

MINUTES
of the
THIRD MEETING
of the
INVESTMENTS AND PENSIONS OVERSIGHT COMMITTEE

September 8, 2008
State Capitol, Santa Fe

The third meeting of the Investments and Pensions Oversight Committee for the 2008 interim was called to order by Representative Luciano "Lucky" Varela on Monday, September 8, 2008, at 10:20 a.m. at the State Capitol in Santa Fe.

Present

Sen. Joseph J. Carraro
Rep. Donald E. Bratton
Rep. Larry A. Larrañaga
Sen. Carroll H. Leavell
Sen. Mary Kay Papen
Rep. Henry Kiki Saavedra
Rep. Jim R. Trujillo
Rep. Luciano "Lucky" Varela

Absent

Sen. John Arthur Smith, Chair
Rep. John A. Heaton, Vice Chair
Sen. Phil A. Griego

Advisory Members

Rep. Andrew J. Barreras
Rep. Miguel P. Garcia
Bob Gish, Public Employees Retirement
Association (PERA)
Bob Jacksha, Educational Retirement
Board (ERB)
Adam Levine for Gary Bland, State
Investment Council (SIC)
James Lewis, State Treasurer
Olivia Padilla-Jackson, State Board of
Finance
Rep. John Pena
Rep. Jane E. Powdrell-Culbert

Sen. Pete Campos
Sen. Carlos R. Cisneros
Sen. Stuart Ingle
Rep. Patricia A. Lundstrom
Sen. Leonard Lee Rawson
Sen. Michael S. Sanchez
Rep. Sheryl Williams Stapleton
Sen. H. Diane Snyder
Rep. Eric A. Youngberg

Staff

Doris Faust, Legislative Council Service (LCS)
Jeret Fleetwood, LCS
Cleo Griffith, LCS
Dan White, Legislative Finance Committee (LFC)
Doug Williams, LCS

Guests

The guest list is in the meeting file.

The minutes of the July 1, 2008 meeting were adopted unanimously.

Retiree Health Care Authority (RHCA); Update on Fund Solvency; Board Recommendations to Improve Solvency

—Alfredo Santistevan, Chair, RHCA

—Wayne Propst, Executive Director, RHCA

—Gary Petersen, Segal Company

Mr. Propst provided an overview of the financial condition of the RHCA.

Mr. Petersen reviewed the fiscal year 2010 budget request.

Mr. Santistevan presented the proposed legislative changes approved by the RHCA board.

Senator Leavell expressed concern about the subsidy for retirees with only five years of service. Mr. Propst explained that all of the current beneficiaries have at least 20 years of service.

Representative Larrañaga asked about the impact of migration from the gold to silver plan. Mr. Petersen responded that if all gold plan members switched to the silver plan, solvency would be reduced by approximately 18 months.

Representative Larrañaga asked about investment performance. It was noted that for the year ending June 30, 2008, the RHCA investment return was minus 3.4 percent compared to a benchmark return of minus 5.9 percent. Mr. Santistevan stated that the board is investigating the possibility of contracting with an advisor for guidance on asset allocation. Mr. Levine stated that the SIC makes asset allocation decisions for trust funds, but not for investments managed through a joint powers agreement.

Representative Varela observed that every investment agency hires its own investment advisors and that there should be a consolidation of investment advisor capabilities.

Terry Slattery, executive director, PERA, stated that RHCA benefits from the economy of scale provided by the SIC and has special asset allocation needs because of liquidity considerations.

Representative Larrañaga encouraged the board to seek investment advice from Mr. Slattery, Mr. Bland, Mr. Lewis and others before engaging an outside contractor.

Representative Trujillo asked about retiree premium increases. Mr. Santistevan responded that the board does not intend to change premiums before January 1, 2010.

Representative Trujillo said that some retirees receive a pension calculated under the old two percent plan and should get special consideration with respect to health care premiums. Mr. Slattery stated that there are, indeed, retirees who are receiving 50 percent of their salary after 25 years of service; however, they have been receiving annual cost-of-living increases.

Representative Varela stated that the fiscal year 2009 budget includes funding for an increase in the employee's share of RHCA contributions; however, the failure of the RHCA bill to pass leaves the additional agency appropriations in limbo.

Representative Varela questioned why an agency of 22 has five exempt positions.

RHCA; Governance; Composition of the Board

—Alfredo Santistevan, Chair, RHCA

Mr. Propst reviewed the changes to the board that had been proposed by the legislature during the regular 2008 session. Mr. Santistevan noted that there is a requirement in law that board members must represent organizations that are participants in the RHCA benefit plan.

Representative Varela suggested that perhaps a change in law is needed.

Volunteer Firefighter Retirement

—John Standifore, State Fire Marshal

Mr. Standifore explained the process by which volunteer firefighter service is reported to PERA.

The volunteer firefighters are proposing a change to the requirements that qualify for a year of creditable service. Also, they are proposing legislation that would allow PERA to remove inactive names to an inactive database that would allow the actuaries to exclude the inactive firefighters from their projections.

Mr. Slattery stated that PERA has been cleaning its database and the number of volunteer firefighters has been reduced from 16,000 to 6,000. There are currently 338 retired volunteer firefighters.

Senator Leavell noted that volunteer firefighters are important because New Mexico is a rural state.

New Mexico Bond Rating

—Olivia Padilla-Jackson, Director, State Board of Finance

Ms. Padilla-Jackson presented an overview of New Mexico's credit rating. She noted that rating agencies would prefer to see reserve requirements established in law; however, the current reserves are approximately 10 percent of recurring expenditures, which is double that of most states.

Representative Varela noted that, unlike the budget process, there is no statutory process for capital planning. Most other states do have a capital planning process and the LFC has been asked to recommend a process.

Senator Carraro observed that the capital process is haphazard, and the rating agencies are judging the state because of the absence of a priority planning process for capital outlay.

Representative Larrañaga asked about an impact on bond rating from transportation bonds. Ms. Padilla-Jackson stated that the bond rating is only impacted by debt that affects the general fund. Transportation bonds are special obligation bonds financed from a dedicated source.

Representative Varela requested that the New Mexico Finance Authority testify regarding the issuance of GRIP bonds.

Ms. Padilla-Jackson observed that only eight other states have an AA+ bond rating and only nine states have a better (AAA) rating.

Investment Performance for Fiscal Year 2008

- Adam Levine, SIC
- Bob Gish, PERA
- Bob Jacksha, ERB

Mr. Levine made a presentation of the SIC investment performance for fiscal year 2008.

In total, SIC lost \$629.5 million; however, assets increased from \$15.1 billion to \$15.4 billion due to contributions.

Senator Carraro asked why the internal staff money managers are outperforming the external managers. Mr. Levine responded that the staff managers are focused and motivated.

Mr. Gish presented an overview of PERA investment performance for fiscal year 2008. In total, PERA lost 7.4 percent of its assets while the benchmark was minus 4.06 percent. Thus, PERA's actual performance was 3.34 percent worse than the benchmark.

Mr. Jacksha presented an overview of ERB fiscal year 2008 investment performance. In total, ERB lost \$575.1 million.

The committee voted to meet on November 5, 2008 in Santa Fe in lieu of the August meeting that was canceled. The committee adjourned at 4:30 p.m.