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FISCAL IMPACT REPORT

SPONSOR: Romero DATE TYPED: 02/28/03 HB

SHORT TITLE: State Retirement Trust Fund Investments SB 831

ANALYST: Gilbert

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	FY04			
	\$0.1 See Narrative	\$0.1 See Narrative	Recurring	PERA Funds

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Response Received From
Public Employees Retirement Association (PERA)

SUMMARY

Synopsis of Bill

Senate Bill 831 amends the PERA Act, NMSA 1978, § 10-11-132 and § 10-11-133, to allow the Public Employees Retirement Association (PERA) to make futures and options investments on domestic equity indices for the purpose of managing portfolio risk. Currently, PERA is statutorily limited to futures and options investments associated with international investments.

This bill also grants PERA new authority to invest in below investment grade fixed-income instruments, provided such securities shall have a minimum credit rating of B according to the Standard and Poor's rating system or B according to the Moody's investors rating system, or their equivalents. No more than ten percent of the funds for which the retirement board is trustee shall be invested in debt obligations of corporations with a credit rating less than BBB according to the Standard and Poor's rating system or Baa according to the Moody's investors rating system, or their equivalents. Currently, PERA is statutorily limited to the investment grade bond market.

Significant Issues

Futures would be permitted only if the underlying security is permissible under PERA's current investment authority.

FISCAL IMPLICATIONS

PERA believes the investment flexibility granted by this bill would enable them to enhance returns on PERA's portfolios, while reducing overall risk.

ADMINISTRATIVE IMPLICATIONS

PERA will be required to amend its investment plan to incorporate guidelines for the new categories of permissible investments.

OTHER SUBSTANTIVE ISSUES

Derivatives are contractual relationships established by two (or more) parties where payment is based (or "derived" from) some agreed-upon benchmark, thereby shifting the risk of a fluctuating exchange rate. A derivative is a type of securities whose value depends on the value of underlying assets. This bill would enable PERA to have a larger choice in the selection of enhanced index investment managers and facilitate the management of indexed portfolios. PERA's position is that when used correctly, futures contracts provide the same risk and return exposure as holding the underlying securities themselves.

The purpose of allowing PERA to invest in below investment grade fixed-income instruments is to increase PERA's diversification in fixed-income investments and to seek enhanced investment returns by utilizing the high yields offered in the below investment grade bond market. Active fund management will allow PERA to increase total returns in a historically low interest rate environment, and to improve the cash flow from investments back to the fund.

The State Investment Council was granted authority to invest in high yield debt in 2001.

RLG/yr