’s long-term target. Quarterly data is not annualized.

¹ The funds’ long-term return targets are 7.25 percent (PERA), 7 percent (ERB), 7 percent (LGPF), and 6.75 percent (STPF).

Investment Agency Performance Dashboard

Quarter Ending June 30, 2021

This report detail the comparative investment performance of the three investment agencies: the Educational Retirement Board (ERB), the Public Employees Retirement Association (PERA), and the State Investment Council (SIC) which manages the land grant permanent fund (LGPF) and the severance tax permanent fund (STPF).



Risk Profiles, Five Years Ending 06/30/21, Net of Fees				
Fund	ERB	PERA	LGPF	STPF
Standard Deviation*	6.0	6.6	8.0	7.9
Sharpe Ratio**	1.6	1.2	1.1	1.0
Beta***	0.3	0.4	0.4	0.5

Aggregate Value of New Mexico Investment Holdings
\$63.5 billion

*measures variability from the mean return; higher is more volatile

**higher numbers indicate higher return-to-risk level; a good ratio is 1 or better

***represents the volatility of the portfolio versus the S&P 500. Beta = 1: portfolio moves with the market. Beta < 1: portfolio is less volatile than market. Beta > 1: portfolio is more volatile than the market.

Source: Agency Investment Reports