

Task Force Report on the Future Structure and Governance of the Iowa Public Employees Retirement System

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This report is the work product of the Task Force on IPERS Structure and Governance. A companion report to this document, the final report of the Task Force's expert consultant, Independent Fiduciary Services, Inc., can be obtained from Iowa Department of Personnel or by visiting the Task Force web site at <http://www.state.ia.us/government/idop/taskforcehome.htm>

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Introduction

Many questions have been asked about the Iowa Public Employees Retirement System (IPERS) since the Task Force on IPERS Structure and Governance convened in April, 2000. IPERS' system of structure and governance, national trends in management of public pension funds, legal definitions of fiduciary responsibilities, politics and the options for change have been the subject of extensive study and debate.

Indeed, it is possible that the only question not yet asked is, "Is the Iowa Public Employees Retirement System (IPERS) a significant resource?" The answer is, of course, an unequivocal "Yes." However, that answer alone fails to convey just how significant a resource IPERS is.

Valued at more than \$17 billion as of June 30, 2000, IPERS assets easily overshadow the \$4.9 billion budget for the State of Iowa. Both employees and employers make payments to IPERS. More than 300,000 current and retired public employees—one out of ten Iowans—is an IPERS member who expects IPERS to be a source of retirement income. Some 2,400 public employers representing a range of public entities are also IPERS members: based on percentages of the fund's assets, these members include 40 percent school employee members, 16 percent county employees, 16 percent state, 14 city, and 5 other groups.

Given that significance, Iowans are especially fortunate that IPERS does its job so well. IPERS' investment performance—13.1 percent for the fiscal year ended June 30, 2000, and 12.7 percent annually for the 10-year period ending on that date—places it in the top 20 percent of all public pension funds nationally.

On the benefits side, member surveys indicate that its members are pleased with their benefits and the services they receive. Indeed, IPERS provides much service: In 2000, IPERS sent monthly payments to more than 57,000 members. IPERS benefits staff prepared more than 57,000 benefit estimates, fielded some 89,000 phone calls, and provided pre-retirement counseling to 7,800 members.

IPERS results are excellent. Nevertheless, the System approaches its fiftieth anniversary¹ challenged to resolve a range of complicated mid-life structure and governance questions. Some stakeholders believe an autonomous Board of Trustees, positioned beyond the control of state government, should manage IPERS. They question IPERS' placement within the Iowa Department of Personnel (IDOP) and the fact that the IDOP director balances IPERS

¹IPERS was established by the Iowa General Assembly on July 4, 1953, to replace the Iowa Old-Age and Survivor's Insurance System (IOASI). At that time, all public employees who had contributed to IOASI were given the option to transfer their contributions to IPERS for prior service credit in IPERS at that time and the Iowa General Assembly included Iowa public employees in the federal Social Security plan retroactive to 1951.

management duties with other human resource-related responsibilities. Others say the IPERS Constituent Group, a benefits advisory group with no statutory recognition, merits codification to strengthen its role as a valuable information funnel from IPERS member employees and employers to the Iowa General Assembly.

These are but a few of the issues and questions offered to the Task Force during the past nine months as they heard more than two dozen presentations, questioned the experts, and explored the alternatives with each other and members of the stakeholder groups they represent. As they listened, members have been mindful of the guidance in Governor Tom Vilsack's charge to the group:

1. Through fair and honest debate, determine the manner of structure and governance that best balances sometimes-competing stakeholder interests and objectives;
2. Research, analyze and eventually recommend changes that will improve IPERS' ability to serve all its customers;
3. Reach consensus and suggest changes that can improve IPERS' effectiveness and efficiency, finding solutions acceptable to everyone through collaboration.

The Task Force presents its response to Governor Vilsack's charge in this report, with recommendations on ten structure/governance issues unanimously approved by the Task Force on December 13, 2000. The Task Force shares these recommendations with the knowledge that any changes in IPERS will be evolutionary, requiring considerable additional effort on the part of the Governor and the Iowa General Assembly.

Task Force members have found their work stimulating and appreciate the opportunity to have been of service. They encourage those who address the next stages of decisionmaking to fully respect IPERS' value as a significant resource.

Task Force on IPERS Structure and Governance

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Executive Summary

The Task Force on IPERS Structure and Governance stated its mission in these terms: To study the organizational structure and governance of IPERS, then recommend to the Governor those System changes which would make IPERS more effective, efficient, and responsive to its members and stakeholders. The Task Force work plan defined orientation, research, analysis, and deliberation steps necessary to achieve that mission.

Orientation

Orientation of the Task Force to IPERS' role, operation, structure and governance was an essential educational step for the fourteen Task Force members whose understanding of IPERS began at disparate levels. Accordingly, IPERS and IDOP staff and consultants, the Treasurer of State, the Deputy Auditor of State, and members of the Legislature, IPERS Investment Board, and IPERS Constituent Group made informative presentations² at the first three Task Force meetings and provided additional insight as the Task Force's work progressed.

Research and Analysis

Task Force members agreed it was important to understand the structure and governance of other public employee retirement systems (PERS) around the United States, and to be aware of pertinent legal requirements and trends. The complexity of these topics strongly suggested the need to retain the services of an expert consultant.

Toward that goal, the Task Force issued a Request for Proposals through and with the assistance of IDOP and IPERS staff. The process concluded with Task Force approval to hire Independent Fiduciary Services, Inc. (IFS), a respected independent consultant organization based in Washington, DC whose expertise in investment and fiduciary decisionmaking management proved very helpful.

IFS received a two-stage request for assistance. The first stage assignment was to design, implement and report on results of a national survey of PERS. Accordingly, IFS mailed a lengthy questionnaire targeted at collecting information on PERS structure, governance and results to 80 organizations; almost 50 responses were returned. Results of the survey provided a useful tool for comparing IPERS with other PERS nationally³.

The second stage of IFS work was to interview IPERS stakeholders, and then incorporate their analysis of all the information gathered into recommendations for changes to IPERS structure and governance. During this time, the IFS team also analyzed relevant sections of Iowa Code and key documents in order to evaluate IPERS law and policy. The second stage culminated with IFS participation in the Task Force's September and October meetings where findings, analysis, and recommendations were presented.

² See Appendix for listing of Task Force presenters.

³ Data is included in the IFS Final Report. See title page.

Deliberation

Informal deliberation among the Task Force and other stakeholders was a hallmark of its work process. As the orientation and research phases progressed, it became clear that there were, literally, hundreds of questions the Task Force could choose to answer. Defining a manageable number of questions early in the process was essential to plan adequate relevant discussion prior to finalization of recommendations.

A list of defining “key questions⁴” was developed and reviewed by the Task Force, as a tool to help focus deliberation and coordinate IFS work with Task Force needs. As expected, IFS refined those key questions into two issue categories. The primary issues, retitled Key Principles, were primarily comprised of cornerstone legal concepts, many of which are described in detail in UMPERSA⁵. The Task Force did not vote to affirm these principles, but used them as guidelines for further action. Rephrased in the affirmative, the principles are:

- IPERS assets are to be held in trust;
- The System’s assets and administration are for the “exclusive purpose of paying members and beneficiaries benefits and defraying administrative expenses”—the “exclusive benefit rule;”
- Management of assets and administration of IPERS should be insulated from personal and political influences, which may compromise adherence to the exclusive benefit rule;
- Various levels of government have a significant, legitimate interest in prudent management and expenditure of system assets (alignment of interests);
- Effective and efficient systems operation (especially regarding investments) warrants or requires greater flexibility in budget, staffing, and procurement than most other governmentally-related operations;
- The system’s structure and governance facilitates attracting and retaining capable public employees and providing them decent retirement income security.

IFS restyled other Key Questions into a second section of relevant issues titled Key Features, the basic structure and governance choices and alternatives for a pension system:

- What should IPERS’ external structure be? Within vs. outside state government, level of autonomy, placement of fiduciary responsibility, and placement of management oversight.

⁴ See Appendix for the Task Force’s Key Questions.

⁵ The Uniform Management of Public Employees Retirement System Act (1997) was drafted by the National Conference of Commissioners on Uniform State Laws to bring state pension systems into compliance with modern investment practices, following in part the Employee Retirement Income Security Act of 1974 as amended and in part the Uniform Prudent Investor Act. See the Appendix of this document for information about where to find UMPERSA on the Internet.

- What should IPERS' internal structure be? Single administrator, administrator's appointing authority, accountability, and placement of duties and responsibilities.
- What form of governance should exist? Sole trustee, board of trustees, or non-board management entity.
- Should a Board be established? Composition, duties and responsibilities, committee structure and authority, and indemnification.

Defining the issues and degree of depth at which Task Force members would vote was a challenge. Members wanted to make meaningful recommendations that reflected consensus, but the list of potential questions was cumbersome at best. There was also respect for the fact that Task Force recommendations would be but a first step in a long evolutionary process.

At their final scheduled meeting on November 30, 2000, Task Force members received a summary outlining four different structure and governance options. Two of the four options were IFS's primary and alternative recommendations; two additional options—one for the status quo (no change at all) and one accomplishing some basic "clean-up" changes—were added. The summary described each option, the changes that would be required to adopt it, rough cost estimates for implementation, and pros and cons.

Members discussed each option and developed two additional hybrids thought to improve upon some features of the original four choices. The debate concluded with a unanimous Task Force vote to approve a hybrid structure and governance option. A brief review of the recommendations follows, with further explanation in the next section of this report.

- (1) **Level of IPERS Independence** IPERS should remain within IDOP, where it is currently located. Future interaction between IDOP and IPERS must be clearly defined to assure a productive working relationship between the entities.
- (2) **Assignment of Decisionmaking Authority for IPERS** The position and role of IPERS executive director should be established, appointed by the Governor and approved by the Iowa Senate. Specific and detailed job qualifications should be defined to assure that the individual selected has the qualifications and experience to successfully perform the job responsibilities. The executive director should have full responsibility for all areas of IPERS: benefits services, administration and investments. Shared resources and/or management responsibilities between IDOP and IPERS will be defined in an annual letter of agreement.
- (3) **Role of the IPERS Investment Board** The IPERS Investment Board should continue to exist. Current Board practice should be codified and increased to include, at a minimum, approval of the actuary and all pertinent actuarial assumptions. Division of responsibilities between the new Board and the IPERS Executive Director should be clarified. All members of the Investment Board are to be voting members, and all are to be trustees. Membership is to include at least three individuals nominated by IPERS

constituent groups and appointed by the Governor; a senator and representative from the Iowa General Assembly; the Treasurer of Iowa; and three public members, each of whom is to have substantial institutional investment and/or financial experience. Investment Board members should be protected by significant bond from liability for losses resulting from breaches of fiduciary duty except in cases where the breach involves malicious or wanton misconduct.

- (4) **Role of the IPERS Constituent Group** The current IPERS Constituent Group will be codified as the IPERS Benefits Advisory Committee (BAC), to consist of both employees and employers with no set maximum number of members. The BAC will select nine voting members: Four representatives of employees from its membership, four representatives of employers from its membership, and one public member elected by vote of the other eight members. The new group is to be non-fiduciary, and is to be responsible for advising IDOP on benefits policy formulation. It also has the right to meet periodically, request staff support services, and contact the legislature.
- (5) **Role of the Governor of Iowa** The Governor shall have responsibility for appointing the IPERS Executive Director and members of the Investment Board, and shall be a fiduciary.
- (6) **Role of the Treasurer of Iowa** The Treasurer should continue to serve as IPERS custodian. He should be an *ex officio* member of the Investment Board, therefore a trustee and a fiduciary.
- (7) **Role of the Director of the Iowa Department of Personnel** The IDOP Director shall relinquish responsibility to direct IPERS, focusing on human resources management; and, with regard to IPERS, co-management of shared resources with the IPERS Executive Director, and representation of the state's role as an employer. The IDOP Director shall not be an *ex officio* member of the Investment Board.
- (8) **Role of the Iowa General Assembly** The Senate of the Iowa General Assembly will have the increased responsibility of approving the governor's appointment of the IPERS Executive Director as well as the persons recommended by the governor for appointment to the Investment board.
- (9) **Assignment of Fiduciaries Duties for IPERS** IPERS fiduciaries should include the Governor, the IPERS executive director, the Investment Board, and staff positions as designated in accordance with their IPERS responsibilities.
- (10) **Assignment of Responsibility for Required Statutory Changes** Changes should be made in Iowa Code sections as necessary to incorporate changes in IPERS structure and governance recommended by the Task force, to eliminate existing ambiguities and to synchronize law and practice. The Task Force refers definition of these areas to the expertise of the Legislative Service Bureau.

Cost of Change

The Task Force considered cost issues important but less pressing than the opportunity to make the best decisions for the IPERS system. It received and reviewed preliminary cost estimates for the changes proposed in this report. By definition, the process by which IPERS staff generated their estimates specifically excluded management decisions regarding changes in the reallocation of management staffing costs currently shared between IDOP and IPERS.

The preliminary cost estimate for elements of the hybrid option recommended by the Task Force includes:

COMPONENT	VALUE
Executive Director and Assistant	\$168,000
Constituent Group Support	\$25,000
Estimated Total, Annual Expenses	\$201,000
Computer and Furniture Expenses for Executive Director and Assistant	\$8,000
Estimated Total, One-Time Expenses	\$8,000

Conclusion

The last meeting of the Task Force was held on December 13, 2000, via the Iowa Communications Network. The purpose of the meeting was to provide a forum for members to discuss the first draft of their report and refine their recommendations. A small number of modifications were suggested and incorporated into the report, which was forwarded to members in January, 2001 for their final approval.

Task Force Recommendations

The structure and governance design recommended by the Task Force addresses ten basic issues:

1. The level of IPERS independence;
2. Assignment of IPERS decisionmaking authority;
3. Role of the IPERS Investment Board;
4. Role of the IPERS Constituent Group;
5. Role of the Governor of Iowa;
6. Role of the Treasurer of Iowa;
7. Role of the Director of the Iowa Department of Personnel;
8. Role of the Iowa General Assembly;
9. Assignment of fiduciary duties for IPERS;
10. Assignment of responsibility for statutory changes necessary to accomplish Task Force recommendations.

Each issue is explained in detail in the next section of this report. Included with each is a definition of the topic, generally as provided in the IFS Report to the Task Force; a description of the IPERS status quo according to Iowa Code; a recap of relevant considerations raised regarding the issue; and the IFS recommendation on that topic.

Level of IPERS Independence

Recommendation 1: IPERS should remain within IDOP where it is currently located. Future interaction between IDOP and IPERS must be clearly defined to assure a productive working relationship between the entities.

Independence may be defined as the extent to which a pension system is authorized to (1) establish its budget and spend money; (2) select the actuary and set actuarial assumptions; and (3) hire, evaluate and terminate staff. Independence is often measured by the ability of trustees to perform their duties without pressure, actual or implicit, from others with competing interests.

Iowa Code Chapter 19A.1 (2) (c) states that IPERS is “maintained as [a] distinct and independent system within the [D]epartment [of Personnel].” Furthermore, the director of IDOP “shall plan, direct, coordinate and execute the powers, duties and functions of the department” (Chapter 19A.1A (2)). However, Chapter 97B.4 requires the department to administer this chapter “through the chief investment officer and chief benefits officer.”

Considerations raised in Task Force discussion include the concern that the current structure makes it difficult for IPERS fiduciaries, especially IPERS management, to make and implement decisions solely for the benefit of beneficiaries of the Trust Fund. Data collected by the IFS survey shows a growing trend toward PERS oversight by Boards of Trustees. Proponents of the Trustees governance design were unsuccessful in convincing others the status quo structure required a major change.

The IFS Recommendations in preference order were:

1. IPERS should be positioned outside IDOP as an “independent agency” pursuant to Chapter 7E.4 (10) or as some other form of independent entity; or
2. Alternatively, responsibility for benefits services and administration should remain within IDOP. In this case, appoint an autonomous Investment Board with greater authority than the current board.

Assignment of IPERS Decisionmaking Authority

Recommendation 2: The position and role of IPERS executive director should be established, appointed by the Governor and approved by the Iowa Senate. Specific and detailed job qualifications should be defined to assure that the individual selected has the qualifications and experience to successfully perform the job responsibilities. The executive director should have full responsibility for all areas of IPERS: benefits services, administration and investments. Shared resources and/or management responsibilities between IDOP and IPERS will be defined in an annual letter of agreement.

Decisionmaking authority may be defined as the degree to which an individual or entity has ultimate authority over investments, benefits services, operations and administration. It is often measured by the ability of the decisionmaking individual or entity to perform assigned duties without pressure, actual or implicit, from others with competing interests.

Iowa Code Chapter 19A.1A (2): The IDOP director is authorized to plan, direct, coordinate and execute IPERS powers, duties and functions. **Chapter 97B.4:** IDOP is to administer this chapter through the chief investment officer (CIO) and chief benefits officer (CBO).

Considerations raised in Task Force discussion include the concerns that the current management structure specifies oversight by the Director of IDOP, who has responsibility for other program areas that do not directly pertain to IPERS. Reporting to the IDOP Director are four unit managers, a structure that is unwieldy.

The suggestion of an autonomous Board of Trustees generated considerable discussion. IFS survey data indicated that 47 of 50 respondent PERS had boards of trustees. However, it was determined that the addition of an IPERS executive director would smooth management difficulties and provide an adequate level of autonomy for sound fiduciary decisionmaking.

The IFS Recommendations in preference order were:

1. A Board of Trustees should be established to be responsible for general administration, benefits services and investments; established outside IDOP as an “independent agency;”
or
2. Alternatively, establish a full-time Executive Director appointed directly by the Governor or indirectly through the IDOP Director, with responsibility for benefits services and administration within IDOP, and establish an autonomous Investment Board to manage the IPERS investment program.

The IPERS Investment Board

Recommendation 3: The IPERS Investment Board should continue to exist. Current Board practice should be codified and increased to include, at a minimum, approval of the actuary and all pertinent actuarial assumptions. Division of responsibilities between the new Board and the IPERS Executive Director should be clarified. All members of the Investment Board are to be voting members, and all are to be trustees. Membership is to include at least three individuals nominated by IPERS constituent groups and appointed by the Governor; a senator and representative from the Iowa General Assembly; the Treasurer of Iowa; and three public members, each of whom is to have substantial institutional investment and/or financial experience. Investment Board members are to be protected by significant bond from liability for losses resulting from breaches of fiduciary duty except in cases where the breach involves malicious or wanton misconduct.

A typical role of a PERS investment board may include authority over selection of investment managers, establishing brokerage practices, selecting and monitoring the custody bank, and establishing risk controls.

Iowa Code Chapter 19A.1. (3) (b): The current IPERS Investment Board is considered part of IDOP. The statute grants very little investment authority. Additional functions have been added over time by voluntary agreement or accommodation of IDOP but are not reflected in the Iowa Code.

Considerations included the fact that current statutory responsibilities and practice of the IPERS Investment Board are considerably less significant than those typically assigned to such a board. Proponents for the status quo argued that change could degrade the current Board's good operating results, and that drastic change was not necessary.

There was concern about being able to find willing, knowledgeable members for a board with a significantly higher time requirement than currently required.

The IFS Recommendations in preference order were:

1. The autonomous Board of Trustees should oversee investment management functions, making relevant decisions or assigning them to either an investment committee or staff; or
2. An autonomous Investment Board should manage the investment program with greater responsibility and authority than the current Board: oversight of the CIO, investment policy, asset allocation, investment managers, investment performance, and service providers.

Role of the IPERS Benefits Advisory Committee

Recommendation 4: The current IPERS Constituent Group will be codified as the IPERS Benefits Advisory Committee (BAC), to consist of both employees and employers with no set maximum number of members. The BAC will select nine voting members: Four representatives of employees from its membership, four representatives of employers from its membership, and one public member elected by vote of the other eight members. The new group is to be non-fiduciary, and is to be responsible for advising IDOP on benefits policy formulation. It also has the right to meet periodically, request staff support services, and contact the legislature.

The typical role of a PERS constituent group is to provide a coordinated submission of plan design/benefits requests to a state's legislative body on behalf of employees and employers.

Iowa Code currently provides no statutory recognition of the IPERS Constituent Group.

Considerations raised in Task Force discussion included agreement that this group has served a valuable purpose, and that statutory definition should assure its role and potentially facilitate structure and functional improvements.

The IFS Recommendations in preference order were:

1. The Board of Trustees should define any role for the Constituent Group; or
2. Formalize the current Constituent Group as a Benefits Advisory Committee, codifying its responsibility for advising IDOP on benefits policy formulation, its right to periodic meetings and contact with the legislature.

Role of the Governor of Iowa

Recommendation 5: The Governor shall have responsibility for appointing the IPERS Executive Director and members of the Investment Board, and shall be a fiduciary.

There is no single definition for the role of a state governor in a PERS.

Iowa Code currently assigns no role to the Governor of Iowa

Considerations raised include the need to assign a formal role to the Governor that reflected his responsibility for appointing the Executive Director and Investment Board members.

The IFS Recommendations, in preference order, suggested the Treasurer:

1. Serve as a member of the Board of Trustees; or
2. Serve as a member of the IPERS Investment Board.

Role of the Treasurer of Iowa

Recommendation 6: The Treasurer should continue to serve as IPERS custodian. He should be an *ex officio* member of the Investment Board, therefore a trustee and a fiduciary.

There is no single definition for the role of a state treasurer in a PERS.

Iowa Code currently identifies the Treasurer as IPERS custodian and sole trustee for IPERS. In practice, the office's responsibilities are considerably smaller.

Considerations raised include the concern that unclear definition of the Treasurer's role creates the potential for undue exposure to liability. The meaning and clarity of provisions spelling out the relationship between the Treasurer, IPERS and IDOP are considered confusing by some.

The IFS Recommendations, in preference order, suggested that the Governor:

1. Be represented on the Investment Board and/or make appointments to the Investment Board from a pool of nominees;
2. Appoint the IPERS Executive Director and/or make appointments to the Investment Board from a pool of nominees.

Role of the Director of the Iowa Department of Personnel

Recommendation 7: The IDOP Director shall relinquish responsibility to direct IPERS, focusing on human resources management; and, with regard to IPERS, co-management of shared resources with the IPERS Executive Director and representation of the state's role as an employer. The IDOP Director shall not be an *ex officio* member of the Investment Board.

There is no single definition for the role of the director of a department of personnel in a PERS.

Iowa Code currently defines the Director's role in Chapter 19A.1(2) (c) to "plan, direct, coordinate and execute the powers, duties and functions of the department." Chapter 97B.4 requires the department [of personnel] to administer Chapter 19A.1(2) (c) "through the chief investment officer and chief benefits officer."

Considerations raised include the concern that the IDOP Director has an extensive range of responsibilities that create time constraints on attention to IPERS and pose the risk of conflict with the Director's fiduciary responsibilities to IPERS. IPERS' current structure with four unit manager positions is unwieldy to manage.

The IFS Recommendations, in preference order, suggested the IDOP Director:

1. Have no formal role; or
2. Appoint and supervise the IPERS Executive Director.

Role of the Iowa General Assembly

Recommendation 8: The Senate of the Iowa General Assembly will have the increased responsibility of approving the governor's appointment of the IPERS Executive Director as well as the persons recommended by the governor for appointment to the Investment board.

There is no single definition of the role of a legislature in a state PERS. Legislatures may be responsible for some oversight, a balancing role. They may also have members on its board.

Iowa Code currently provides a standing appropriation for all IPERS funding. Code authorizes the Iowa General Assembly to set the contribution rate, approve plan design, and approve appropriation of some IPERS funds for IPERS expenses.

Considerations raised include the fact that the Iowa General Assembly is satisfied with its current responsibility to set IPERS benefits, and appears unlikely to relinquish it.

The IFS Recommendations, in preference order, were:

1. No legislative role was described.
2. For checks and balances purposes, the Legislature should conduct periodic "performance audits" of risk controls, due diligence practice, investment procedures, etc.

Assignment of IPERS Fiduciary Duties

Recommendation 9: IPERS fiduciaries should include the Governor, the IPERS executive director, the Investment Board, and staff positions as designated in accordance with their IPERS responsibilities.

A useful definition of fiduciary⁶ is: “a person who exercises any discretionary authority to manage a retirement system; exercises any authority to invest or manage assets of a system; provides investment advice for a fee or other direct or indirect compensation with respect to assets of a system or has any authority or responsibility to do so; or a trustee or member of a board of trustees.”

Iowa Code Chapters 97B identifies current fiduciaries as (1) the Department of Personnel, (2) the Treasurer, (3) the Investment Board, and (4) selected investment advisors and managers.

Considerations raised include the concern that some perceive the current assignment of specific fiduciary responsibilities to be unclear. IFS also voiced concern that IPERS fiduciaries are not personally liable for losses resulting from their breaches of duty unless they involve “malicious or wanton misconduct...” (Chapter 97B.4). Iowa Code does not currently specify fiduciary responsibility for staff positions.

The IFS Recommendations define fiduciary duties but not specific fiduciaries. Fiduciary duty assignments are, in preference order, were to:

1. Board of Trustees; or
2. Board of Investment members and the Executive Director.

⁶ The Uniform Management of Public Employees Retirement System Act (1997) was drafted by the National Conference of Commissioners on Uniform State Laws to bring state pension systems into compliance with modern investment practices, following in part the Employee Retirement Income Security Act of 1974 as amended and in part the Uniform Prudent Investor Act. See the Appendix of this document for information about where to find UMPERSA on the Internet.

Required Statutory Changes

Recommendation 10: Changes should be made in Iowa Code sections as necessary to incorporate changes in IPERS structure and governance recommended by the Task force, to eliminate existing ambiguities and to synchronize law and practice. The Task Force refers definition of these areas to the expertise of the Legislative Service Bureau.

There is no single rule for making statutory changes in Iowa Code.

Iowa Code currently does not reference responsibility for statutory revisions.

Considerations raised include concern that redrafting reflect the Task Force's recommended changes and clarify many disparities between the Code and current IPERS practice.

The IFS Report made no recommendations in this regard.

Task Force Collaboration with IFS

IFS's expert resources added a valuable dimension of knowledge to the Task Force's study. The IFS team's national-scope experience and analytic capability undoubtedly helped get the essential issues articulated during a very short time frame. Their perspective reinforced the framework of Task Force efforts with professional objectivity.

IFS's analysis and formal recommendations regarding relevant IPERS issues are detailed in its final report. Their conclusions reflect two basic themes regarding structure and governance in general and IPERS structure and governance in particular:

- Management of a PERS by an autonomous Board of Trustees, the prevalent organizational structure for PERS nationally, is the most workable way to assure that fiduciaries meet their responsibility to operate according to the exclusive purpose rule;
- Iowa's strong reliance on two concepts—letting the light of day shine on government work and cooperation of people to achieve desired results (as opposed to definition in law)—may expose IPERS to avoidable risks.

IFS provided analytic guidance to the Task Force in two comprehensive presentations, and distributed a draft of its final report before the November 10, 2000 meeting. At that meeting, IFS encouraged Task Force members to ask questions and offer feedback on content of the draft report. That invitation was extended with the understanding that it was important that IFS's final report reflect their best judgment and that the Task Force would field its own final report to summarize their work.

Some Task Force members requested the opportunity to comment on content of the IFS final report. The chair extended that opportunity to all Task Force members at the November 30 meeting where members made the following comments:

- The IFS final report focuses more on the investment side of IPERS than the benefits side. (Task Force staff stated that IFS was engaged to focus on issues of organizational structure and governance rather than benefits or investments.)
- The list of IPERS stakeholders interviewed by IFS lacked balance. For example, representatives of the school board and county associations were not interviewed. (Task Force staff stated that development of the interviewee list was a collaborative process between Task Force officers, staff, and IFS.) One Task Force member stated he was interviewed on the day that IFS mailed its final report.
- IFS was specifically asked to remove the term, "horse-trading" from the section of its report explaining a perceived conflict of interest in the IDOP Director's position. In a prior discussion, IFS was informed that Iowa Code specifically prohibits the potential for any "horse-trading" actions in the situation where the possibility was raised. However, IFS elected not to remove the term from the final report.

- IFS advised the Task Force that Iowa Code was unclear in defining roles with fiduciary responsibility for IPERS. IPERS legal counsel informed IFS in a teleconference that they did not have difficulty interpreting fiduciary responsibilities based on language in the Code.

Next Steps

To the best of its ability, the Task Force has reviewed relevant information and thoughtfully considered the facts presented in formulating its recommendations. In keeping with the strong desire of its Chair, the Task Force planned and implemented each aspect of its process in a manner designed to provide an open and honest forum for debate.

The Task Force concentrated its final deliberations on definition of policy questions perceived to be most pressing. The broad nature of these recommendations reflects the Task Force's understanding that its actions are first in a series of steps required to accomplish change.

With that evolutionary process in mind, the Task Force focused on development of policies that would be good for IPERS without attempting to micromanage details of the change. It purposely set aside unanswered questions for other entities—the office of the Governor, the Iowa General Assembly, and the incoming IPERS Executive Director—to decide.

The Task Force submits this report to Governor Vilsack with the hope that it will serve as an impetus for positive change.

Appendix

Key Questions on IPERS Structure and Governance

(Document Draft 2, August 2000)

These questions were compiled from documents developed during the expert consultant RFP process and from meeting transcripts. They are presented to facilitate discussion of the questions the Task Force expects to address in its recommendations on the charter topic. They will be used to coordinate work of IFS Inc. Your input is encouraged.

Background Statement

1. What is the role of a public employee retirement trust fund? What is it designed to do?

What is the current structure and governance of IPERS?

2. How does the IPERS structure and governance compare with those of other state public pensions which serve multiple employers? At a minimum, review scope of fund, coverage, performance, cost, unfunded liabilities, structure and governance.

External Structure

1. What external organizational structures are feasible options? What are the strengths and weaknesses of each option?
2. Should IPERS be placed within or outside state government?
3. Should it be a reporting unit of another entity or independent unit?
4. Where should IPERS' fiduciary responsibilities be placed?
5. Where should IPERS' management oversight be placed?
6. What management responsibilities should be retained by the Iowa General Assembly, including oversight and appropriation, determination of operations funding, civil service coverage for system employees, budgeting, procurement, and travel expense management.

Internal Framework

1. What internal organizational structures are feasible options? What are the strengths and weaknesses of each option?
2. Should IPERS be managed by a single System Administrator?
3. How should the System Administrator be appointed, e.g. by Governor, Department Director, with or without Board of Trustees approval, appointment solely by Board of Trustees, etc.?
4. What should be the reporting responsibilities and accountabilities of a System Administrator?
5. How should roles and responsibilities be designated for these organizational areas: plan design, plan administration and plan governance.

Governance

1. What forms of governance are feasible options, which balance the need for independence and accountability? What are the strengths and weaknesses of each option?
2. Should a non-Board management entity be established?
3. Should a Sole Trustee be established?
4. Should a Board of Trustees be established?
5. How should a Board of Trustees be established, e.g. number of members, stakeholder groups to be represented, balance of appointed v. elected positions, and term(s) of membership;
6. How should Board members be appointed or elected?
7. Who will appoint or elect?
8. What should be the duties and responsibilities of a Board and its members?
9. What Board committees should be established, e.g. investment, benefits plan design, audit, etc.?
10. How should Board committees be comprised, e.g. Board members only, partial Board membership, or no Board membership.

11. What differences should exist between the responsibilities and authorities of the Board and its Committees?
12. How should the Board and its Committees interact?
13. What protections should be provided to Board and/or Committee members in their fiduciary roles?

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Mr. Leon Schwartz	Chief Operations Officer, IPERS
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Unless otherwise noted, presenters reside in central Iowa.

Other Resources

The Task Force on IPERS Structure and Governance has maintained a web page at the IDOP website. The website, located at <http://www.state.ia.us/government/idop/taskforcehome.htm>, includes copies of PDF-formatted documents for each Task Force meeting, including meeting agendas, transcripts, and summaries.

The following additional information can be accessed on the World Wide Web:

1. **The comprehensive Annual Financial Report of the Iowa Public Employees' Retirement System.** Released in December following the June 30 end of the fiscal year, this report provides a thorough review of virtually every aspect of IPERS operation. It regularly receives a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada. Copies of this document can be obtained at the IPERS website, <http://www.state.ia.us/government/idop/RetirementHome.html>, or by contacting Gregg Schochenmaier at IPERS, 515.281.0054.
2. **Report to the Governor's Task Force to Study Iowa Public Employees Retirement System Structure and Governance.** This November 17, 2000 report summarizes the work of Independent Fiduciary Services, Inc., the consultant retained by the Task Force, and presents IFS recommendations for change in IPERS structure and governance. Copies of this document can be obtained at the Task Force web page, <http://www.state.ia.us/government/idop/taskforcehome.htm> or by contacting Jan Olson at the Iowa Department of Personnel, 515.281.3351.
3. **Relevant sections of the Iowa Code and Administrative Code** may be accessed through links at this IPERS web site:
<http://www.state.ia.us/government/idop/ipersadminrulechanges.htm>.
4. **Text of the Uniform Management of Public Employees Retirement System Act (UMPERSA)** may be accessed for view or download at:
<http://www.aft.org/research/reports/benefits/umpersa.htm>