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## FISCAL IMPACT REPORT

ORIGINAL DATE 02/01/06

SPONSOR Varela LAST UPDATED \_\_\_\_\_ HB 590

SHORT TITLE Public School Insurance Fund Investments SB \_\_\_\_\_

ANALYST Geisler

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
	NFI.			

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

New Mexico Public Schools Insurance Authority (PSIA)  
State Investment Council (SIC)

### SUMMARY

#### Synopsis of Bill

House Bill 590 expands the Public School Insurance Authority's investment options with respect to long-term reserves. This bill would allow the PSIA Board to invest PSIA's long-term reserves with either the state investment officer or with a registered investment adviser. Currently, long-term reserves must be invested with the state investment officer.

### FISCAL IMPLICATIONS

No fiscal impact identified.

### SIGNIFICANT ISSUES

PSIA notes that their long-term reserves are those monies needed to cover outstanding claims. In the benefits program, these reserves are commonly referred to as "IBNR" (incurred but not reported). 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 determine 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, 2005, PSIA has \$30 million in long-term reserves invested with the state investment officer. The investment portfolio has appreciated by 19.9% since the funds were placed with the state investment officer in May 2004.

SIC reports that for the fiscal year ending June 30, 2005, PSIA's fund under the SIC returned 10.4%, outperforming its total fund benchmark\* by 120 basis points or 1.2%, and the S&P 500 by 410 basis points or 4.1%.

PSIA's asset allocation as of the end of FY05 was:

US Equity	61.8%
Non-US Equity	14.6%
Core Bonds	23.6%

PSIA's above average performance was influenced significantly in FY05 by its portfolio allocations in Non-US (14.6%) & Mid/Small Cap US Equities (13.1%).

\* Total Fund Benchmark reflects the historical target asset allocation of the fund.

## **ADMINISTRATIVE IMPLICATIONS**

SIC states that PSIA's investment or lack thereof has minimal administrative impact on the SIC.

PSIA notes that investment through the state investment officer involves very little administrative oversight. It is likely more intense oversight would be required by staff if a private firm were utilized. 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. This would create a significant increase in workload for staff.

## **WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

The long term investments will continue to be managed by the state investment officer.

GG/mt