



INDEPENDENT FIDUCIARY SERVICES, INC.

---

REPORT TO THE  
GOVERNOR'S TASK FORCE  
TO STUDY  
IOWA PUBLIC EMPLOYEES  
RETIREMENT SYSTEM  
STRUCTURE AND GOVERNANCE

November 17, 2000

---

805 15<sup>th</sup> Street, NW • Suite 1120 • Washington, DC 20005 • phone: 202-898-2270 • fax: 202-898-1819  
500 Fifth Avenue • Suite 2710 • New York, NY 10110 • phone: 212-278-8100 • fax: 212-278-0760  
520 Marquette Avenue • Suite 900 • Minneapolis, MN 55402 • phone: 612-349-5222 • fax: 612-371-2030

# Table of Contents

	<u>Page</u>
I. Introduction	1
A. Contract and Scope of Work	1-2
B. Independent Fiduciary Services, Inc.	2
C. Methodology	3-4
D. Caveats	5-6
E. Format of this Report	6
II. Structure and Governance of IPERS Compared to Other PERS	7
A. Nature and Powers of the Decisionmaking Entity	7
1. Whether IPERS has a “board of trustees”	7-11
2. Whether IPERS and IAC are autonomous or a division of another governmental entity	11-13
3. Level of independence	13-15
4. Authority over investments, benefits services and administration	15-18
B. Composition of the Decisionmaking Entity	18
1. Situation at IPERS	18
2. Situation at Other PERS	18-19
C. Nature of Fund Assets and Fiduciary Standards	19
1. Whether assets are held in trust	19
2. Who is responsible for what fiduciary functions	20-21
3. What fiduciary standards apply	22-24
4. Liabilities for breaches of fiduciary duty	24-25
5. Ethics and disclosure for IPERS fiduciaries	25-26
D. Oversight	26
1. Internal Audit	26-27
2. Reporting and disclosure requirements	27-28
3. Oversight by independent bodies	28
4. What categories of public employees are covered	29
E. Staff Structure	29
1. Situation at IPERS	29-30
2. Situation at Other PERS	30

III.	Strengths and Weaknesses of Current Situation at IPERS	31
A.	Strengths	31
1.	Investment Program	31-32
2.	Benefits Services	32
3.	Other Administration	32-33
B.	Weaknesses	33
1.	Investment Program	33-35
2.	Benefits Services	35
3.	Administration	35-37
IV.	Recommendations	38
A.	Overview	38
B.	Primary Proposal	38
1.	Autonomous board of trustees	38
2.	Provide Board independent power	38-39
3.	Use of Committees	39
4.	Composition of Board	39-41
5.	Impose various checks and balances on the Board	41-42
C.	Alternative Proposal	42
1.	Establish an autonomous Board of Investments	42-43
2.	Composition	43
3.	Appointment	44
4.	Staggered terms	44
5.	Minimum qualifications	44
6.	Checks and balances	44-45
7.	Formalize the constituent group as a Benefits Advisory Committee	45
8.	Establish within IDOP a full-time IPERS Executive Director	46-47

## Exhibits

- 1 Key Questions
  - 2 Independent Fiduciary Services, Inc. Overview
  - 3 Survey Recipients
  - 4 Interviewee List
  - 5 Key Principles & Features
  - 6 List of Survey Respondents
  - 7 Tabulated Survey Responses
- 
- |         |   |
|---------|---|
| Chart A | Board Composition, Roles and Responsibilities |
| Chart B | Summary of Survey Responses                   |
| Chart C | Fiduciary Standards                           |
| Chart D | Terms   |
| Chart E | Survey Comments                               |
- 
- 8 Excerpts from Wilshire Report
  - 9 Trustee Elected by Active and Retired Members



# **Comprehensive Review of the Organizational Structure and Governance of the Iowa Public Employees Retirement System**

---

November 17, 2000

## I. Introduction

### A. Contract and Scope of Work

The Iowa Department of Personnel (“IDOP”) retained Independent Fiduciary Services (“IFS”) to provide assistance to The Task Force on Iowa Public Employees Retirement System Structure and Governance (the “Task Force”) in its study of the organizational structure and governance of the Iowa Public Employees Retirement System (“IPERS”). IPERS is a division of IDOP. The specific nature and scope of the review is defined by our August 4, 2000 contract with the IDOP.

The Task Force was chartered by the Honorable Thomas J. Vilsack, Governor of the State of Iowa. The mission of the Task Force is to study the organizational structure and governance of IPERS and then recommend to the Governor changes that would make IPERS effective, efficient and responsive to its members and stakeholders.

To assist IDOP and the Task Force in accomplishing Governor Vilsack’s charge, IFS agreed to provide the following professional consulting services:

- Research, using both primary and secondary research techniques, and compile a comprehensive informational report comparing IPERS current organizational structure and governance with those of other state public pension systems, with emphasis on multiple employer systems;
- Provide expert advice to the Task Force during its deliberations, including communicating with the Task Force during monthly meetings; and
- Prepare and submit a complete final report that provides the Task Force with information needed to address their “key questions” related to IPERS structure and governance. A copy of the “key questions” is attached at Exhibit 1.

This introductory section of our report first describes IFS and the methodology we followed in performing this assignment. Next is an explanation of the report’s overall format. This introduction concludes with caveats and observations about the substantive sections of the report which follow.

B. Independent Fiduciary Services, Inc.

Independent Fiduciary Services, Inc. specializes in evaluating the organization, administration, and investment programs of pension systems with dual expertise regarding fund operations and fiduciary responsibility. A more extensive description of IFS is provided in Exhibit 2.



C. Methodology

Our work progressed through two principal stages, as defined by our contract: the first, led up to a presentation to the Task Force on September 8 and the second, consisted primarily of the refinements, further analysis and report preparation following that meeting. Interviews of Task Force members and related parties were all classified as part of stage two.

The first step of stage one of our process was collection of information regarding IDOP and IPERS' current structure and governance, in order to understand the "status quo." This included – with IDOP and IPERS cooperation – requesting and collecting general data and documents, such as the enabling statute, the IPERS organizational chart and the state organizational chart, the latest Consolidated Annual Financial Report for IPERS, management letters issued in connection with the annual financial audits over the past three years, the operating policies and procedures governing IPERS, prior studies of IPERS structure and/or governance within the past three years, proposed legislation within the past three years that would have materially affected IPERS structure and governance and other related materials.

Another aspect of stage one was the preparation, by IFS, of a detailed survey that solicited critical information needed to assist the Task Force in addressing its "key questions." The survey was distributed to 80 public pension funds. A list of the recipient pension funds is provided at Exhibit 3.

A major aspect of stage one, which continued throughout the project, was analysis of the documents and the structure and governance processes of both IPERS and the survey respondents. In undertaking this analysis, IFS employed a team approach.



Stage one concluded with a discussion on September 8, 2000, with the Task Force, including the preliminary survey results.

Stage two began with a series of interviews with Task Force members, key members of the IDOP and IPERS staff, and other interested parties associated with the administration of the retirement system. These included face-to-face and/or telephone interviews. An interviewee list is attached at Exhibit 4.

The written report progressed through several stages. Our oral report to the Task Force on September 8, 2000 set forth our preliminary findings regarding the survey results. We then submitted a detailed written draft of the survey results on September 25, 2000. We submitted our preliminary draft report – assessing the current status of IPERS and comparing it to other public employee retirement systems – to the Chair and Vice Chair of the Task Force on October 17. After reviewing and considering their comments, we revised the preliminary report, particularly by re-formatting much of the survey results. An advance draft of the narrative report and survey results was distributed to all Task Force members for their review and comment on November 3, 2000. We reviewed the draft with the Task Force on November 10, 2000. Taking the comments we received into consideration, we then made minor modifications to the advance draft narrative, before issuing the final report.

This process of draft, comment and redrafts enabled relevant parties to point out matters which, in their view, were either factually or conceptually inaccurate, incomplete or misleading, and enabled us to obtain additional information and prepare a final report that took into account all relevant comments. Notwithstanding our use of this process, the final form and content of the report reflect the independent judgment of IFS.





D. Caveats

This report should be read and evaluated with several caveats in mind.

First, many of the subject areas addressed in this report are inherently judgmental and not susceptible to absolute or definitive conclusions. When we express a judgment or make a recommendation, we also set forth the factual observations and rationale that led us to that viewpoint. Many of our conclusions are less in the nature of definitive recommendations than they are alternatives for the Task Force and IDOP to consider in their efforts to develop an optimal structure and governance process for IPERS.

Second, in conducting this assignment, we necessarily relied on information presented in response to the survey and to some extent on oral and written representations of the many people we interviewed and as reflected in documentary information we obtained. We sought to cross-verify certain information presented in the surveys, and among different interviewees and documents, but the process of cross-verification was limited. Our findings and conclusions are based upon our extensive review of the survey results, documents received and reviewed, the numerous interviews we conducted with the Task Force members, the IDOP Executive Director, key members of the IPERS staff, and other interested parties, independent analysis, and our experience and expertise.

Third, this report does not and is not intended to provide legal advice.

Fourth, our observations are necessarily based only on the information we considered as of and during the period we performed our review. Our report cannot and does not attempt to assess the manner in which any of our recommendations may be observed in the future. Nor



does our report supplant or reduce the duty of the Task Force or IDOP to make suitable recommendations to the Governor.

Finally, as indicated earlier, although we have discussed the survey results and our findings and recommendations with the Task Force, and submitted draft versions of our report to the Task Force, the final form and content of the report reflect the independent judgment of IFS.

E. Format of this Report

The report describes each “key feature” of IPERS, and then seeks to compare each key feature against those of other public employee retirement systems (“PERS”). Those key features are derived from our review of documents, personal interviews and analysis of the Iowa governing statute. The “key features” represent IFS’ version of the Task Force’s own “key questions” and are outlined in Exhibit 5. The comparison of IPERS relative to other PERS is based upon the information received in response to the survey, and additional research of the statutory provisions and the annual reports of the respondents. A list of respondents is provided at Exhibit 6. The results of the empirical survey are presented at Exhibit 7. The results are intended as a supplement to and support for the narrative.

The report concludes with our assessment of the strengths and weakness of the current makeup of IPERS and provides recommendations for altering the current structure and governance process.



II. Structure and Governance of IPERS Compared to Other PERS

A. Nature and Powers of the Decisionmaking Entity

1. Whether IPERS Has A "Board Of Trustees"

a. Definition: What Constitutes A "Board Of Trustees"

As we use the phrase, a "board of trustees" has several essential elements. Namely, it is an entity that consists of more than one individual, with ultimate decisionmaking authority over (at least) PERS operations and administration (even if lacks authority over investments). Thus, a "board of trustees" does not include a board that has authority only over investments.

b. Current Situation At IPERS

IDOP – not any board – is the primary decisionmaking authority over IPERS investments, benefits services and other administration. IPERS does not have any "board of trustees." The so-called "Investment Board" established by Chapter 97B, section 8 deals only with investments and even in that regard, based upon the language of the statute appears to have very limited powers. The Board's "*duties are to establish policy for the department in matters relating to the investment of the trust funds...*" ; but beyond those duties, the Investment Board lacks the range of authority over investment activities that more typical investment boards or boards of trustees have, such as authority over selection of investment managers, establishing brokerage practices, selecting and monitoring the custody bank, establishing risk controls and expense controls, and related matters. As explained below, IDOP has, by its voluntary agreement, allowed the Investment Board to participate in many of those other activities, but as a matter of statute, the Board is very constrained.



In light of the Investment Board's limited authority, we believe it less confusing and more effective for purposes of this report to refer to the Board as an "investment advisory committee" (hereafter, the "IAC"). Indeed, one member of the Task Force suggested this to us.

Most powers over investments usually exercised by a true board are, in Iowa, reserved for IDOP. Chapter 97B.5 grants IDOP authority to:

- hire, evaluate and terminate service providers, including attorneys, investment advisors, consultants and managers
- hire staff
- oversee benefits services, investment program and overall IPERS administration
- delegate to any such person such authority as it deems reasonable and proper

Nor is the IAC responsible for selecting the IPERS custodian. Chapter 97B.7 (2) assigns that responsibility to the State Treasurer.

As we read it, the Iowa statute is unclear as to whom else – besides IDOP – has authority "to invest" IPERS assets and exactly how the investment functions among various parties interrelate, especially as between IDOP and the Treasurer. Chapter 97B.7 (2)(b) provides:

*The Treasurer of the state of Iowa is hereby made the custodian and trustee of this fund and shall administer the same in accordance with the directions of the department. It shall be the duty of the trustee:*



- a. *To hold said trust funds.*
- b. *To invest the portion of the retirement fund which in the judgment of the department is not needed for current payment of benefits under this chapter. The department shall execute the disposition and investment of moneys in the retirement fund in accordance with the investment policy and goal statement established by the investment board.*

Based on our reading of the Iowa statute, we believe reasonable people may differ as to the meaning and clarity of the provisions governing the interrelationship between the Treasurer and IDOP.

c. Situation At Other PERS

Virtually all of the PERS that responded to the survey have a board of trustees (47 of 50).

With regard to the three (3) remaining respondents:

- The New York State and Local Retirement System does not have a board, (with multiple trustees), but utilizes a sole trustee structure. (The State of Connecticut Retirement System (which was not a survey respondent) also utilizes a sole trustee structure.)
- The Washington State Department of Retirement (WSDR) is a state agency which was created to administer the state retirement systems. It does not have a board, in the sense defined above in Section A(1)(a). Its assets are under the control of a board of investments: WSDR's investments are managed by the State Investment Board (WSIB). Further,



WSDR has two advisory boards: the Employee Retirement Benefits Board, composed of representatives from the retirement systems appointed by the Governor, that provides advice to the WSIB regarding investment options for the defined contribution plan and the deferred compensation plan; and the WDRS Advisory Committee, comprised of 12 active and retired members of the retirement systems administered by WDRS, which serves in an advisory role to the Director on administrative issues. WSDR also has a Pension Funding Council that adopts economic assumptions for pension funding and employees pension contribution rates.<sup>1</sup>

- The Florida Division of Retirement (FDR) also does not utilize a board structure. Its assets are under the control of an investment board. The FDR is somewhat analogous to IPERS in that it is a division of a state agency, the Department of Management Services (FLA.STAT 121.1905). The FDR administrator is the Secretary of the Department of Management Services, appointed by the Governor, subject to confirmation by the Senate, and serves at the pleasure of the Governor (FLA. STAT. 20.22). The Division administers all the Florida state retirement systems. The FDR had been an independent entity; however, in 1999, its function were subsumed by the Department of Management Services. Like WSDR, the assets of the FDR are managed by a separate investment entity, the State Board of Administration. Florida does have a State Retirement Commission, comprised of seven members, responsible for review of disability benefit claims (FLA.STAT 121.22).

---

<sup>1</sup> Six members, consisting of the directors of WDRS and the Office of Financial Management, the Chairs and ranking minority member of the Ways and Means Committee and the Co-Chairs of the Appropriations Committee.



As with Washington State, the investment board in Florida has far more authority over investments than the IPERS IAC.

2. Whether IPERS And IAC Are Autonomous Or A Division Of Another Governmental Entity

a. Current Situation At IPERS

i. IPERS

Chapter 19A.1(2) (c) provides 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). On the other hand, Chapter 97B.4 requires the department to administer this chapter *"through the chief investment officer and chief benefits officer."*

IDOP employs personnel to administer IPERS, including a Chief Investment Officer ("CIO"), Chief Benefits Officer ("CBO") and a General Counsel. Furthermore IDOP employs other attorneys, and *"may execute contracts with investment advisors, consultant and managers..."* under Chapter 97B.5. State procurement rules apply to selecting and contracting with such outside firms and civil service rules (including compensation schedules) generally apply to hiring staff. However, the CIO and CBO enjoy merit protection, beginning six months after being installed by the Director of IDOP.

ii. The Investment Board (or IAC)

By statute, the IAC consists of nine members. Chapter 97B.8 provides:



*Six of the members shall be appointed by the governor. One member shall be an executive of a domestic life insurance company, one an executive of a state or national bank operating within the state of Iowa, one an executive of an industrial corporation located within the state of Iowa, and three shall be members of the system, one of whom is an active member who is an employee of a school district, area education agency, or merged area, and one of whom is a retired member of the system. The president of the senate, after consultation with the majority leader and the minority leader of the senate, shall appoint one member from the membership of the senate, and the speaker of the house of representative shall appoint one member from the membership of the house. The two members appointed by the president of the senate, after consultation with the majority leader and the minority leader of the senate, and the speaker of the house of representatives and the two active members of the system appointed by the governor are ex officio members of the board. The director of the department of personnel is an ex officio, nonvoting member of the board. Five voting members of the board shall constitute a quorum.*

The IAC is considered a part of IDOP, pursuant to Chapter 19A.1 (3) (b). IAC also is a division of IDOP in the sense that it is statutorily granted very limited investment authority and any additional functions it performs are by the voluntary agreement or accommodation of IDOP, e.g., IDOP, through an implicit policy of inclusion, allows the IAC involvement in manager search and selection, manager termination, monitoring investment performance, establishing risk controls, monitoring adherence to those controls and monitoring proxy voting. Thus, although the IAC has the functional appearance of a typical investment board, it is not statutorily entitled to exercise the typical functions of such a board.

In short, we perceive the overall status of the IAC, relative to IDOP as something of a hybrid, i.e., it is surely not autonomous, but it does appear to have some independent, though narrow, existence. Chapter 97B.8 provides that “...development of the investment policy and





*goal statement and its subsequent execution shall be performed cooperatively between the board and department.”* (emphasis added). However, the statute does not address how to resolve the situation where IDOP and the IAC reached an impasse.

b. Situation At Other PERS

Our survey results blend the responses regarding whether each PERS is part of another agency with whether the system is independent. Please see Section 3(c), below for comparison of IPERS in these respects to other PERS.

3. Level Of Independence

a. Definition – The Level Of Independence Of A PERS Is Measured By The Extent To Which It Is Authorized To:

- establish the system’s budget and expend money (independent budgetary, procurement and contracting authority)
- select the system’s actuary and set the actuarial assumptions
- hire, evaluate and terminate the system’s staff (independent personnel authority)



b. Situation At IPERS

At IPERS, expenditures are made from the trust fund, but nevertheless require legislative appropriation. Chapter 97B.7 (2) embodies a "standing" appropriation, permitting expenditures (without further legislative approval) of up to 40 basis points ("bp") of the fund's value per year for investment management expenses. However, expenditures for other purposes (including "salaries, support, maintenance and other operational purposes") must be annually appropriated.

IDOP prepares an annual budget for all programs and divisions it manages, including IPERS, and balances the amounts it seeks for IPERS against amounts it seeks for such other programs and divisions. In this sense, IPERS is not in a position to advocate or lobby for its budget strictly in its own interests.

Arguably IPERS in one year can expend at least as much as in the prior year even if its appropriation is cut, by making up the difference from the trust fund, but this is not entirely clear. See 97B.7 (3)(c).

IDOP selects and supervises (a) staff for IPERS and (b) the IPERS actuary. See Chapter 97B.5. As a matter of practice, IDOP allows the IAC to advise it regarding selection of the CIO and the CIO handles relations with the actuary. Notwithstanding that, the ultimate authority rests with the director of IDOP.

c. Situation At Other PERS

As discussed above, a system's level of independence is often measured by the ability of the trustees to perform their duties without pressure, actual or implicit, from others with competing interests. One example of a competing interest is pressure to balance immediate



needs (health care, public safety, general welfare) against long range needs (funding the retirement system).

The majority of survey respondents (30 of 50) stated that their respective boards were an autonomous/independent entity. Nevertheless, many of these systems that considered their boards independent were still in fact subject to the jurisdiction's appropriation process (e.g. Georgia, New Hampshire, Idaho, Mississippi, Utah, Wyoming).

Almost all of the respondent systems with boards had the ability to select the actuary as well as hire their own executive director (see Exhibit 7, Chart A). Some of the exceptions include: the Tennessee Consolidated Retirement System where the staff is part of the treasurer's office and is hired by and supervised by the treasurer; New Jersey's System where the retirement system is a division of the Department of Treasurer and therefore the executive director is hired and under the supervision of the Treasurer; and the Indiana State Retirement System where the executive director is appointed by the Governor, but supervised by the Board.

Twenty (20) of the respondents did not consider their board independent (or considered it only semi-autonomous) because they were subject to the jurisdiction's appropriation process and/or its rules regarding procurement, personnel, etc. (see Exhibit 7, Chart A).

#### 4. Authority Over Investments, Benefits Services And Administration

##### a. Benefits Services vs. Benefits Structure

As we use the phrase, "benefits services" it includes deciding claims for pension benefits, processing participant applications, communicating with participants and beneficiaries, other counseling, paying benefits and formulating policy for proposals to the legislature. By contrast,



“benefits structure” refers to matters of plan design, including authority to determine benefit levels, criteria for eligibility for benefits and other aspects of plan design.

Finally, “administration” includes all other aspects (except the investment program per se) of operating a PERS, such as personnel policies, budgeting, travel policies, information systems and related matters.

b. Situation At IPERS

IDOP, through the office of the CBO, is responsible for benefits services. The legislature is responsible for benefits structure.

Responsibility over investments runs across IDOP and the IAC, as discussed in Section A(1), above. IDOP is responsible for general administration. See Section A(1)(b).

c. Situation At Other PERS

The board at 41 of the 50 respondents is responsible for the general administration of the retirement system. “General administration” normally includes establishment of policy and oversight regarding the day to day operations of the pension fund and includes the administration of benefits as well the investment program. However, this is not always the case. In some states, as noted earlier, the investment of retirement assets is under the jurisdiction and control of a separate entity. Several survey respondents have boards responsible for the general administration of the retirement system, but not responsible for the investment of retirement system assets. These systems include:



- Alaska (with PERS investments managed through the 8-member Alaska State Pension Investment Board);
- Minnesota (with PERS investments managed through Minnesota State Board of Investment);
- Oregon (the 5-member Oregon Investment Council, which includes the Treasurer who serves as the principal investment officer);
- South Dakota (the South Dakota Investment Council); and
- West Virginia (the West Virginia Investment Board)

Several of these separate investment entities also have investment advisory councils to assist them (e.g., Alaska and Minnesota (where members are appointed by the state investment board)).

Please also note that the investments of two other respondents, Florida and Washington State Retirement, are also managed by a separate investment entity although they do not have a "board" per se.

As far as authority to hire PERS staff, the board is responsible for the hiring and supervision of the executive director at 39 of the 50 respondent retirement systems. (Please refer to Exhibit 7, Chart A for exceptions.) In turn, the executive director is then responsible for the hiring and supervision of the retirement system staff. In some cases, the board may also be responsible for hiring certain key staff members; typically, the chief investment officer, legal



counsel, and/or the internal auditor. [Exhibit 7, Chart A identifies pension funds where the CIO is hired by the Board.]

B. Composition Of The Decisionmaking Entity

1. Situation At IPERS

a. IDOP

The Director of IDOP is appointed by the Governor, subject to confirmation by Senate, initially and every four years. Chapter 19A.1A (1). The Director must be “*qualified by education and experience in the field of public personnel administration...*”

The Director is empowered to “*establish the internal structure...so as to best suit the purposes of the department.*” Id.

b. The IAC (see above)

In addition to the many aspects of the IAC discussed above are the provisions regarding the terms of office for its members. Terms are six years, and are staggered.

2. Situation At Other PERS

Exhibit 7, Chart A sets forth the composition of the boards, or other decisionmaking entities, at all other respondents – including the total number of members, the number of active and retired representatives, the number of members appointed by the Governor (or Mayor in the case of local funds) and the number appointed by the legislative body, and ex-officio



representation. In response to questions raised during the discussion process, we have supplemented Exhibit 7, Chart A, by providing in Exhibit 9, a breakdown for each respondent of the number of trustees they indicated were elected by active and retired members.

C. Nature Of Fund Assets And Fiduciary Standards

1. Whether Assets Are Held In Trust

a. Situation At IPERS

IPERS assets are held in trust, pursuant to 97B.7 (1):

*There is hereby created as a special fund, separate and apart from all other public moneys or funds of this state, the "Iowa Public Employees' Retirement Fund", hereafter called the "retirement fund". This fund shall consist of all moneys collected under this chapter, together with all interest, dividends and returns thereon, and shall also include all securities or investment income and other assets acquired by and through the use of the moneys belonging to this fund and any other moneys that have been paid into this fund.*

b. Situation At Other PERS

All respondents to the survey indicated that the assets of the retirement system were considered to be held in trust. Notwithstanding these responses, our experience is that while this may be the general interpretation of the retirement system, examining the actual statutory language is critical. Further, to enhance the level of protection, several jurisdictions have included the trust requirement within their respective state constitution. These jurisdictions include: California, Nevada, Texas, and South Carolina.



2. Who Is Responsible For What Fiduciary Functions

a. Settlor Functions vs. Fiduciary Functions

Before discussing the subject of who is responsible for which fiduciary functions, a basic distinction is necessary to understand – that between settlor functions vs. fiduciary functions. At common law, the settlor is the party who establishes a trust. This is typically the function of the employer, and in the case of IPERS, is the function of the State. Related settlor functions include, e.g., establishing a plan, adjusting benefits structure, hiring employees, etc.

By contract, the fiduciary (such as the trustee the settlor appoints to manage the trust fund) is responsible for prudent management and administration of the retirement system's assets and operations, once the settlor has decided to establish the trust and designed its structure.

b. Situation At IDOP

i. Fiduciary Functions vs. Competing Functions

One complicating factor in Iowa is that IDOP and its Director perform various types of functions and thus “wear competing hats.” These include, for example, collective bargaining, developing personnel practices for state employees in general, proposing budgets for various activities of IDOP, etc. (non-fiduciary functions) as well as managing IPERS assets, providing benefits services and otherwise administering IPERS (fiduciary functions).

Sometimes such competing roles may pose conflicts. For example, the Director in his or her IDOP role, seeks to maintain the total number of authorized positions within the agency as a whole or balance the budgetary needs of other IDOP programs that compete with IPERS





(considering interests of Governor and taxpayers in general) vs. seeking to assure (as a fiduciary) sound management and administration to IPERS and its participants and beneficiaries.

Similarly, we believe the unit managers may also suffer competing pressures insofar as they are both employees of an Executive branch department, subject to supervision by the IDOP Director (albeit with merit protection) and obligated to act for the exclusive benefit of IPERS participants and beneficiaries.

ii. Blurred Lines Of Responsibility

We previously explained blurred lines of responsibility in three respects: IDOP vs. the IAC: see Section II (A)(2)(a), IDOP vs. the Treasurer: see Section II (A)(1)(b)(ii); and IDOP vs. IPERS: see Section II (C)(2)(b).

c. Situation At Other PERS

In our experience, as a general rule, most jurisdictions specifically impose fiduciary duties and responsibility on the pension fund board pursuant to a statutory mandate. Almost 75% of the respondents indicated that the members of their boards are subject to a prudent person standard. Many also have a duty of loyalty, a duty to diversify the assets, and an exclusive purpose rule (see Exhibit 7, Chart C.)

Only about 50% of pension funds responding to the survey indicated that staff members were considered fiduciaries (see Exhibit 7, Chart C). This is true because most staff members do not have discretionary authority or control over fund assets. Rather, staff is responsible for implementing board-adopted mandates and policies.



3. What Fiduciary Standards Apply

a. Situation At IPERS

The following discussion addresses several distinct fiduciary standards: the exclusive benefit rule, the prudent person standard, and the diversification standard.

The “exclusive benefit” rule applies pursuant to Chapter 97B.7(3) : *“All moneys which are paid or deposited into this fund are appropriated and made available to the department to be used for the exclusive benefit of the members and their beneficiaries or contingent annuitants as provided in this chapter...”*

However, Chapter 97B.7(2) complicates the meaning of the exclusive benefit rule by further stating, *“Consistent with this paragraph, investments made under this paragraph shall be made in a manner that will enhance the economy of this state, and in particular, will result in increased employment of the residents of this state.”* Thus, the duty to use fund assets for the exclusive benefit of IPERS members and beneficiaries must somehow be reconciled with the duty to enhance the state’s economy and generate jobs.

Two varieties of the prudent person standard are reflected in Chapter 97B.7 (2)(b) – the older common law standard and the newer version based on modern portfolio theory, as also reflected in ERISA and the Uniform Management of Public Employee Retirement Systems Act (“UMPERSA”). The common law standard from Subsection 2(b) states that, *“In establishing the investment policy of the fund and the investment of the fund, the department and investment board shall exercise the judgment and care, under the circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own*



*affairs, not for the purpose of speculation, but with regard to the permanent disposition of the funds, considering the probable income, as well as the probable safety, of their capital.”*

The more modern version of the prudence standard is reflected in the next part of Subsection 2(b). This part of the statute considers each investment in the context of the whole portfolio, in light of risk of loss, opportunity for gain, diversification, liquidity and funded status of the retirement system.

The two prudence standards are different insofar as the older, common law standard refers only to income and safety of capital, without considering capital gains; is based on prudence in the context of persons managing “their own affairs” – not an institutional portfolio like IPERS’; and is typically interpreted as evaluating each investment in isolation – not in the context of the whole portfolio.

The diversification standard is imbedded in the prudence provision, Subsection 2(b), discussed above.

In short, in our view the fiduciary standards governing investment of IPERS assets are (as we read them) not entirely consistent, although we are told that Iowa lawyers reconcile them through statutory construction. Some of the duties appear to run in favor of only IPERS participants and beneficiaries while others run more broadly to all taxpayers and the State in general. We are unclear which standards of prudence would govern an investment which is legally challenged.



b. Situation At Other PERS

Please refer to Exhibit 7, Chart C for the various fiduciary standards applicable to each of the represented pension funds.

4. Liabilities For Breaches Of Fiduciary Duty

a. Situation At IPERS

The general rule under the Iowa Code is that fiduciaries of IPERS are not personally liable for losses resulting from their breaches of duty – whether those are breaches of the exclusive benefit rule or the prudence standard or the duty of diversification – unless such breaches “*involve malicious or wanton misconduct...*” Chapter 97B.4.

As we understand the statute, IPERS is, in effect, self-insured against losses resulting from fiduciary breaches. If IPERS suffers an investment loss, “*...the treasurer, the department, and the board are not personally liable, and the loss shall be charged against the retirement fund. There is appropriated from the retirement fund the amount required to cover a loss.*” See Chapter 97B.7 (2)(b). Ultimately, the State’s taxpayers (or employee-participants, to the extent they contribute) are responsible for funding IPERS and losses it suffers.

IPERS does not purchase fiduciary liability insurance from any third party insurer. Based on the foregoing provisions, there appears to be little if any need for such insurance. Typically, a PERS purchases such insurance to provide a source of recovery for losses caused by a fiduciary breach when the breaching fiduciary lacks sufficient net worth to make the fund whole. However, since a breaching fiduciary at IPERS is probably not liable to make the fund whole (unless proven to have acted maliciously or wantonly), such insurance is probably unnecessary.



b. Situation At Other PERS

Some jurisdictions believe that it is contrary to public policy to indemnify trustees from PERS assets for breaches of fiduciary responsibility. Notwithstanding this, the trustees at 22 of our 50 respondents are indemnified for personal liability resulting from a breach of their fiduciary responsibility (see Exhibit 7, Chart B).

Furthermore, 38 of the 50 respondent systems are permitted to purchase fiduciary liability insurance (see Exhibit 7, Chart B). Although they may be permitted to purchase liability insurance, they may have elected not to do so.

5. Ethics and Disclosure For IPERS Fiduciaries

a. Situation At IPERS

We were told that the general statewide rules on ethics and disclosure apply to IPERS fiduciaries. However, we also understand that the Iowa Code does not impose any particularized rules (customized for IPERS) for ethics and disclosure on IPERS fiduciaries and neither IPERS nor IDOP have adopted any such rules.

b. Situation At Other PERS

Of the 50 respondent systems, 47 have financial disclosure requirement imposed on them. Of the 50 respondents, 34 also indicated that they are subject to their respective jurisdiction's conflict of interest and/or ethics standards.



The trustees of many retirement systems are covered by the general conflict of interest or ethics laws applicable to public officials or employees of their respective jurisdictions. However, a number of retirement systems have either statutory provisions specific to their trustees and/or staff or have adopted specific policies. Of the respondent pool, these include, but are not necessarily limited to – Colorado PERS, the Illinois Municipal Retirement Fund, the New Hampshire Retirement System, the New York State Teachers Retirement System, the North Dakota Retirement System, the Public School Employees' Retirement System of Pennsylvania, the Tennessee Consolidated Retirement System, Texas Teachers Retirement System, and the Utah Retirement System.

D. Oversight

1. Internal Audit

Although an internal audit function was not a part of the Task Force's "Key Questions", and thus was not part of our survey, we believe it is a "key feature" necessary for effective and efficient oversight.

a. Definition

By "internal audit" we mean a function or department within an organization, responsible for systematically evaluating and testing whether the organization is following proper procedures for its activities. Distinct from a financial audit of the organization's books and records, an internal audit examination focuses on the adequacy of controls and processes, such as documentation, due diligence and adherence to stated policy.



b. Situation At IPERS

Historically, IPERS has not had any internal audit function. However, the State Auditor typically evaluates some aspects of IPERS activities, in connection with his annual financial audit and has commented on the need to upgrade certain activities, e.g., collection of employer contributions.

Recently IPERS has added a slot to its organizational chart, for hiring an internal auditor. This person will report to the Director of IDOP.

c. Situation At Other PERS

Through the Association of Public Pension Fund Auditors ("APPFA"), we have sought empirical data on how commonly statewide PERS maintain an internal audit function. We were unable to obtain detailed and up-to-date empirical data, but did learn that statewide funds commonly do maintain an internal audit function.

2. Reporting And Disclosure Requirements

a. Situation At IPERS

IPERS submits an annual report to the Governor and other stakeholders. The Public Retirement System Committee of the legislature considers benefits enhancements but does not provide oversight into other aspects of IPERS operations. We understand the Legislative Oversight Committee also is authorized to investigate IPERS, among other aspects of State government.



b. Situation At Other PERS

Of the 50 respondent, 46 indicated that they are required to file an annual report (see Exhibit 7, Chart B).

The Government Finance Officers Association (GFOA) has published a detailed set of guidelines regarding the information that should be included in the annual report.

3. Oversight Of The Retirement System By Independent Bodies

a. Situation At IPERS

See subsection 2, above

b. Situation At Other PERS

Oversight of the pension fund and its board is generally under the purview of the legislature and/or the chief executive officer of the jurisdiction (e.g., the Governor). This oversight and accountability is required to balance the level of independence afforded to many pension funds. Although the survey responses do not address this point, we are aware of a few state funds where an independent body has oversight authority. Nonetheless, these independent entities are generally also either composed of or under the jurisdictions of legislators. They include the Virginia Retirement System – the Joint Legislative and Audit Review Commission; Indiana State Teachers' Retirement System – the Pension Management and Oversight Commission of Indiana; South Dakota - the Retirement Law Committee (which functions when the legislature is not in session); and Tennessee Consolidated – the Council on Pensions and Insurance.





4. What Categories Of Public Employees Are Covered

a. Situation At IPERS

IPERS covers State employees, employees of counties, and employees of cities (unless exempted by the Legislature), and public safety employees of cities with population below 8,000.

b. Situation At Other PERS

Most of the survey recipients were statewide PERS (see list at Exhibit 3). Statewide PERS commonly cover employees not only at the state level, but also at the county and city level. The essential issue for IPERS is not who per se is covered, but rather whether – given coverage of so many employees not employed by the State – control of IPERS by the Governor and IDOP is reasonable and representative of common practices. (See A(2)-(3), above.)

E. Staff Structure

1. Situation At IPERS

The Chief Investment Officer is responsible for investment policy, supporting the IAC (Investment Board), investment manager contracting, and actuarial consultant contracting. The Chief Benefits Officer is responsible for benefits administration, collecting and auditing contributions, retirement counseling and assistance, and formulating proposed benefits policies for recommended action by legislature (i.e., IPERS Legislative Liaison). The Operations Manager is responsible for technology and office support, accounting, and systems support. The



Legal and Communication Unit Manager is responsible for IPERS records management and retention, legal services, and informational materials production and distribution.

## 2. Situation At Other PERS

The nature of staff at other PERS is a function of other features discussed above, e.g., degree of independence, whether the board is responsible for investments or only administration and asset values, etc.

As mentioned earlier, whether a staff member is considered a fiduciary is generally a function of whether they have discretion over plan assets. The Executive Director is considered a fiduciary at 24 of the respondent funds.<sup>2</sup> The Chief Investment Officer is considered a fiduciary at 16 of the respondent funds.<sup>3</sup>

---

<sup>2</sup> Alaska Public Employees' Retirement System; Arlington County Employees' Retirement System; California Public Employees' Retirement System; California State Teachers' Retirement System; Employees Retirement System of Hawaii; Employees Retirement System of Texas; Fairfax County Supplemental Retirement System; Florida State Board of Investments; Illinois Municipal Retirement Fund; Indiana State Teachers' Retirement Fund; Los Angeles County Employees Retirement Association; Minnesota State Retirement System; New Hampshire Retirement System; North Dakota Public Employees Retirement System; Oklahoma Public Employees Retirement System; Public Employees' Retirement Association of Colorado; Public School Retirement System of Missouri; Teachers' Retirement System of Illinois; Teachers' Retirement System of the City of New York; Tennessee Consolidated Retirement System; Utah Retirement System; Virginia Retirement System; West Virginia Investment Management Board; and Wisconsin Department of Employee Trust Funds

<sup>3</sup> California Public Employees' Retirement System; California State Teachers' Retirement System; Employees Retirement System of Hawaii; Illinois Municipal Retirement Fund; Indiana State Teachers' Retirement Fund; Los Angeles County Employees Retirement Association; Missouri State Employees' Retirement System; New Hampshire Retirement System; North Dakota Public Employees Retirement System; Oklahoma Public Employees Retirement System; Public Employees' Retirement Association of Colorado; Teachers' Retirement System of Illinois; Teachers' Retirement System of the City of New York; Utah Retirement System; Virginia Retirement System; and West Virginia Investment Management Board



III. Strengths and Weaknesses Of Current Situation At IPERS

A. Strengths

1. Investment Program

a. Favorable Net Investment Experience

Based on the performance evaluation report provided to us, we believe the IPERS investment program has performed well. A good indicator in our view is that the System's returns over various trailing periods compare favorably against the IPERS Policy Index.

b. Funded Status.

The actuarial valuation for funding purposes at June 30, 1999 reflects an unfunded liability of \$389,624,316. This represents the difference between the actuarial accrued liability of \$13,053,655,753 and the actuarial value of net assets of \$12,664,031,437. During the fiscal year, the unfunded actuarial accrued liability decreased by \$164,921,959 from the preceding fiscal year's ending balance, primarily due to a higher-than-projected investment return on the System's assets.

c. Insulation From Undue Political And Personal Influences

The IAC provides some insulation against undue influences, insofar as it is involved in setting policy, establishing asset allocation, selecting investment managers and related matters. Furthermore, we understand that historically, IPERS has typically enjoyed an atmosphere of



good will and respect among Governors, IDOP and legislators, although, of course, interviewees informed us of some exceptions over the years.

## 2. Benefits Services

Our interviews reflected a high level of satisfaction among participants and beneficiaries regarding the quality of services and this is reportedly confirmed by polling conducted by IPERS. We were told by a wide range of interviewees that the active and retired state employees who rely on IPERS benefits as part of their retirement income believe their benefits are safe and are being enhanced. Employees often react with skepticism when faced with changes in the delivery or structure of their retirement benefits.

We also were told by a wide range of interviewees that the public sector employers who make contributions on behalf of their employees currently believe that the benefits package is a cost-efficient asset that helps recruit, retain, and reward employees.

## 3. Other Administration

We were repeatedly told by interviewees that application of the state's procurement rules has not impaired the process of selecting and hiring sufficient outside service providers. Some interviewees made the further point that IPERS benefits from its ability to efficiently share resources with other IDOP programs. Maintaining its role over IPERS also assists IDOP in its settlor/employer role by enabling it to integrate its policy and planning regarding pension proposals to the legislature along with other matters it handles (like workers comp, health insurance and wages).



In many respects, informal arrangements among IDOP, the IAC, and the Constituent Group appear to work well, so far. For instance, the Constituent Group provides a helpful voice and effective set of "eyes and ears" regarding formulation of policy on pension proposals to the legislature. As an accommodation, IDOP has agreed that IAC must concur before changing the IPERS actuarially-assumed rate. Members of the Task Force generally stated that the IPERS staff does a good job, even without a full board of trustees and even as part of IDOP. A related theme we heard was that under the current system "everyone is watching," so as a matter of practice, checks and balances are effective, even if the statutory roles are imperfect

B. Weaknesses

1. Investment Program

Itemized below are numerous actual or potential weaknesses that we perceive, based on our many interviews and review of documents:

- a. Potential for the actuary to favor employer to the detriment of IPERS. This is a potential weakness insofar as IDOP statutorily controls selection, contracting with and replacement of the actuary.
- b. Potential for and concern (expressed by a number of interviewees) about the possibility of Executive or Legislative branch influence over investments through the economically targeted investing provision of the statute or otherwise, e.g., flood relief, farm loans, location and purchase of IPERS building, whether investment managers and broker-dealers must be Iowa-based, other "raids."



- c. Lack of “a voice” in investment program by various constituent groups, including employees of State (16% of total) and other levels of government (84%).
  
- d. Desire expressed by some interviewees for more input and investment expertise from a board, across a wider range of matters and with more depth than the IAC provides.
  
- e. Accountability is unclear or weak
  - lack of clarity regarding who is responsible for which fiduciary functions
  
  - lack of personal liability (except in very narrow circumstances) for losses resulting from breach of duties of prudence, diversification and exclusive benefit rule.
  
  - litigation in mid 90s by prior investment manager raised issues about who is responsible and liable for what
  
- f. Despite the general satisfaction with the personalities of past and current people of influence, interviews repeatedly disclosed
  - concerns over some prior individuals and their ability – with this structure – to do mischief



- recognition that relying on personalities is a poor way to decide public policy

## 2. Benefits Services

The primary weakness we perceive (and that interviewees articulated) regarding the current arrangement concerning benefits services is the lack of a formal entity and channel for employees to help formulate policy and recommendations to the legislature, as well as interpretation and applications of benefit formulas.

## 3. Administration

### a. Concern That IPERS Budget Is Insufficient

Legislative appropriation is required for expenditure by IPERS outside the investment arena, even though expenditures are from the trust fund. Under the current arrangement, IDOP proposes a budget for IPERS, arguably compromising its interests (in terms of what expenditures are optimal from the perspective of IPERS and its participants and beneficiaries) in light of other divisions and programs within IDOP. A related concern is that IDOP (or the Department of Management) may seek to benefit employers by minimizing IPERS expenses (and contributions) to the detriment of what's truly needed to provide IPERS sufficient staff, training and equipment. Examples include: the number of unanswered phone calls per month from participants and beneficiaries; complaints that the budget for IPERS information technology is insufficient; and the report from Wilshire Associates in November 1998 which concluded that "IPERS appears to be modestly under-resourced relative to peers" (see excerpts from Wilshire report, Exhibit 8).



b. Conflict Of Interest

A more general concern is possible "horsetrading" by IDOP in collective bargaining. This is based on the perception that IDOP is in a conflict of interest because of its two hats: "If you (employees) agree to this regarding terms of employment, we'll agree to do that regarding IPERS administration." However, pursuant to Chapter 20.9, "*All retirement systems shall be excluded from the scope of negotiations.*"

c. Limitations On Ability Of IDOP Director To Manage IPERS

This concerns breaks down into several pieces, namely the concern that:

- The Director is spread too thin, given the Director's many other IDOP duties
- The Director, although experienced regarding personnel and defined contribution matters, lacks expertise in public, defined benefit retirement systems, including investments and benefits services
- IPERS is a "body with 4 heads" (Unit Managers) which is unwieldy to manage. Many expressed a desire for one director with sufficient time and expertise, without potentially conflicting pressures

d. Turnover Among The CIO And Other Staff

The Wilshire report concluded that IPERS had historically (as of late 1998) suffered significantly higher employee turnover than its peers (see Exhibit 8, pp. 2, 9). A primary





perceived cause for such turnover is that compensation is insufficient to attract and retain the necessary individuals (compared to the lure of the private sector), particularly in light of the broad range of investment and administrative duties imposed on the CIO (without a full-time IPERS Director to handle many such administrative duties).

e. Concerns From More Than One Unit Manager About Their Being Torn By Dual Loyalties

Unit Managers expressed concern about being in a conflict of interest, either in actual past practice or in readily conceivable future situations. This concern is based on the perception of being pulled in one direction, by obligations to IDOP and the Executive branch versus a possibly separate direction, regarding obligations to IPERS.

f. Quality Of Information To Governor And Legislature

Several interviewees expressed concern that the quality of information to the Governor and Legislature regarding IPERS is compromised under the current structure. The concern is that information may be:

- partisan, because it is filtered through the Governor's office and appointee
- narrow, because many constituents don't have a formal voice
- not representative of the best interests of participants and beneficiaries, because of the "two hat" problem



#### IV. Recommendations

##### A. Overview

Based on our assessment of the strengths and weaknesses of the current arrangements, we recommend altering the current structure and governance in one of two ways, either by

- i. Establishing an autonomous Board of Trustees over all IPERS activities, or at least
- ii. Establishing a Board of Investments

##### B. Primary Proposal

Establish an autonomous Board of Trustees to manage the IPERS investment program, benefits services and other administration, subject to numerous checks and balances.

##### 1. Autonomous Board Of Trustees

An autonomous Board of Trustees would be responsible for general administration, benefits services and investments. Such a Board would be established outside of IDOP as an “independent agency” pursuant to Chapter 7E.4 (10) or as some other form of independent entity.

##### 2. Provide Board Independent Power

The Board should be granted independent powers to:



- establish budgets for IPERS
- spend money from the trust fund for investments and administration, subject to reasonable caps
- hire, evaluate and terminate staff, including establishing terms of employment (including compensation), and including a full-time Executive Director
- hire, evaluate and terminate service providers, including legal counsel, actuary, investment managers, consultants, bank custodian
- procure services

3. Use of Committees

Permit the board power to form committees, e.g., regarding investments, benefits, audit, operations [of the 50 respondents 33 utilize a committee structure]. (See Exhibit 7, Chart B.)

4. Composition Of Board

Determining the Board's composition is extremely judgmental and political. We suggest the following general guidelines, with refinements to be filled in through your State's political processes:

- a. Approximately 7-9 trustees [Survey median number was 7]. (See Exhibit 7, Chart A.)



b. Representing a wide range of constituencies, including, for example,

- Governor
- Legislature
- Treasurer
- Active employees
- Retirees
- Public

c. Appointment could be, e.g.,

- directly by itemized constituencies (see Exhibit 9)
- by Governor, from a pool of nominees selected by each constituency
- selection of chair person might be designated by statute or by a vote of the board members



- insulated from political pressure, by providing for removal only for a breach of fiduciary responsibility by a two-third majority vote of the full Board.
  - d. Staggered terms, to promote continuity [41 of the 50 respondents utilize staggered terms]. (See Exhibit 7, Chart D.)
  - e. Minimum qualifications – a certain number of Trustees should be required to have substantial experience in institutional investing, business administration, etc. [12 of the 50 respondents reported minimum qualification requirements]. (See Exhibit 7, Chart D.)
5. Impose Various Checks And Balances On The Board
- a. Impose clear and extensive fiduciary standards on all Board members, including exclusive purpose, prudent person and diversification requirements
  - b. Impose personal liability for losses resulting from their breach of duties, but with opportunity to purchase fiduciary liability insurance
  - c. Require Board to adopt written rules regarding ethics, receipt of gifts, travel, personal investing and disclosure
  - d. Impose an internal audit function, reporting to, e.g., Chairman of the Board and/or Audit Committee



- e. Entitle the legislature periodically to conduct a “performance audit” or “fiduciary audit” regarding the Board’s risk controls, due diligence practices, investment procedures, etc.
- f. Require an annual financial audit by an auditor independent of the Board
- g. Require annual reporting to the legislature regarding investments, benefit services and administration
- h. Require the Board to delegate implementation to staff; reserve policy matters for the Board.

C. Alternative Proposal

As an alternative to establishing the foregoing Board of Trustees, we recommend maintaining responsibility for benefits services and administration within IDOP but also establishing an autonomous Board of Investments to manage the IPERS investment program, establishing within IDOP a full-time Executive Director appointed by the Governor and formalizing the Constituent Group as a Benefits Advisory Committee

- 1. Establish An Autonomous Board Of Investments
  - a. This Board would be responsible only for investments, but not for overseeing benefits services or general administration; IDOP would remain responsible for the latter two areas



- b. Board of Investments would have independent power to:
- Retain and supervise the Chief Investment Officer
  - Establish investment policy
  - Establish asset allocation
  - Hire and fire investment managers
  - Monitor investment performance
  - Hire, evaluate, and terminate services providers, including legal counsel, actuary, investment consultants, and custodian
- c. In effect, this approach would elevate the current IAC into a true Board of Investments.

2. Composition

- a. Approximately 7-9 trustees
- b. Representing a wide range of constituencies (see pp. 38-39)



3. Appointment Could Be
  - a. Directly by itemized constituencies
  - b. By Governor directly and/or from a pool of nominees
  - c. Selection of chair might be designated by statute or elected by majority vote of the board members (see pp. 38-39)
4. Staggered Terms
5. Minimum Qualifications For At Least A Third Of The Trustees
6. Checks And Balances
  - a. Clear and extensive fiduciary standards
  - b. Personal liability for losses resulting from their breach of duties, but with opportunity to purchase fiduciary liability insurance
  - c. Required to adopt rules regarding ethics, receipt of gifts, travel, personal investing and disclosure.
  - d. Legislature entitled periodically to conduct "performance audit" regarding risk controls, due diligence practices, investment procedures, etc.





- e. Annual financial audit
  - f. Annual reporting to legislature regarding investment structure and performance
7. Formalize The Current Constituent Group As A Benefits Advisory Committee
- a. Benefits Advisory Committee would be responsible for advising IDOP regarding formulation of benefits policy and proposals to legislature.
  - b. Benefits Advisory Committee would have access to IPERS Executive Director (see (8), below), including statutory right to periodic meetings to discuss formulation of benefits policy and proposals to legislature as well as benefits services more generally (e.g., interpretation and application of benefit formulas in individual cases).
  - c. Benefits Advisory Committee would have statutory right to submit comments to legislature regarding benefits policy and proposals IDOP sends to legislature, as well as the performance of the Executive Director.



8. Establish Within IDOP A Full-Time IPERS Executive Director
  - a. The Executive Director could be appointed directly by the Governor or indirectly, through the Director of Personnel. Once appointed, the Executive Director would enjoy merit protection, comparable to what the current CBO enjoys.
  - b. Duties of full-time IPERS Executive Director
    - i. Formulation of benefits policies and proposals to legislature
    - ii. Benefits services
    - iii. General administration, including preparation of budget for IPERS benefits services and administration; and hiring, supervising and firing IPERS staff involved with those subjects.
    - iv. However, Executive Director would not have authority over investments or investment staff – only the BOI would have authority over the CIO.
    - v. As a full-time employee, Executive Director would handle IPERS benefits services and administration instead of IDOP Director handling those matters. The Executive Director would not have duties apart from IPERS.



c. Supervision of IPERS Executive Director

The IPERS Executive Director would be supervised by the Director of IDOP.





## Key Questions on IPERS Structure and Governance

Draft 2  
8 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

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

How does the IPERS structure and governance compare with 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, merit system 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, 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?





INDEPENDENT FIDUCIARY SERVICES, INC.

---

OVERVIEW  
OF  
*OPERATIONAL REVIEWS*

BY  
INDEPENDENT  
FIDUCIARY SERVICES, INC.

2000

---

805 15<sup>th</sup> Street, NW • Suite 1120 • Washington, DC 20005 • phone: 202-898-2270 • fax: 202-898-1819  
500 Fifth Avenue • Suite 2710 • New York, NY 10110 • phone: 212-278-8100 • fax: 212-278-0760  
520 Marquette Avenue • Suite 900 • Minneapolis, MN 55402 • phone: 612-349-5222 • fax: 612-371-2030







805 15<sup>th</sup> Street, NW  
Suite 1120  
Washington, DC 20005  
Phone: 202-898-2270  
Fax: 202-898-1819  
[www.independentfiduciary.com](http://www.independentfiduciary.com)

## *Introduction*

Independent Fiduciary Services, Inc. provides clients extensive, combined expertise and experience regarding:

- Structuring, monitoring and analyzing pension fund investment portfolios and activities, including asset allocation, investment policies and procedures, controlling investment risk and expense, measuring and evaluating absolute, relative and risk-adjusted returns
- Fiduciary responsibility in investment decisionmaking

From its incorporation in 1987 until October 1, 1996, IFS was a wholly-owned subsidiary of The Bear Stearns Companies Inc. – the New York Stock Exchange listed holding company – and an affiliate of Bear, Stearns & Co. Inc., the broker-dealer and investment bank. On that date ownership transferred to officers of the firm and the name changed to Independent Fiduciary Services, Inc. All employees and clients then continued with the re-named firm. IFS continues on occasion to work with Bear Stearns, as well as other major investment firms, on an arms-length basis. However, our firm is not owned by or affiliated with any other company; we truly are independent.

IFS has acted as an investment consultant/adviser or independent fiduciary/decisionmaker in connection with many complex institutional portfolios and financial transactions. An SEC registered investment adviser, IFS is experienced with a variety of roles, including retainer investment consultant, independent or named fiduciary, investment manager and adviser.

This Overview explains our three primary lines of service:

- Retainer investment consulting
- “Operational Review” projects
- Fiduciary decisionmaking transactions

The Overview also sets forth our firm’s:

- Distinctive features
- Representative assignments and experience
- Personnel

Further detail is provided at our website, [www.IndependentFiduciary.com](http://www.IndependentFiduciary.com).

## *Distinctive Features*

Independent Fiduciary Services specializes in evaluating complex investment programs with *dual expertise* in portfolio management and fiduciary responsibility. Our staff includes investment professionals experienced in structuring and overseeing investment portfolios as well as ERISA experts sensitive to the standards of prudence and loyalty that apply to pension investment decisionmaking. With offices in Washington, D.C., New York and Minneapolis, we have deployed and coordinated a wide variety of specialized professionals on numerous projects, involving equity and fixed income research and analytics, asset management, portfolio risk, transactions costs, futures, commodities and options, private placements, real estate and other complex investment strategies.

Our specific distinguishing features include:

1. *Combined Expertise in Investment Management and Fiduciary Responsibility*

Independent Fiduciary Services grows out of an investment firm, not a benefits consulting, actuarial or auditing firm. The firm's investment professionals include senior staff experienced in pension investment consulting, internal and external asset management and portfolio monitoring for large pension funds.

Senior personnel of Independent Fiduciary Services also are experienced in the legal and fiduciary standards involved in pension investment decisionmaking. These individuals have worked together on other similar evaluations of the investment practices and portfolios of institutional investor funds. The combined perspective of these investment and fiduciary experts provides unparalleled expertise for addressing a combination of investment, procedural and fiduciary subjects.

2. *Unique Perspective of both an Adviser and Fiduciary Decisionmaker*

Independent Fiduciary Services not only regularly advises fiduciaries but itself also acts as a fiduciary, responsible for prudent investment decisionmaking. As an adviser, we frequently accept fiduciary responsibility for our advice which our clients adopt. This, we believe, clearly separates Independent Fiduciary Services from the average consulting firm, which often dispenses advice but doesn't "go on the line" as a fiduciary, with responsibility for actually making decisions. As discussed below, we have been (and on ongoing projects, continue to be) responsible as an independent fiduciary for structuring and overseeing pension fund portfolios and making investment decisions on specific transactions.

This combined perspective as fiduciary and adviser guides us when undertaking detailed analyses and making recommendations regarding the sufficiency and prudence (or imprudence) of particular investment practices. Knowing how, in the real world, to apply prudent investment practices, when we are a fiduciary, adds credibility and insight to our analysis and advice to others. This is especially true where – and as is often the case in our assignments – we operate in a visible, public forum.

### 3. Independence and Objectivity

Independent Fiduciary Services is independent and objective. We do not have any affiliated broker-dealer, asset manager or consultant. We do not accept soft dollars or any other type of brokerage payments and do not sell products or services to asset managers: there are no “hidden costs” in our quotations. Our sole business is investment advice. Whether identifying managers, evaluating brokerage activity or assessing new investment strategies, we have no financial stake other than our client’s benefit.

### 4. The “Operational Review”

One unique service we have developed is our “Operational Review” – the financial equivalent of a physical examination for a pension fund’s investment program, including its organizational structure, portfolio, procedures and controls. In the Operational Review we diagnose and evaluate in writing the broad range of investment subjects and recommend ways to improve efficiency, reduce costs and optimize returns. We have performed Operational Reviews for numerous public and ERISA-covered funds, covering subjects such as asset allocation, the sufficiency of risk controls, investment policies and procedures, investment guidelines, the prudence of unconventional investment strategies, real estate, organizational structure and similar subjects. Frequently an Operational Review is performed as an initial stage of a new retainer consulting relationship as well.

## ***Representative Experience; Specific Prior and Current Engagements***

Independent Fiduciary Services is unusually experienced in evaluating the whole range of pension fund investment practices and portfolios. Our firm offers three distinct services as highlighted below: retainer investment consulting, primarily to Taft-Hartley funds; one-time, special investment evaluations, primarily for public funds; and fiduciary decisionmaking on individual transactions, primarily for corporate plans and corporate fiduciaries.

### **(1) Retainer Assignments**

- ***Mason Tenders District Council Pension, Annuity and Welfare Funds***

In 1994, the Mason Tenders District Council in New York City and its associated employee benefit funds, went through three major developments. First, the value of an investment portfolio of mortgage backed derivative securities was severely impaired by adverse fixed income markets. Second, the U.S. Department of Justice and Department of Labor filed a joint RICO and ERISA suit involving union officials and certain trustees of – and service providers to – the funds. Finally, the Laborers International Union of North America imposed a trusteeship on the Mason Tenders District Council, pursuant to the Labor Management Reporting & Disclosure Act. Shortly thereafter, the trustee agreed to settle the RICO and ERISA claims filed by the Government.

The newly-constituted Board of Trustees of the Pension, Annuity and Welfare Funds hired our predecessor, Bear Stearns Fiduciary Services, in December 1994 to perform a two-step process. Our first step was an Operational Review of the investment programs and practices of all three funds, including written findings and recommendations regarding the troubled mortgage backed derivatives portfolio, overall investment policies, asset allocation, selection of investment managers, cash management, trust and custody, brokerage costs, investment manager guidelines, risk controls and related matters. The second step – which is now complete – is to assist the Board in implementing our many recommendations for change, as well as to assist in the ongoing monitoring of all three investment programs. We have contractually accepted fiduciary responsibility for all of our recommendations that the Board adopts.

- ***New York State Conference of Teamsters Pension & Retirement Fund and Health & Hospital Fund***

The Trustees of the \$1.8 billion Pension Fund and \$150 million Health & Hospital Fund hired Independent Fiduciary Services in 1997 to assist the Board with structuring and overseeing each fund's entire investment program and practices. Independent Fiduciary Services has accepted fiduciary responsibility for its recommendations that the Board adopts.

Independent Fiduciary Services assists the Trustees in updating and reviewing each fund's investment policy statement, and makes recommendations regarding each fund's efficient asset allocation, selection and replacement of investment managers and development of controls over investment risks and expenses including customized, written investment guidelines for each manager. On a quarterly basis, we prepare and present investment performance measurement and evaluation reports regarding each fund as a whole, each individual manager and each asset class (domestic and international stocks, domestic and international bonds and real estate securities), relative to various benchmarks. We also monitor adherence to customized written investment guidelines we developed for each investment manager.

- ***Elevator Constructors Local No. 1 Annuity Fund***

The Board of this \$200 million Fund hired us initially to perform an Operational Review of the investment program and thereafter to assist in monitoring it on an ongoing basis. Our initial analysis addressed the Fund's investment objectives, asset allocation, risk controls, brokerage practices, investment manager structure, past investment performance and related matters. After considering our report, the Board adopted nearly all of our recommendations. We now advise the Board on a retainer basis, assisting with quarterly performance evaluation, evaluating new investment proposals, searching for replacement managers as necessary, monitoring adherence to investment guidelines and related matters.

- ***SEIU Local 144 Pension Fund***

We advise the Board of this \$300 million, New York-based fund on investment policy, asset allocation, selection and replacement of investment managers and development of controls over investment risks and expenses. On a quarterly basis we prepare and present investment performance measurement and evaluation reports regarding the Fund as a whole, each individual manager and

each asset class (stocks, bonds and cash), relative to various benchmarks. We also monitor the managers' adherence to written investment guidelines.

- ***Masters, Mates & Pilots Pension Plan and Individual Retirement Account Plan***

In 1992, the United States District Court for the Southern District of New York appointed our predecessor Bear Stearns Fiduciary Services as the Independent Fiduciary with respect to the entire portfolio of the Masters, Mates & Pilots' Pension Plan and Individual Retirement Account Plan, two multi-employer plans with total assets approaching \$750 million in value. In December 1996, the MM&P Board of Trustees amended the contract to appoint Independent Fiduciary Services to serve in the same capacity as had our predecessor. In this capacity, Independent Fiduciary Services is responsible for supervising and submitting written recommendations to the Plans' Board of Trustees regarding all of the Plans' investment activities, including investment policy, asset allocation, selection and monitoring of investment managers, brokerage and transactions costs, trust and custody, cash management and related matters. These recommendations are binding on the Trustees absent a court order to the contrary.

Our ongoing role as Independent Fiduciary to the MM&P Plans is of special relevance several reasons. First is the subject matter. As Independent Fiduciary, we are responsible for analyzing, reporting on and making written recommendations regarding a wide range of matters, e.g., asset allocation, comparative investment performance and risks and investment expenses. A second aspect of the MM&P situation is that we perform our function in a visible, highly regulated environment. In the MM&P matter, we have been subject to ongoing review of the U.S. District Court, the Department of Labor and plan participants and the Trustees. As Independent Fiduciary to the MM&P Plans, we also submit periodic written recommendations and reports regarding the Plans' investment programs to all these parties.

With the approval of the U.S. Department of Labor, Fiduciary Services was also previously appointed by the U.S. District Court as ERISA Named Fiduciary for a portion (the "Special Assets") of the investment portfolios of these two plans. The Special Assets consisted of private placements (including two wholly-owned operating companies), thinly-traded public securities and troubled real estate. As Named Fiduciary since late 1990, we have been responsible for evaluating investment managers, selecting replacement managers, reporting on a quarterly basis to the Plans' Board of Trustees, coordinating with the Plans' custodian bank, auditors and staff, and regularly communicating in regard to our investment-related duties with the U.S. Department of Labor.

- ***Teamsters Central States Health & Welfare Fund***

In coordination with our firm, Bear Stearns served as ERISA Named Fiduciary of this \$250 million multiemployer plan from 1987 through 1993. The Fund's assets consisted almost exclusively of high quality fixed income investments and several parcels of real estate with environmental problems. As Named Fiduciary, we were responsible for developing and adjusting the Fund's investment policy; selecting, evaluating and closely supervising investment managers as well as the custody bank; measuring and evaluating investment performance on an absolute and risk-adjusted basis; and documenting our own due diligence and prudence regarding all these

matters. Again, as with our Independent Fiduciary role to the MM&P Plans, we were subject to the ongoing supervision of the court and operated in a "fishbowl" environment.

This role ended effective January 1, 1994, when the court permitted the Trustees to regain their role as Named Fiduciary.

## (2) Operational Reviews

We have performed investment evaluations on a project basis (without any ongoing role thereafter) regarding many very large institutional investors. A partial list of other, similar assignments is set below.

- *Florida Board of Administration*

In the spring of 1999, this \$100 billion fund concluded that an in-house investment professional had manipulated its directed brokerage program to her personal benefit. Thereafter, the Board promptly decided to dismantle that program, and to reassemble its commission recapture operations, with enhanced controls, procedures and documentation.

The Board hired IFS in mid-1999 to recommend such enhancements on an expedited basis. We prepared revised policy and procedure documents, advised the Board's Chief Financial Officer and newly-appointed Compliance Officer and recommended numerous additional policies, procedures and controls.

More recently, the Board retained us to evaluate the organizational structure, investment policies and practices and internal controls of its \$3 billion internally-managed real estate program. We submitted our report – with numerous specific recommendations for improvements – in June 2000.

- *San Jose Federated System*

In May 1999, the Board of Administration of the \$1 billion Federated City Employees Retirement System of the City of San Jose, California selected IFS to perform a dual-phase comprehensive review and evaluation. Phase I entailed an independent, objective assessment of the Federated System's operational integrity, resources and efficiency in order to provide a "baseline" of the Federated System as currently structured and as it currently operates. The scope of work for Phase I included an evaluation of current job descriptions and performance criteria, staff compensation, reporting lines of authority and accountability, and the vendor payment process. Given this "baseline," the purpose of Phase II was to evaluate and make recommendations to the Board regarding whether and how to transition from the current conjoined organizational structure to either (a) one department with two divisions, and/or (b) complete separation of the Federated System from the San Jose Police and Fire System.

- ***Teachers' Retirement System of Illinois***

In May 1998, the then \$19 billion Teachers' Retirement System of the State of Illinois hired IFS to comprehensively evaluate the System's investment program and practices. The purpose of the evaluation was to determine whether the System's investment performance and practices met industry standards, applicable to public retirement systems. The scope of work for the project included evaluating the System's: organizational structure and resources; internal controls; investment consultant responsibilities; legal roles and responsibilities; asset allocation; due diligence procedures; investment policies; investment performance; performance benchmarks; transaction and consulting costs; investment structure; trust and custody; and other investment related programs and practices.

Our final extensive written narrative report (140 pages plus detailed exhibits) was presented to the Board of Trustees on December 9, 1998. The report set forth 122 specific recommendations, largely clustered around three themes: (1) upgrading the organization's lines of authority and resources, (2) enhancing internal controls and risk management and (3) redesigning or reconsidering several aspects of the portfolio's structure.

- ***Employees Provident Fund of Sri Lanka***

The Employees Provident Fund is the national retirement system managed by the Monetary Board of the Central Bank of Sri Lanka (formerly Ceylon) and is the country's largest single investor. As of June 30, 1999, Fund assets amounted to approximately \$2.5 billion and equaled approximately 15% of the nation's Gross Domestic Product.

Through financing provided by the World Bank, the Monetary Board sought technical assistance on how to restructure and upgrade the Fund's investment program, practices and long-term performance, including its organizational structure and resources, the legal and regulatory framework, its management information systems, internal controls and reporting, portfolio structure, investment strategies, processes for selecting and monitoring investment managers and training for staff. In a world-wide competition, IFS was selected to advise the Central Bank on all those subjects, in association with International Science and Technology Institute of Virginia. While ISTI provided on-site training to the Fund's staff, IFS also arranged for the staff a study tour of major U.S. public pension funds, including several that IFS had previously evaluated (including the Texas Teacher Retirement System, the Public Employee Retirement System of Idaho and the Virginia Retirement System).

The project was particularly challenging – and worthwhile for the Sri Lankan Government – because the country's capital markets, regulatory framework and risk management practices are still at a formative stage.

- ***National People's Congress Of The People's Republic Of China***

In late 2000, the National People's Congress of the People's Republic of China invited IFS to Beijing to advise it on developing a civil law of trusts for a range of Chinese investment vehicles

and transactions, including public and private pension funds. In coordination with the Asian Development Bank, the Legislative Affairs Committee of the Congress presented IFS and four other representatives from around the world (one Japanese, one British, one Canadian and one other American) with a second draft of proposed trust legislation and requested written analysis and face to face discussions. The Congress was anxious to proceed with refining and developing the law in connection with restructuring its economy and financial markets for entry into the World Trade Organization.

The legislative bill reflected several core concepts which we believed would facilitate market-based transactions and long-term investment. However, we suggested revising and adding numerous other provisions to strengthen fiduciary responsibilities, promote concepts of investment risk and return and prepare the pension system for growth in the size and sophistication of the country's capital markets. We also advised on a variety of practical and operational problems with pension fund investing that the Congress should consider addressing in future legislation.

- ***Washington State Investment Board***

In April 1997, we completed and presented our evaluation of the \$35 billion investment program of the WSIB. Including assets of several retirement systems, workers compensation funds and miscellaneous "permanent and other" funds, the WSIB portfolio is invested in domestic and international assets, including publicly-traded and private equity, fixed income securities and real estate, as well as various types of derivatives. Hired by the State Auditor to conduct a "comprehensive performance audit," we examined the following aspects of the WSIB:

- Organizational and management structure
- Impact of statutory provisions on the Board
- Delegation and lines of authority
- Selection, evaluation and termination of investment managers and other professionals
- Internal controls
- Personnel, training and development systems
- Disaster recovery
- Systems and technology
- Investment performance and fees
- Portfolio structure

Our final work product was a 200 page narrative report, plus statistical support.

- ***Texas Teacher Retirement System***

In November 1996, Independent Fiduciary Services submitted a 250-page report regarding the investment program and practices of the \$50 billion Texas Teacher Retirement System. Our client was the Texas Legislative Audit Committee, acting through the State Auditor. Our report analyzed the TRS' internal asset management function (which manages the System's entire portfolio), controls for monitoring outside service providers (including consultants), risk control, asset-liability structure, active vs. passive management, performance benchmarks, brokerage and



trading practices, investment measurement and accounting systems, reporting to the legislature, trust and custody, organizational structure and staffing, state fiduciary standards, the real estate program (debt and equity), fees and expenses and related matters.

- ***Virginia Retirement System***

In 1993, our firm comprehensively evaluated the \$16 billion Virginia Retirement System ("VRS") for the Joint Legislative Audit and Review Commission ("JLARC") of the Virginia General Assembly. JLARC had requested an independent, expert review of the VRS' investment program, including the sufficiency of the System's asset allocation, diversification of risk, net investment performance, "alternative" investment program, fees paid to consultants and investment managers, use of derivatives, the real estate portfolio, organizational structure, investment decisionmaking procedures, investment guidelines, state statutory fiduciary standards, transactions costs and related matters. The purpose of the review was to inform the State's legislature of the current condition of the VRS' investment portfolio and practices and to suggest ways of reducing risk, trimming expenses and enhancing net returns.

Our final product was an extensive, written narrative report combined with financial analyses, charts and statistical tables. We also testified publicly and made a slide presentation of our findings and recommendations to JLARC at a legislative hearing on December 13, 1993. Many of our recommendations were immediately implemented and others were implemented later in 1994.

- ***West Virginia Board of Investments***

In December 1994, we completed our evaluation of the \$4.6 billion investment program managed by the West Virginia Board of Investments. At that time, all assets of the West Virginia Board were managed internally. Our evaluation addressed the Board's asset allocation; selection, monitoring and termination of investment advisers (who provide advice, but do not have discretionary authority over the assets); cash management practices, including use of repurchase agreements and reverse repurchase agreements; in-house fixed income trading; use of pooled investment vehicles; statutory fiduciary standards; investment fees and expenses; staffing and organization; and other matters. Our final work product was a 116-page report, plus exhibits, and we personally presented our findings and recommendations to the Board.

- ***Nevada Public Employees' Retirement System***

In 1995 we evaluated the investment program and practices of this \$6 billion fund. Our analysis and report addressed a broad range of subjects, including the adequacy of the investment policy statement, taking into account the System's actuarial condition, funding mechanism, cash flow requirements, investment horizon and related factors; the reasonableness of its asset allocation, including the inputs and methodologies its consultant used in conducting an asset allocation study, the expected risk and return of the current portfolio and alternative asset mixes geared to increasing returns with equal or lower risk; the System's methods of monitoring the investment program, including its investment guidelines, performance benchmarks (including market indices) and performance objectives; monitoring and managing transaction costs, including use of soft dollars

and directed brokerage; and the structure of – and vehicles used in – the System's real estate program. Throughout this project, we coordinated closely with the staff and Board. Our final report was submitted in August 1995, when we personally presented it to the Board at a public hearing.

- ***Public Employee Retirement System of Idaho***

This \$3 billion fund hired us to assist the Board and Chief Investment Officer in enhancing its investment program over the coming years. Rather than seeking to analyze prior investment performance, our function was to diagnose any aspects of the current investment program which, in our judgment, should be upgraded and to evaluate the pros and cons of various ways of accomplishing those improvements.

This project encompassed a wide range of subjects, including

- the structure of the Board, including the statutory framework, ethics policies, procedures regarding travel and education, staffing, and the relationship between the Board and the State of Idaho.
- the System's investment policy statement, including provisions concerning the role of the Board, investment objectives, permissible and impermissible asset classes and instruments and policy issues concerning these and related subjects.
- the investment guidelines for each particular investment manager, including guidelines for various types of domestic and international equity and fixed income managers, managing both securities and derivatives. We proposed model investment guidelines for each type of manager.
- the System's process for selecting investment managers, the current roster of managers and the process for termination.
- the methods for monitoring investment managers and the investment consultant, including monitoring: transaction costs, commission recapture and soft dollar practices; risk; and proxy voting practices.
- contractual matters regarding the investment managers and consultant, including possible provisions for incentive compensation, a model investment management agreement and the consultant's contractual scope of duties.
- asset allocation, including the adequacy of the consultant's methodology and capital market assumptions, alternative methodologies and assumptions and additional types of assets, strategies and instruments the Board might wish to consider.

- the System's banking relationships, including master trust and custody. This included an analysis of custody services and fees, as well as cash management practices.

After approximately 5 months work with the Board and CIO, we personally presented our final report in October 1995.

- ***District of Columbia Retirement Board***

This \$2.8 billion fund hired Independent Fiduciary Services to evaluate nearly all aspects of its investment program and practices. Our analysis and report addressed a broad range of subjects including the structure, ethical rules, travel policies and other operating policies of the Board of Trustees; the sufficiency of the fund's investment objectives and asset allocation; the adequacy of its procedures for selecting, monitoring and terminating investment managers, including the manager search process, investment manager guidelines, use of soft dollars and directed brokerage, "watch list" and "farm team;" the fees paid to outside investment managers and the number of such managers; and the fund's past investment performance, in terms of absolute, risk-adjusted and comparative returns, by asset class, for the fund as a whole and over select time periods. Shortly after finalizing our report in April 1995, the Board submitted it to the U.S. Congress for review and possible legislative action. The Congressional Budget Office of the U.S. Congress has since relied on our report to assist the Congress in deliberations over whether and how to adjust the structure and operations of the DCRB.

- ***IBEW Eighth District Pension Fund***

The Board of Trustees of this Electrical Workers Fund retained us to help them identify and better control known (and unknown) risks and expenses associated with the \$325 million investment program. Our study evaluated the Fund's investment policy statement, asset allocation methodology and structure, the costs and risks of its real estate program and collateralized note program, brokerage practices, custody costs and services, the risk and return of the securities lending program, the functions of – and problems with – the regular investment consultant, and other matters. The goal of our report was to empower the Board with greater understanding of and control over their professional advisers.

After accepting our report in October 1997, the Board retained us to assist them in implementing many of our 84 specific recommendations.

### **(3) Decisionmaking Transactions**

Independent Fiduciary Services is unusually experienced in making and evaluating complex investment decisions as an ERISA independent fiduciary. Set forth below are several of the specific engagements we have completed over recent years.

- ***Union Pacific Resource Group, Inc. Thrift Plan***

Upon its spin out from Union Pacific Railroad in 1996, UPR became the nation's largest independently-owned exploration and production company. In January 1997, UPR added an employee stock component to its Thrift Plan. Subsequently, the named fiduciary of the Thrift Plan selected Independent Fiduciary Services on a retainer basis to decide how to vote the proxies associated with the UPR stock owned by the Plan's ESOP component.

In addition to voting proxies during the regular proxy season, our firm is responsible for voting in connection with special corporate events requiring shareholder approval. In the Spring of 2000, Anadarko Petroleum proposed a merger with UPR where UPR would become a wholly-owned subsidiary of Anadarko. Under the proposed merger, UPR shareholders (including the Plan) would receive .455 shares of Anadarko for each share they owned of UPR. As the Plan's independent fiduciary, IFS was responsible for deciding how to vote the Plan's proxies, for or against the merger, regarding company stock held by the Plan. UPR'

In the Spring of 2000, Anadarko Petroleum proposed a merger with UPR where UPR would become a wholly-owned subsidiary of Anadarko. Under the proposed merger, UPR shareholders (including the Plan) would receive .455 shares of Anadarko for each share they owned of UPR. As the Plan's independent fiduciary, IFS was responsible for deciding how to vote the Plan's proxies, for or against the merger, regarding company stock held by the Plan.

Based on detailed analysis of the expected impact of the merger on the value of the Plan's shares of UPR stock, we determined UPR shareholders would likely benefit from the merger. Among the factors we analyzed were the substantial premium Anadarko offered for the UPR shares relative to its trading range prior to announcement of the proposed transaction, as well as the expected increase in financial flexibility and growth potential of the combined companies. Therefore, we decided to vote in favor of the merger.

- ***Aetna Life Insurance Company***

Aetna proposed to transfer certain client assets subject to ERISA, with the clients' consent, from the insurance company's separate accounts to similar commingled trust accounts of Aetna's wholly-owned subsidiary, Aeltus Trust Company. Our firm was selected as Independent Fiduciary to analyze the fairness and reasonableness of Aetna's stated methodology for determining the identity, quantity and valuation of the assets to be transferred. In mid 1999, we provided Aetna and Aeltus our favorable findings in a written report.

- ***Wells Fargo Bank***

After merging with First Interstate Bank, Wells Fargo Bank proposed to merge the numerous "Pacifica" mutual funds sponsored by First Interstate Bank into numerous "Stagecoach" funds sponsored by Wells Fargo. Because Wells Fargo had discretionary control over many ERISA-covered plans that had invested in the Pacifica funds, Wells Fargo sought an independent decisionmaker to evaluate and decide on that proposed merger on behalf of investors in the Pacifica

funds. In May 1996, Wells Fargo selected Independent Fiduciary Services to act as that decisionmaker.

In that role, we analyzed the combined proxy statement/prospectus regarding the proposed merger. Among other lines of inquiry we compared many investment features of the Pacifica funds against those of the contemplated merged funds, including, for example, investment guidelines, expected risk and return, fees, shareholder services, redemption rights and other matters. Based on the extensive volume of information received, we concluded that each proposed fund merger (including the proposed fee structure) would be in the interest of the respective Pacifica shareholders and thus voted in favor of each merger. We submitted an opinion letter and voted the Pacifica shares in July 1996.

- ***MBL Life Assurance Corporation***

MBL Life, an insurance company then in the process of divesting itself of all insurance liabilities, retained Independent Fiduciary Services in 1999 to advise on strategies to facilitate an orderly liquidation of several actively managed domestic equity investment accounts. The objective was to enable various contract holders whose policy values were invested in the accounts (including the company and its employees) to take distributions over time without materially impairing liquidity, investment performance or risk, and without unfairly disadvantaging any class of investors, including the last investors to withdraw.

We investigated several strategies for liquidating the various types of equities involved, in terms of timing, brokerage methodologies and portfolio management. We ultimately recommended a bulk liquidation and reinvestment in various pooled index funds with investment characteristics similar to the respective portfolios being liquidated. In the course of evaluating the cost effectiveness of various alternatives, we evaluated the feasibility of an in-kind exchange of securities for pooled fund shares, although ultimately the bulk sale and purchase proved the better choice.

We also assisted in identifying and contracting with providers for both the liquidation and the pooled fund reinvestment. As a result of the restructuring, all investors were paid out on time, and no claims were made against the company with respect to the distribution.

- ***Massachusetts Mutual Life Insurance Company***

In 1994, Independent Fiduciary Services provided independent financial advice to MassMutual regarding the proposed investment of approximately \$2.7 billion in MassMutual separate account assets (managed primarily on behalf of ERISA-covered defined contribution plans) in a series of seven newly-established mutual funds, also sponsored by MassMutual. In that role, acting as an "Independent Fiduciary" on behalf of the separate accounts and underlying defined contribution plans, we analyzed (1) the sufficiency of MassMutual's disclosure to those plans concerning financial, operational and administrative features of the proposed transaction; (2) valuation of separate account and mutual fund assets (which include various types of derivatives as well as publicly-traded domestic and foreign securities); and (3) the investment management and

custody fees imposed on the plans by the separate accounts as compared with those charged by the mutual funds.

Our final work product was a detailed written opinion to MassMutual. To consummate its proposed transaction, MassMutual required relief pursuant to an ERISA prohibited transaction exemption, issued by the U.S. Department of Labor. Our opinion was essential to qualifying for that relief.

- ***Real Estate Equity Fund***

The Real Estate Equity Fund of a major trust company selected Independent Fiduciary Services as an independent fiduciary to render advice in 1991 and 1992 as to the financial soundness of the prior, tentative decision by the Fund Board of Trustees to terminate and liquidate its \$360 million pooled real estate equity fund ("REEF"). In coordination with the Bear Stearns Real Estate Group, we evaluated the timing, strategy, cost and impact of the Trustees' proposed termination and liquidation, and successfully developed a strategy for the REEF to avoid such termination and liquidation, thus preserving long-term investor values. Subsequently, the Fund engaged us as an independent fiduciary to render financial advice concerning prudent withdrawal and distribution provisions for all REEF investors. In performing these assignments, we dealt with approximately 15 of the leading pooled real estate equity funds across the country (in addition to REEF) regarding their policies and practices concerning valuation, liquidity, sales, termination, and distribution of cash. (We may not disclose the identity of this client without prior approval, but will seek such approval, upon request.)

- ***AK Steel Company***

In conjunction with the Corporate Finance Department at Bear, Stearns & Co. Inc., we acted in early 1994 as independent financial adviser to the Investment Committee of two pension plans sponsored by AK Steel Company, regarding the company's proposal to make an excess contribution of stock to the plans, in lieu of a lower amount in cash.

A privately-owned joint venture between Armco Steel and Kawasaki Steel, AK expected to restructure its finances through, among other things, an initial public offering of approximately \$350 million in common stock and a contribution to the pension plans of \$50 million of that newly-issued stock plus \$50 million in cash. As financial adviser to the Committee, we analyzed whether and on what terms the Committee should accept the proposed excess contribution of stock plus cash. This included analysis of the financial prudence of the proposed transaction in terms of overall portfolio asset allocation (including expected risk and return), cash flow, the value of the stock for contribution purposes, the transaction's impact on the company's future contribution obligations, the actuarial and funding condition of each plan, subsequent management and disposition of the stock and related matters.

- ***Pan American Pension Plans***

As an independent investment decision-maker for five pension plans sponsored by Pan American World Airways, Inc., Independent Fiduciary Services decided in 1989 whether and on

what terms the Plans should: (1) acquire Pan Am's leasehold in the Worldport passenger terminal at John F. Kennedy International Airport and (2) then sublease the terminal back to Pan Am. Our firm accepted fiduciary responsibility under ERISA for making this decision prudently and in the interest of the Plans.

Among other factors we analyzed in making the decision were the fair market value of the Worldport lease; the position of the Plans with and without the lease, if Pan Am entered bankruptcy; the impact of the lease on the funded status, liquidity and diversification of the Plans; environmental issues regarding the Worldport terminal; safeguards to protect the Plans' interest throughout the 9-year term of the proposed sublease to Pan Am; and Pan Am's business and financial prospects. On behalf of the Plans, we also negotiated the terms of the sublease with both Pan Am and the Port Authority of New York and New Jersey; submitted an extensive opinion letter to the U.S. Department of Labor in support of the transaction, as negotiated by Independent Fiduciary Services; and personally presented its opinion at a Labor Department hearing in May 1989.

In August 1989, the Department granted a final exemption from ERISA's prohibited transaction provisions, allowing the Plans to acquire the Worldport lease and sublease the terminal back to Pan Am. As finally executed, the Worldport transaction transferred to the Plans an asset valued at nearly \$170 million and satisfied Pan Am pension funding obligations in the amount of approximately \$105 million.

Continuing as the Plans' independent fiduciary from the closing in August 1989 through the Pan Am bankruptcy proceeding, Independent Fiduciary Services monitored Pan Am's compliance with the terms of the sublease and enforced the Plans' rights as sublessor. As of November 1, 1991, after months of negotiation, we reached an agreement with Delta Airlines, the Port Authority, Pan Am and the Creditor's Committee whereby Delta replaced Pan Am as sublessee of the Worldport. As a result of that agreement, the Plans' investment in the Worldport lease was preserved and the Plans continued receiving rental payments without interruption.

Subsequently, the Pension Benefit Guaranty Corporation ("PBGC") terminated the Plans and took over the Worldport lease as an asset. Subsequently, we advised PBGC regarding management of the Worldport lease and Delta sublease. Over the last half of 1992, we advised PBGC regarding Delta's proposal to buy-out (at an appropriate value) the remaining term of the sublease. That buy-out occurred on December 31, 1992.

- ***Reliable Stores, Inc. Employee Stock Ownership Plan***

Independent Fiduciary Services was selected as named fiduciary for this retail store's ESOP for a six-month engagement. The ESOP was a substantial minority shareholder of this closely-held company, which had been taken private in a management-led leveraged buy-out in the late 1970's. As named fiduciary, we represented the ESOP as a vocal shareholder in evaluating, challenging and affecting a number of courses of action proposed by management and the majority shareholders, regarding restructuring, asset sales, possible litigation and executive compensation. In this assignment, we coordinated with the Bear Stearns Corporate Finance Department.

- ***Nation-Wide Pension Fund***

In 1997, legal counsel to a nation-wide pension fund (which – because of a confidentiality agreement – we are not at liberty to identify) retained us to provide a written fiduciary opinion regarding a proposed settlement of claims. The fund suffered substantial losses in connection with a derivatives-based investment program and threatened to sue the investment manager and consultant responsible for that program to recover those losses. After negotiating a proposed, multi-million dollar settlement with the manager and consultant, the fund, through counsel, sought our opinion as an expert, independent fiduciary whether the settlement amount was prudent from an investment perspective. In providing that opinion, we considered the nature and risks of the specific investment program, the guidelines governing the program, industry standards regarding other similar programs as well as the functions of the manager, consultant and trustees, the fund's asset allocation, alternative investment strategies and other matters. We provided a written opinion in support of the proposed settlement and personally presented it to the trustees and legal counsel.

- ***Donohoe Construction Company Profit Sharing Plan***

In early 1998, the Trustees of this Profit Sharing Plan retained us to act as an independent decisionmaker on their behalf. The company's management – some of whom were also Plan Trustees – proposed to purchase 100% of its common and preferred stock from all current shareholders, including the Plan, which owned a minority stake.

In the early stages of our analysis, we recognized that the proposed purchase and sale created various prohibited transaction problems under ERISA which would require an individual exemption from the U.S. Department of Labor. On behalf of the Plan, we proposed a revised structure which avoided the cost, delay, complexity and uncertainty of such an individual exemption. The revised structure was more favorable to the Plan and was also acceptable to both the management group/purchaser and the controlling seller/shareholders.

Our work included evaluating the material terms of the proposed transaction, critiquing and applying an appraisal of the common and preferred shares, negotiating the revised terms noted above and formalizing the decision on behalf of the Plan to proceed with the restructured transaction. The sale closed in June 1998.

- ***Wilmington Trust Company***

In the spring of 1998, Wilmington Trust retained IFS to decide – on behalf of two in-house Plans sponsored by Wilmington – whether to approve the proposed conversion of several of Wilmington's collective investment funds ("CIFs") into investment companies (mutual funds). The Plans were invested in the CIFs and Wilmington wanted a fiduciary independent of the bank to determine whether the conversion would be in the Plans' financial interest.

In evaluating the proposed conversion, we considered whether from an investment perspective, the mutual funds were expected to have similar portfolio objectives, risks, procedures and investment controls as the CIFs; whether the proposed conversion would impose any



transaction costs on the Plans; the range of information available to the Plans regarding the mutual funds as compared with the CIFs; the level of fees and expenses imposed on the Plans by the mutual funds as compared with the CIFs and other similar investment vehicles available to the Plans; and the relative flexibility for Plan participants of reinvesting distributions eligible for tax-free rollovers from the CIFs versus the mutual funds.

After completing our analysis, we approved the conversion on behalf of both Plans and submitted to the Plans' named fiduciaries a detailed written report, reflecting our analysis.

- ***Riggs Bank, N.A.***

In June 1998, Riggs Bank of Washington, D.C. retained IFS as an independent fiduciary to decide how to vote the proxies of shareholders/investors in three of Riggs' mutual funds, regarding proposals to revise the distribution plans for those funds. Because Riggs was in a conflict of interest situation – advocating the revised distribution plan as sponsor of the mutual funds, but also a fiduciary for its clients that were investors in the funds – Riggs sought an independent decisionmaker to evaluate and decide on the proposed distribution plans on behalf of the investor clients.

As independent fiduciary, we analyzed the funds' proxy statement and amendments regarding the revised distribution plan, the revised marketing summary, the funds' combined prospectus, minutes of meetings of the funds' trustees, and a proxy analysis and fund analysis prepared by third parties. Based on extensive cost analysis, industry comparisons developed from the preceding documents and publicly available information regarding the impact and expectations for current investors, we decided to instruct Riggs to vote to approve the revised distribution plan for all investors regarding all three funds.

## ***Personnel***

- ***Francis X. Lilly, President and Chairman of the Board***

Francis X. Lilly is President and Chairman of the Board of Independent Fiduciary Services Inc., and a member of the board of directors of Custodial Trust Company (wholly owned by The Bear Stearns Companies Inc.). As President, Mr. Lilly is either directly involved or involved on a supervisory level regarding nearly every client of the firm. He is active across a wide range of subjects including developing investment policy, selecting investment managers and working closely with boards of trustees on matters of special concern.

Mr. Lilly brings a broad expertise with analysis and regulation of investment activity by pension funds. Prior to forming Bear Stearns Fiduciary Services in 1985, Mr. Lilly was the Solicitor of Labor (General Counsel) at the United States Department of Labor, appointed by the President in 1983. In this position, Mr. Lilly was responsible for all legal activity of the Department, including its enforcement of the fiduciary provisions of ERISA. Prior to his confirmation as Solicitor by the U.S. Senate, Mr. Lilly served as Deputy Solicitor of Labor in 1982

and as Acting Associate Counsel to the President, The White House, in 1981. Before his public service, Mr. Lilly practiced law in Washington.

Mr. Lilly received his undergraduate degree from Duke University and his law degree from the Columbus School of Law, Catholic University of America.

- ***Samuel W. Halpern, Executive Vice President, General Counsel and Board Member***

Mr. Halpern has specialized in the financial and fiduciary aspects of pension fund investing for over 20 years. As Executive Vice President and General Counsel, Mr. Halpern assists clients with a wide variety of investment-related activities including asset allocation, selecting and supervising investment managers, controlling risk and expenses, special fiduciary transactions, Operational Reviews and related matters.

Prior to joining the firm in 1986, Mr. Halpern was a partner in a Washington, D.C. labor law firm, where he specialized in investment matters subject to the fiduciary responsibility provisions of ERISA. He represented pension and welfare funds, trustees, labor unions and participants in litigation and administrative matters involving the U.S. Department of Labor. Before private practice, Mr. Halpern litigated fiduciary responsibility cases under ERISA for five years at the U.S. Department of Labor, where he helped develop legal standards for pension fund investing. These cases involved the "prudent man" rule, valuation and decisionmaking regarding investing in real estate and closely-held employer securities, diversification of investments, appropriate investment procedures, selection and compensation of service providers and other matters.

Mr. Halpern graduated magna cum laude and Phi Beta Kappa from Brown University, attending the London School of Economics and received his law degree with honors from the George Washington National Law Center in Washington, D.C.

- ***Richard F. Schmidt, Senior Vice President & CFO***

Mr. Schmidt has over 25 years experience in structuring investment portfolios, monitoring investment performance, controlling cash flows and operational processes. His responsibilities include development of asset allocations, selection and monitoring of managers, investment controls and guidelines, performance evaluation, custodial issues and systems and technology. In addition he manages the company's internal finance, administration and accounting.

Based in New York, Mr. Schmidt has been with the company a total of seven years, first from 1987 to 1990 and then rejoining in January, 1996. His other experience includes managing the treasury department and employee benefits of the U.S. subsidiary of a worldwide manufacturing corporation. As Chief Investment Officer of that company's billion dollar defined benefit and 401(k) funds, he was responsible for managing twenty outside managers and a master custodial relationship for twelve separate plans.

Mr. Schmidt graduated summa cum laude from Pace University with a degree in finance and earned an MBA with distinction from Fairleigh Dickinson University.

- **Jack E. Johnson, Senior Vice President**

Mr. Johnson is responsible for asset allocation, manager search, developing prudent practices for investment monitoring, evaluating risk and return, controlling investment fees and expenses, trust and custody activities and related matters.

Prior to joining the firm in its Washington office in 1997, Mr. Johnson was Director of Finance-Chief Investment Officer and Assistant Administrative Manager of the \$4.5 billion International Union of Operating Engineers Central Pension Fund, in Washington, D.C. Mr. Johnson's twenty-seven year career with the Central Pension Fund spanned all aspects of pension fund finance, administration and policy. During his tenure, the Fund grew from \$55 million to \$4.5 billion in assets.

Mr. Johnson is a frequent speaker at finance industry colloquiums, conferences and seminars, where he has addressed matters such as equity style allocation, indexing and proxy voting. He received his BS in Economics from Purdue University. He has participated in several professional organizations and served on the Board of Directors of the Council of Institutional Investors.

- **George D. Appleby, Senior Vice President**

Mr. Appleby joined Independent Fiduciary Services early in 1999 in its Minneapolis office from Merrill Lynch, after 20 years of professional experience in the financial services industry. He holds a B.S. degree in economics with a minor in statistics from the University of Southern Mississippi, and completed the Real Estate Investment Analysis Program at the Wharton School at the University of Pennsylvania. He has served on numerous committees of the Minnesota State Board of Investments (including committees responsible for selecting investment consultants and money managers) and is currently a member of the Ramsey County Investment Review Committee.

- **Jeanna M. Cullins, Senior Vice President and Deputy General Counsel**

Ms. Cullins has over 13 years of pension fund experience across a wide range of fiduciary, investment, administrative, policy and operational matters. Her current responsibilities center on evaluating the investment portfolios, practices and policies of institutional investors, especially in connection with Operational Reviews of public retirement systems.

Ms. Cullins joined the firm's Washington office early in 1998. Prior to joining Independent Fiduciary Services, Ms. Cullins came from the \$4.5 billion D.C. Retirement Funds where she served as Executive Director from June 1993 until October 1997, and as General Counsel for the preceding seven years. As Executive Director, Ms. Cullins was responsible for developing, recommending and implementing all fiduciary, investment and operational policies and procedures established by the Board, as well as managing the Funds' day-to-day operations. This included oversight of over 35 investment managers, the master custodian, actuary, auditor and all other professional service providers retained by the Board.

Ms. Cullins graduated cum laude from Brooklyn College and received her law degree from Georgetown University Law Center. She is an active member of the National Association of Public Pension Attorneys and a frequent speaker at pension industry conferences.

- **Steven M. Harding, CPA, CFSA, Vice President**

Mr. Harding has more than seventeen years of risk management experience in financial services and is a nationally recognized expert regarding risk controls over public pension funds. Prior to joining the firm in 1999, Mr. Harding was Principal Internal Auditor for the New York State Employees' Retirement System from 1990 through 1998. He was responsible for financial, compliance and operational audits of the \$100 billion New York Common Retirement Fund.

At IFS, he is heavily involved in Operational Reviews (fiduciary audits), fiduciary transactions and internal quality control.

In May of 1991, Mr. Harding formed the Association of Public Pension Fund Auditors, Inc. ("APPFA"). From 1991 to 1994, he presided over APPFA's Board, which includes audit directors from the largest public pension funds in the U.S. and Canada. More than 45 public pension funds have since joined APPFA representing over \$1 trillion in assets.

Mr. Harding spent more than six years in public accounting with Coopers & Lybrand and with a regional firm. At both firms, he audited securities broker-dealers. He also worked in the securities industry as internal auditor for a publicly held broker-dealer. He earned the Series 7 and 63 licenses to sell securities and was Chairman of the New York State Society of CPAs Stockbrokerage Committee.

From 1987 to 1999, Mr. Harding was an adjunct professor of graduate accounting at the University at Albany, giving up teaching only recently upon joining IFS. He has taught continuously at the college level 15 years. A member of the American Institute of Certified Public Accountants, the Institute of Internal Auditors, and the National Association of Financial Services Auditors, Mr. Harding is the author of "Auditing External Real Estate Advisers: 101 Best Practices," published in the June 1999 issue of the professional journal, Internal Auditing.

- **Edward D. Patchett, Jr. CFA, Vice President**

Mr. Patchett joined Independent Fiduciary Services' Washington office in 1997. A Chartered Financial Analyst, Mr. Patchett assists in all major aspects of the firm's work. His analytical background is broad, extending from securities regulation to investment consulting to investment banking.

Previously with Wilshire Associates, Mr. Patchett was primarily responsible for conducting manager searches, analyzing equity and fixed-income investment strategies and performing investment manager due diligence for the firm's clients, including the \$15 billion investment program of the federal Pension Benefit Guaranty Corporation. Prior to joining Wilshire, Mr. Patchett was an Investment Banking Associate with a regional investment banking firm where he analyzed IPOs, mergers and acquisitions and fairness opinions for the firm's banking and thrift

industry clients. He also has several years of experience as a securities industry regulator with the National Association of Securities Dealers.

Mr. Patchett graduated from Ferris State University with a Bachelor of Science degree in Business and earned his Master of Science degree in Business-Finance from The Johns Hopkins University. He has been awarded the Chartered Financial Analyst (CFA) designation by The Association for Investment Management and Research and is a member of The Washington Society of Investment Analysts.

- **Kathleen O. Schroeder, Vice President**

Based in IFS' Washington office, Ms. Schroeder assists in the preparation, evaluation and production of investment performance reports for the firm's clients, as well as a broad range of other financial analyses. She has been involved with performance measurement for eight years and has passed the level one exam in the Chartered Financial Analyst program. Prior to joining our firm in 1995, Ms. Schroeder performed similar functions at Union Labor Life Insurance Company in Washington, D.C. and Evaluation Associates Inc. in Norwalk, Connecticut.

Ms. Schroeder graduated from Fairfield University with a Bachelor's Degree in Management.

- **Leslie E. Billet, Vice President**

Based in New York, Ms. Billet joined Independent Fiduciary Services to assist in all major aspect of the firm's work, especially retainer consulting and Operational Reviews. As internal manager for retainer relationships, Ms. Billet is involved in a wide range of investment activities. These include developing investment policy, conducting manager searches, preparing manager investment guidelines, evaluating and managing custody and manager transactions, monitoring risk and return, and assisting with operational aspects of well-functioning investment programs. She has also assisted clients with developing and installing 401(k), participant directed programs. This work has included searches for full service providers, helping Trustees select investment options, and reviewing record-keeping and administrative services and education programs.

Previously, at Brown Brothers, Harriman, Ms. Billet was an Investment Officer, where she helped build the firm's investment management business in fixed income and equity products. From 1983 to 1991, Ms. Billet was employed by the New York Stock Exchange, where she helped build an electronic exchange for fixed income trading, by marketing services to the NYSE's corporate constituents.

Ms. Billet graduated *magna cum laude* from Boston University with a Bachelor degree in political science, and earned her MBA in finance from Baruch College of City University of New York.

- **John J. McNulty III, Vice President**

Mr. McNulty has more than 30 years experience in financial services across both the public and private sectors. His experience spans a national accounting firm, two bank holding companies, a regional securities broker-dealer and state and local government.

At IFS, Mr. McNulty concentrates on Operational Reviews regarding major institutional investors. His special focus is on investment operations and investment accounting, including internal controls, financial systems, cash management, securities processing and related matters.

Mr. McNulty's bank holding company experience included managing staffs responsible for financial reporting, budgeting, forecasting, tax planning/reporting and merger and acquisition analysis. He was also responsible for financial reporting to shareholders and regulatory authorities. Subsequently, as Executive Vice President & Chief Financial Officer of a regional broker-dealer, he was responsible for Administration, Finance, Operations, Compliance and Human Resources. During his tenure at the broker-dealer he earned the NASD Series 24, 27 and 62 registrations.

Mr. McNulty's experience with state government centered around special projects in the Office of the New York State Comptroller. These concerned management of major systems conversions and new systems implementation.

Mr. McNulty graduated from the College of Santa Fe with a Bachelor of Business Administration Degree in Accounting.

- **Barbra A. Byington, CFA, Assistant Vice President**

Ms. Byington joined IFS' Washington office in July 2000 to assist in all major aspects of the firm's work. Her experience in the financial services sector has been varied, with 10 years of experience on both the public and private sides of the industry.

Immediately prior to joining the firm, Ms. Byington was a financial analyst in the Treasury Division of the Pension Benefit Guaranty Corporation. Her primary responsibilities included ongoing monitoring and evaluation of external investment managers of the \$18.6 billion investment program, as well as manager searches and manager due diligence. She was also involved in the day-to-day operations of the investment program and worked with the agency's investment consultant on various issues, such as equity structure reviews. Earlier at the PBGC, Ms. Byington performed financial analyses of plan sponsors and developed recommendations as to whether they met termination criteria under ERISA.

Prior to her role at the PBGC, Ms. Byington worked as a corporate financial analyst for Lehman Brothers in New York in the Merchant Banking and High Yield Finance groups of Lehman's Investment Banking Department.

Ms. Byington graduated summa cum laude and Phi Beta Kappa from Washington and Lee University with a Bachelors degree with honors in economics and French. After graduation, she

studied international economics at the Graduate Institute of International Studies as a Fulbright Scholar in Geneva, Switzerland. She earned the designation Chartered Financial Analyst in 1996 and is a member of the Association for Investment Management and Research and the Washington Society of Investment Analysts.

- **Marc E. Morlock, Analyst**

Mr. Morlock joined the firm's Washington office in 1996 to assist in the evaluation, analysis and reporting of investment performance to institutional clients, as well as manager due diligence, asset allocation and other financial analysis. He also is actively involved with ongoing investment consulting to several Taft-Hartley funds and has been central to a number of the firm's fiduciary transactions, including real estate-based projects.

Mr. Morlock graduated from Pennsylvania State University with a Bachelor's Degree in Finance and International Business.

- **Michael W. Johnson, Analyst**

Based in Washington, D.C., Mr. Johnson is responsible primarily for working with the firm's retainer investment consulting clients on such matters as investment manager due diligence, manager searches and performance analysis and attribution.

Prior to joining IFS in January 2000, Mr. Johnson was with Wilshire Associates where he worked with a major Wilshire client, the Pension Benefit Guaranty Corporation in Washington, D.C. Prior to joining Wilshire, Mr. Johnson was a Registered Associate with a major retail securities firm where he assisted with developing investment strategies. His background in the investment industry is broad based, having worked on both the retail and institutional sides of the investment consulting industry.

Mr. Johnson graduated from the University of Maryland with a BS in Business and received his MBA, with finance and accounting concentrations, from The Owen Graduate School of Management at Vanderbilt University. He earned the designation Chartered Financial Analyst in 2000.

- **Adam H. Marks, Analyst**

Mr. Marks joined Independent Fiduciary Services' Washington, D.C. office in June 2000 to assist in computing and reporting of investment performance, manager search, asset allocation and other financial research and analysis.

Prior to joining IFS, Mr. Marks served as a performance analyst at State Street Bank and as an investment software consultant for Thomson Financial, both located in Boston. Mr. Marks graduated from the George Washington University with a BA in economics and is currently a CFA Level II candidate.

- **Mark H. Shankroff, CFA, Analyst**

Based in Washington, D.C., Mr. Shankroff assists in measurement and evaluation of investment performance, asset allocation, and other financial research and analysis. He joined IFS after several years at Cambridge Associates, where he prepared performance analysis reports for the firm's endowment and foundation clients.

Mr. Shankroff graduated from the Pennsylvania State University with a Bachelor of Science degree in Finance, and earned an MBA from the William E. Simon Graduate School of Business Administration at the University of Rochester. He earned the designation Chartered Financial Analyst and is a member of the Association for Investment Management and Research and the Washington Society of Investment Analysts.





**SURVEY RECIPIENTS**

Alaska Teachers' Retirement System  
Arizona State Retirement System  
Arkansas Public Employees Retirement System  
Arkansas Teacher Retirement System  
Arlington County Employees' Retirement System  
Baltimore Employees' Retirement System  
California Public Employees' Retirement  
California State Teachers' Retirement System  
Delaware Public Employees' Retirement  
Employees Retirement System of Georgia  
Employees Retirement System of Hawaii  
Employees Retirement System of Texas  
Fairfax County Supplement Retirement System  
Fire & Police Association of Colorado  
Florida Retirement System  
Houston Firefighters' Relief and Retirement  
Illinois Municipal Retirement Fund  
Indiana State Teachers' Retirement Fund  
Iowa Public Employees' Retirement System<sup>1</sup>  
Kansas Public Employees Retirement System  
Kentucky Retirement Systems  
Kentucky Teachers' Retirement Systems  
Los Angeles City Employees' Retirement System  
Los Angeles County Employees Retirement Association  
Louisiana State Employees Retirement System  
Maine State Retirement System  
Michigan State Employees Retirement System  
Minnesota Public Employees Retirement Association  
Minnesota State Retirement System  
Minnesota Teachers' Retirement Association  
Missouri State Employees' Retirement System  
Montana Public Employees Retirement Board  
Municipal Employees' Retirement System of Michigan  
Municipal Employees' Retirement System  
New Hampshire Retirement System  
New Jersey Division of Pension and Benefits<sup>2</sup>  
New York City Employees' Retirement System  
New York City Police Pension Fund  
New York State and Local Retirement Systems  
New York State Teachers' Retirement System  
North Carolina Local Government

---

<sup>1</sup> Test Fund

<sup>2</sup> Received by 3 Funds under the Division's administration.

North Dakota Public Employees Retirement System  
North Dakota Teachers' Fund for Retirement  
Ohio Public Employees Retirement System  
Oklahoma Public Employees Retirement System  
Oregon Public Employees Retirement System  
Pennsylvania State Employees' Retirement System  
Public Employee Retirement System of Idaho  
Public Employees' Retirement Association of Colorado  
Public Employees Retirement Association of New Mexico  
Public Employees' Retirement Fund of Indiana  
Public Employees Retirement System of Idaho  
Public Employees' Retirement System of Mississippi  
Public Employees' Retirement System of Nevada  
Public School Employees' Retirement System of Pennsylvania  
Public School Retirement System of Missouri  
Public School Teachers' Pension & Retirement Fund of Chicago  
Retirement Systems of Alabama  
School Employees Retirement System of Ohio  
South Carolina Retirement System  
South Dakota Retirement System  
State Employees' Retirement System of Illinois  
State Retirement and Pension System of Maryland  
State Teachers Retirement System of Ohio  
Teacher Retirement System of Texas  
Teachers Retirement System of Georgia  
Teachers' Retirement System of Illinois  
Teachers' Retirement System of Louisiana  
Teachers' Retirement System of Oklahoma  
Teachers' Retirement System of the City of New York  
Tennessee Consolidated Retirement System  
Utah Retirement System  
Virginia Retirement System  
Washington Department of Retirement Systems  
West Virginia Investment Management Board  
Wisconsin Department of Employee Trust  
Wyoming Retirement System



**Iowa Task Force on IPERS Structure and Governance  
Interviewee List  
As of November 1, 2000**

- **Joanne Stockdale, Task Force Chair**
- **Lowell Dauenbaugh, Task Force, Vice Chair, Chair IPERS Constituent Group**
- **Mollie Anderson, Director, Iowa Department of Personnel**
- **Kathy Comito, IPERS Chief Investment Officer (CIO)**
- **Jan Coderman, Task Force Member, President IOWA AFSCME**
- **Greg Cusack, Chief Benefits Officer**
- **Cynthia Eisenhauer, Director, Iowa Department of Management**
- **Michael Fitzgerald, Task Force Member / Iowa Treasurer; accompanied by \_\_\_\_\_**
- **Walt Galvin, Member Constituent Group**
- **Gene Gardner, Vice Chair, Constituent Group**
- **Janie Garr, Member, Constituent Group**
- **Nancy Gordell, Former IPERS CIO**
- **Linda Hansen, Former Executive Director**
- **Bruce Kelley, Chair, IPERS Investment Board**
- **John Kibbie, Task Force Member, Iowa Senate (D), Vice Chair, Investment Board**
- **Rick Larkin, Task Force Member, Iowa House of Representatives (D)**
- **Mona Martin, Task Force Member, Iowa House of Representatives (R), Member of IPERS Investment Board**
- **Andreq Nielson, Deputy Auditor, State of Iowa**
- **Eileen Neill, Wilshire Associates**
- **Greg Nichols, Governor's Legislative Liaison**
- **Jerry Nissen, Task Force Member, Community College Instructor**
- **John Norris, Governor's Chief of Staff**
- **Marilyn Peters, Task Force Member, Judicial Advocate, Clinton, Iowa**
- **Bill Sage, Member Constituent Group; accompanied by Sue Cameron**
- **Betsy Sanders, Former IPERS CIO**
- **Greg Schochenmaier, IPERS General Counsel, Legal & Comm.**
- **Leon Schwartz, IPERS, Chief Operations Officer**
- **Craig Shives, Task Force Member, Pension attorney**
- **Andi Stewart, Executive Director, League of Iowa Cities**
- **Gaylord Tryon, Member, Constituent Group**
- **Tom Whitson, Task Force Member, member of the IPERS Investment Board**



## Key Principles To Guide Structure & Governance

- A. Adoption of “exclusive benefit rule”– whether the System’s assets and administration are ultimately for the “exclusive purpose of paying benefits and defraying administrative expenses,” i.e., whether duties of fiduciaries run ultimately to the participants and beneficiaries.
- B. Insulation from undue influence – whether management of assets and administration of the System should be insulated from personal and political influences which may compromise adherence to the exclusive purpose rule.
- C. Alignment of interests – whether various levels of government have a significant, legitimate interest in prudent management and expenditure of System assets.
- D. Whether effective and efficient system operations (especially regarding investments) warrant or require greater flexibility in budget, staffing and procurement than most other governmentally-related operations.
- E. Whether the System’s structure and governance facilitates attracting and retaining capable public employees and providing them decent retirement income security.





## Survey Respondents

### STATE (43)

Alaska Public Employees' Retirement System  
California Public Employees' Retirement System  
California State Teachers' Retirement System  
Employees Retirement System of Georgia  
Employees Retirement System of Hawaii  
Employees Retirement System of Texas  
Florida Retirement System  
Illinois Municipal Retirement Fund  
Indiana State Teachers' Retirement Fund  
Kentucky Teachers' Retirement System  
Minnesota State Retirement System  
Minnesota Teachers' Retirement Association  
Missouri State Employees' Retirement System  
New Hampshire Retirement System  
New Jersey Police and Firemen's Retirement System  
New Jersey Public Employees Retirement System  
New Jersey Teachers' Pension and Annuity Fund  
New York State and Local Retirement Systems  
New York State Teachers' Retirement System  
North Dakota Public Employees Retirement System  
Ohio Public Employees Retirement System  
Oklahoma Public Employees Retirement System  
Oregon Public Employees Retirement System  
Public Employee Retirement System of Idaho  
Public Employees' Retirement Association of Colorado  
Public Employees' Retirement System of Mississippi  
Public Employees' Retirement System of Nevada  
Public School Employees' Retirement System of Pennsylvania  
Public School Retirement System of Missouri  
Retirement Systems of Alabama  
School Employees Retirement System of Ohio  
South Carolina Retirement Systems  
South Dakota Retirement System  
Teacher Retirement System of Texas  
Teachers' Retirement System of Illinois  
Teachers' Retirement System of Louisiana  
Tennessee Consolidated Retirement System  
Virginia Retirement System  
Utah Retirement System  
Washington State Public Employees Retirement System  
West Virginia Investment Management Board  
Wisconsin Department of Employee Trust Funds  
Wyoming Retirement System

**LOCAL / MUNICIPAL (7)**

Arlington County Employees' Retirement System  
Fairfax County Supplement Retirement System  
Houston Firefighters' Relief and Retirement Fund  
Los Angeles City Employees' Retirement System  
Los Angeles County Employees Retirement Association  
New York City Police Pension Fund  
Teachers' Retirement System of the City of New York



## SURVEY RESULTS

### INTRODUCTION

This section of the report presents the results of the empirical survey. It is not intended to serve as a stand-alone document, but rather as a supplement to and support for the narrative.

The survey was undertaken to provide the Task Force with the “fact-based” information necessary to permit them to attain answers to their “Key Questions.” The response rate to the survey was in excess of 50%, which we believe to be excellent, and more than sufficient to provide the Task Force members with persuasive data.

In reviewing the results set forth below, the reader should keep in mind that a survey of this kind contains certain inherent imperfections. First, some of the respondents did not answer all the questions, misinterpreted certain question, or responded incorrectly. For that reason, in some areas the responses are inconsistent or do not correlate and totals are not mathematically precise. Where, based on our knowledge of the respondent, we knew that a response was questionable, we sought to clarify or enhance the response by conducting statutory and empirical research and/or calling the respondent for clarification. Nevertheless, the overall quality of the survey is very good and the patterns are clear.

### COMMON PATTERNS

Our review and analysis of the data reveals certain customary characteristics or patterns concerning the structure and governance of public employee retirement systems. These characteristics were evident among most of the public pension funds that responded to the survey and, in our experience, are the rule for public pension funds. The common patterns we found include:

- The asset of the Retirement System are held in trust. *This was the case for 100% of the survey respondents;*
- The Retirement System is governed by a “Board of Trustees.” *This was the case for 47 of the 50 respondents ( 94%);*
- Most of the “Boards” are responsible for the hiring and supervision of the Executive Director. *This was the case for 39 of the 50 respondents (78%);*
- In general, the Retirement Systems consider their governing Board of Trustees to be independent. *This was the case for 30 of 50 respondents (60%.);*
- Ten percent of the respondents indicated they are part of a state agency. *This was the case for 5 of the 50 respondent, plus two others (not respondents) of which we are aware;*

- There is representation on the Board from the active membership of the System. *This was the case for 44 of the 50 respondents (88%);*
- The expenses of the System are paid out of investment earnings. *This was the case for 42 of the 50 respondents (84%);*
- Board members are fiduciaries subject to prudence standards and a duty of loyalty (*see Chart C*);
- The Board is permitted to purchase fiduciary liability insurance. *This was the case for 38 of the 50 respondents (76%);*
- The Board is responsible for the selection of the actuary. *This was the case for 37 of the 50 respondents (74%);*
- The Board/System publishes an annual report. *This was the case for 46 of the 50 respondents (92%);*
- The Board/System is subject to the State (or local/municipal) “sunshine” laws. *This was the case for 39 of the 50 respondents (78%);*
- The Board members have staggered terms. *This was the case for 41 of the 50 respondents (82%);* and
- The Governor (or chief executive in the case of a local/municipal fund) generally has at least one appointment to the Board. *This was the case for 30 of the 50 respondents (60%).*

### **SUMMARY OF RESPONSES**

Responses are organized into overlapping categories: (A) system governance, (B) system structure, (C) board structure and governance, (D) reporting and disclosure, and (E) protections.

The details for each response are provided in Charts A through E. The applicable chart is referenced for each response. Chart A includes rather detailed endnotes to assist the Task Force in understanding the features and distinctions of particular pension funds.

In addition to the survey respondents, particularly where respondent information was minimal, we have included information on other Retirement Systems that we know from our larger knowledge of the industry. This information is provided by note.

**A. SYSTEM GOVERNANCE**

- Three (3) Systems did not have a Board of Trustees. (6%) See Chart B
- One of the Systems has a sole trustee. See Chart B
- 47 of the Systems are governed by a Board of Trustees. (94%) See Chart A
- 30 of the Systems consider their Board of Trustees to be independent. (60%) See Chart A
- 16 of the Systems have an Advisory Board. (32%) See Chart B
- 36 of the Systems responded that the Board is responsible for investments. (72%) See Chart A
- 41 of the Systems responded that the Board is responsible for general administration. (82%) See Chart A
- 37 of the Systems have a Board that is responsible for benefits administration. (74%) See Chart A
- 21 of the Systems responded that they have independent budgetary authority. (42%) See Chart B
- 26 of the Systems responded that they were subject to the jurisdiction's appropriation process. (52%) See Chart B

**B. SYSTEM STRUCTURE**

- Assets are held in trust by 100% of the respondents.
- 5 of the Systems are part of another agency within the jurisdiction. (10%) See Chart B
- 42 of the Systems indicated that expenses are paid out of fund earnings. (84%) See Chart B
- 6 of the Systems indicated that expenses are rolled into the contribution rate. (32%) See Chart B

## C. BOARD STRUCTURE AND GOVERNANCE

### Board Size and Structure

- Board size varies significantly. Based on our respondent pool, 7 members is the median Board size. The range is 5 to 17 members. See Chart A
- 33 of the Systems have a Board that utilizes a Committee Structure. (66%) See Chart B
- Active participants are members of the Board at a majority of the Systems See Chart A
- Retirees are also members of the Board at a majority of the respondent Systems, although to a lesser extent than active members See Chart A

### Fiduciary Responsibilities

The majority of Systems indicated that they are subject to fiduciary standards. The following is a breakdown of the standards applicable to the Systems:

Prudent Person –	74%
Duty of Loyalty –	36%
Exclusive Purpose –	46%
Diversification –	18%
Legal List –	6%

### Hiring and Supervision of Staff

- 28 of the Systems responded that certain members of the staff (e.g., Executive director, chief investment officer, executive staff) are fiduciaries. (56%) See Chart C
- 39 of the Systems have a Board responsible for hiring the Executive Director. (78%) See Chart A
- The following is a list of Systems where an entity other than the Board hires the Executive Director (5):

- \* New York State and Local Retirement System – hired by the Sole Trustee
- \* Washington State Department of Retirement Systems – hired by and serves at the pleasure of the Governor
- \* Indiana State Teachers’ Retirement Fund – appointed by the Governor with advice of the Senate
- \* Florida Retirement System – the Retirement System is a part of the Department of Management Services. The Secretary of the Department of Management Services is appointed by the Governor and confirmed by the Senate. The Secretary of Management Services, in turn, appoints the Director of the Division of Retirement.
- \* Alaska Public Employees Retirement System – The Commissioner of the Department of Administration hires the Executive Director.
- \* New Jersey Systems (3 respondents) – Executive Director is hired by Treasurer.
- \* *Delaware State Employees Pension Plan* – appointed by the Governor with advice of the Senate.

- 39 of the Systems have a Board responsible for supervision of the Executive Director.(78%) See Chart A
- All of the respondents indicated that the Executive Director hires and supervises the System’s staff See Chart B

**Board member terms and qualification:**

Please refer to Chart D.

Based on the respondent pool, board member terms generally range from 2 years to 6 years. The median term for a board member is 4 years. This information is consistent with our knowledge of the industry.

- 35 of the respondents reported that their members had staggered terms. (70%)
- 13 of the respondents indicated that minimum qualifications were imposed on their Boards. (26%)

Based on our knowledge, these qualifications are generally statutory. Perhaps of interest to the Task Force, we did determine that another System (Wyoming) also has political party limitations.



**D. REPORTING AND DISCLOSURE**

- 34 of the System are subject to their respective jurisdiction’s conflict of interest or ethics standards.(68%) See Chart B
- 39 of the Systems are subject to the jurisdiction’s “sunshine” laws. (78%) See Chart B
- 46 of the Systems are required to file an annual report. (92%) See Chart B
- 47 of the Systems have financial disclosure requirements imposed on them. (94%) See Chart B
- 35 of the Systems are required to provide summary plan descriptions. (70%) See Chart B

**E. PROTECTIONS**

- 22 of the Systems responded that Board members receive indemnification. (44%) See Chart B
- 38 of the Systems are permitted to purchase fiduciary liability insurance.<sup>1</sup> (76%) See Chart B

Finally, we have included Chart E reflecting the written comments of the respondents regarding the strengths and weaknesses of their particular system. We have assigned codes to designate the respondents, to honor our promise of confidentiality.

---

<sup>1</sup> Please note that although they may be permitted to purchase fiduciary liability insurance, several Systems indicated they had elected not to do so.



Board Composition, Roles and Responsibilities

CHART A

	Has a Board of Trustees	Board is Independent	Board Size	Board is Responsible for General Administration	Board is Responsible for Benefits Administration	Board is Responsible for Investments	Has Advisory Board	Board Hires & Supervises Director	Board Hires CIO	Board Selects Actuary	Legislature Sets Contribution Rate	Members Appointed by Governor or CEO	Members Appointed by Legislative Body	Active	Retired	Ex-officio Represents
Alaska Public Employees	X <sup>1</sup>	No	5 <sup>2</sup>	Oversight Only	Oversight Only <sup>3</sup>	<sup>4</sup>	No	<sup>5</sup>		<sup>6</sup>	Board	3		2	3	
Arlington County Employees Retirement	X	X	7	X		X	No	H X S		X	Board	1	3	3		
CALPERS	X	X	13	X	X	X	No	H X S	X	X	X	2	1	9	1	Treasurer Comptroller
CALSTERS	X		12	X	X	X	No	H X S	X	<sup>8</sup>	X	8		3	1	<sup>9</sup>
Employees Retirement System of Georgia	X	X	7	X	X	X	No	H X S	X	X	Board	1		10		3
Employees Retirement System of Hawaii	X	<sup>11</sup>	8	X <sup>12</sup>	X	X	No	H X S	X	X	<sup>13</sup>	3 <sup>14</sup>		4	1	Governor
Employees Retirement System of Texas	X	<sup>15</sup>	6 <sup>16</sup>	X	X	X	Yes <sup>17</sup>	H X S		X	X	1	1 <sup>18</sup>	3		
Florida Retirement System	No			<sup>19</sup>	<sup>20</sup>	<sup>21</sup>										
Fairfax County Supplemental	X <sup>23</sup>	X <sup>24</sup>	<sup>25</sup>	X	X	X	No	H <sup>26</sup> S					<sup>27</sup>	<sup>28</sup>	<sup>29</sup>	<sup>30</sup>
Houston Firefighters' Relief and Retirement	X	X	10	X	X	X		H X S		X		1 Mayor		5	1	City Treasurer <sup>31</sup>
Illinois Municipal Retirement Fund	X	X	8	X	X	X	No	H X S	X	X	Board	0		7 <sup>32</sup>	1	
Indiana State Teachers	X <sup>33</sup>	X	5	X	X	X	No	<sup>34</sup> S	X	X	Board	5 <sup>35</sup>			2	
Kentucky Teachers	X	X	9 <sup>36</sup>	X	X	X	No	H X S		X	Board			4	1	2 <sup>37</sup>
Los Angeles City Employees	X	X	7	X	X	X	No	H X S	X	X		Mayor <sup>38</sup>		2	2	
Los Angeles County Employees	X <sup>39</sup>	X	9 <sup>40</sup>	X <sup>41</sup>	X <sup>42</sup>	X <sup>43</sup>	No	H X S		<sup>44</sup>		<sup>45</sup>		4/4	3/2 <sup>46</sup>	
Minnesota State Retirement	X	X	11	X		<sup>47</sup>	No	H X S		X <sup>48</sup>	X	3		8	1	
Minnesota Teachers Retirement	X	No <sup>49</sup>	8	X	X	<sup>50</sup>	No	H X S		X <sup>51</sup>	X	0		4	1	3 <sup>52</sup>
Missouri State Retirement	X	X	11	X	X	X	No	H X S		X	Board	2	4	10	1	2 <sup>53</sup>
New Hampshire Retirement	X	X	13	X	X	X	Yes <sup>54</sup>	H X S	<sup>55</sup>			2	2	9		Treasurer
New Jersey Police & Firemen's	X		11	<sup>56</sup>	<sup>57</sup>	<sup>58</sup>	Yes <sup>59</sup>	<sup>60</sup>		X	Board	5		5	1	Treasurer
New Jersey Public Employees	X		9	<sup>61</sup>	<sup>62</sup>	<sup>63</sup>	Yes	<sup>64</sup>				2	1	6	1	Treasurer
New Jersey Teachers'	X		7 <sup>65</sup>	<sup>66</sup>	<sup>67</sup>	<sup>68</sup>	Yes <sup>69</sup>	<sup>70</sup>						3	2	Treasurer
New York City Police	X	X	12	X	X	X	Yes	<sup>71</sup>		X <sup>72</sup>	Chief Actuary	3 By Mayor		8	0	

Board Composition, Roles and Responsibilities

CHART A

	Has a Board of Trustees	Board is Independent	Board Size	Board is Responsible for General Administration	Board is Responsible for Benefits Administration	Board is Responsible for Investments	Has Advisory Board	Board Hires & Supervises Director	Board Hires CIO	Board Selects Actuary	Legislature Sets Contribution Rate/Amt.	Members Appointed by Governor or CEO	Members Appointed by Legislative Body	Active	Retired	Ex-officio Represents
New York City Teachers	X	X	7	X	X	X	No	H X S		<sup>73</sup>		2 by the Mayor <sup>74</sup>		3		The Mayor
New York State and Local	No <sup>75</sup>						Yes <sup>76</sup>	"		<sup>78</sup>						
New York State Teachers	X	X	10	X	X	X	Yes <sup>79</sup>	H X S		<sup>80</sup>	<sup>81</sup>	<sup>82</sup>		5	1	
North Dakota Retirement	X	No	7	X	X	X		H X S		X	X	2		3	1	
Ohio Public Employees	X	X	9	X	X	X	No	X		X		0		5	1	3 <sup>84</sup>
Oklahoma Public Employees Retirement System	X	No	13 <sup>85</sup>	X	X	X	No	H X S		X	X	3	4 <sup>86</sup>	9	1	5 <sup>87</sup>
Oregon Public Employees	X	X <sup>88</sup>	11	X	X	X	No	H X S		X	<sup>90</sup>	11		8 <sup>91</sup>	1	
Public Employees of Idaho	X	X	5	X	X	X	No	H X S	X	X	<sup>92</sup>	5 <sup>93</sup>		2		
Public Employees of Colorado	X	X	16	X	X	X	No	H <sup>94</sup>	<sup>95</sup>	X	X	0		12 <sup>96</sup>	2	2 <sup>97</sup>
Public Employees of Nevada	X	X	7	X	X	X	Yes <sup>98</sup>	H X S	X	X	X	7		6	1	
Public School Employees of Pennsylvania	X	No <sup>99</sup>	15	X	X	X	No	H X S		X	Board	2	4	5	3	3 <sup>100</sup>
Public Employees Retirement System of Mississippi	X	X	10	X	X	X	Yes <sup>101</sup>	H X S		X	<sup>102</sup>	1 <sup>103</sup>	<sup>104</sup>	8	2	1 Treasurer
Public School Employees of Missouri	X	X	7	X	X	X <sup>105</sup>	No	H X S		X		3	0	3	1	
Retirement System of Alabama	X	<sup>106</sup>	13	X	X	X	No	H X S		X	Actuary	3	0	7	2	4 <sup>107</sup>
School Employees of Ohio	X	X	7	X	X	X	No			X	Board	0	0	4	1	2 <sup>108</sup>
South Carolina Retirement	X <sup>109</sup>	X	5	X	X <sup>110</sup>	X <sup>111</sup>	Yes <sup>112</sup>	H X <sup>113</sup> S		X	X	1	2			
South Dakota Retirement System	X	No <sup>114</sup>	17	X	X		No	H X S		X		2		14	1	1 <sup>115</sup>
Texas Teachers	X	X	9	X	X	X	No	H X S		X	X	9 <sup>116</sup>		3	1	
Teachers Retirement of Illinois	X	X	10	X	X	X	No	H X <sup>117</sup> S		<sup>118</sup>	<sup>119</sup>	4		4	1	1 <sup>120</sup>
Teachers Retirement of Louisiana	X	X	16	X	X	X	No	H X S		X		0		8	5	4 <sup>121</sup>
Tennessee Consolidated	X	No <sup>122</sup>	15	X	X	X	Yes <sup>123</sup>	No <sup>124</sup>		Chair	Board	3	3	14 <sup>125</sup>	1 <sup>126</sup>	6 <sup>127</sup>
Utah Retirement	X	X	7	X		X	Yes <sup>128</sup>	H X S		X	Board	4		2	0	1 Treasurer

Board Composition, Roles and Responsibilities

CHART A

	Has a Board of Trustees	Board is Independent	Board Size	Board is Responsible for General Administration	Board is Responsible for Benefits Administration	Board is Responsible for Investments	Has Advisory Board	Board Hires & Supervises Director	Board Hires CIO	Board Selects Actuary	Legislature Sets Contribution Rate	Members Appointed by Governor or CEO	Members Appointed by Legislative Body	Active	Retired	Ex-officio Represents
Virginia Retirement System	X	X	9 <sup>129</sup>	X	X	X	Yes	H X S		X		5	4	3	1	
Washington State Public Employees Retirement	No <sup>130</sup>		0	<sup>131</sup>	<sup>132</sup>	<sup>133</sup>				<sup>134</sup>	<sup>135</sup>	0				
West Virginia Retirement System	X	X	13	X <sup>136</sup>	X	<sup>137</sup>	No	H X S		X	X	10				3 <sup>138</sup>
Wisconsin Department of Employee Trust Funds <sup>139</sup>	X		12	X	X	<sup>140</sup>		H X S		X		<sup>141</sup>	0	8	2	2 <sup>142</sup>
Wyoming Retirement System	X	X	11 <sup>143</sup>	X	X	X	Yes <sup>144</sup>	H X S		X	Board	10 <sup>145</sup>		5	1	1 Treasurer

<sup>1</sup> Alaska Public Employees Retirement System - Pursuant to State statute, the Board has oversight authority over general administration and benefits. The Board basically provides guidance to the System, in consultation, from time to time, with the State Commissioner of Administration.

<sup>2</sup> Alaska Public Employees Retirement System – 3 members are appointed and two are elected by the constituent groups.

<sup>3</sup> Alaska Public Employees Retirement System – The State Commissioner of Administration administers benefits

<sup>4</sup> Alaska Public Employees Retirement System – There is a pension investment board (to be distinguished from a state investment board) – the Alaska Pension Investment Board (8 members) that oversees the investment of the retirement systems assets.

<sup>5</sup> Alaska Public Employees Retirement System – The Commissioner of the Department of Administration. hires and supervises the Plan Administrator (Executive Director).

<sup>6</sup> Alaska Public Employees Retirement System – The Plan Administrator selects the actuary.

<sup>7</sup> CALSTERS - Whether the Board is autonomous/independent is depends on which function is being addressed.

<sup>8</sup> CALSTERS - Chief Executive Officer (Director) selects actuary, Board establishes the actuarial assumptions.

<sup>9</sup> CALSTERS - Ex-Officio members represent the Governor, the Treasurer, The Comptroller, and the Superintendent of Public Instruction.

<sup>10</sup> Georgia Employees Retirement System - 2 members of the Board are elected by other Trustees from the active members or the retirees.

<sup>11</sup> Hawaii Employees Retirement System - Administrative control is vested in the Department of Budget and Finance

<sup>12</sup> Hawaii Employees Retirement System – The respondent indicated that the Board was responsible for general administration. However, see also footnote 11.

<sup>13</sup> Hawaii Employees Retirement System The Board of Trustees in consultation with the actuary establishes the pension contribution amount.

<sup>14</sup> Hawaii Employees Retirement System Subject to confirmation by the Senate

<sup>15</sup> Texas Employees Retirement System - Board has very broad discretion, but it is still required to comply with reporting to Legislature and statutory constraints.

<sup>16</sup> Texas Employees Retirement System - The Chief Justice of the Texas Supreme Court also has an appointee

<sup>17</sup> Texas Employees Retirement System - Investment and Benefits

<sup>18</sup> Texas Employees Retirement System - Speaker of the House also has an appointment

<sup>19</sup> Florida Retirement System – It is responsible for general administration of the retirement system and distribution of benefits. It has no authority over the investments. In 1999, the Division of Retirement, as an independent entity, was abolished. Rather, it was recreated as a part of the Department of Management. The Secretary of Management Services is the administrator. The Florida Division of Retirement administers all Florida state retirement systems, including the Florida Retirement System.

<sup>20</sup> Florida Retirement System – See endnote 19 above.

<sup>21</sup> Florida Retirement System – The State Board of Administration (SBA) is responsible for investments. The State Board of Administration is composed of the Governor, the Treasurer, and the Comptroller. The Board of Administration has a 6-member Advisory Board which provides advice regarding investment policy and procedures.

<sup>22</sup> Florida Retirement System – The Director of the Division of Retirement System is appointed by the Secretary of the Department of Management Services.

<sup>23</sup> Fairfax County Supplemental – There are three separate Board

<sup>24</sup> Fairfax County Supplemental – However, they are “accountable” to the elected Board of Supervisors.

## Board Composition, Roles and Responsibilities

## CHART A

- <sup>25</sup> Fairfax County Supplemental – As noted above there are 3 Board – the Police, Uniformed and Supplemental – the number of members is 5, 8, and 10 respectively.
- <sup>26</sup> Fairfax County Supplemental – Board is responsible for “selecting” the system’s Executive Director (the Executive Director is appointed by the Board of Supervisors) and has county employee status.
- <sup>27</sup> Fairfax County Supplemental – The legislature appoints 2, 3, and 5 members to the Police, Uniformed and Supplemental Boards respectively.
- <sup>28</sup> Fairfax County Supplemental – There are 3,5, and 5 active representatives on the Police, Uniformed and Supplemental board respectively.
- <sup>29</sup> Fairfax County Supplemental – There is 1 retiree representative on the Supplemental Board.
- <sup>30</sup> Fairfax County Supplemental – The Treasurer and the Director of Human Resources are ex-officio members.
- <sup>31</sup> Houston Firefighters’ – One Board member must be City Treasurer who is appointed by the Finance and Administration Director, who is appointed by the Mayor.
- <sup>32</sup> Illinois Municipal - 4 of the members are elected by the employers the remaining 3 are elected by the active members
- <sup>33</sup> Indiana State Teachers - The Pension Management and Oversight Commission of Indiana has legislative oversight over the system.
- <sup>34</sup> Indiana State Teachers - The Executive Director is appointed by the Governor, but is under the supervision of the Board.
- <sup>35</sup> Indiana State Teachers - The Governor appoints all the members of the Board; however, two of the five must be member of the System.
- <sup>36</sup> Kentucky Teachers – A nominating committee selects candidates as follows: 4 active teachers, 1 retired teacher, and 2 lay members. The candidates are voted on by both active and retired members. The ex-officio members are on the Board by reason of their position.
- <sup>37</sup> Kentucky Teachers – The Treasurer and the Commissioner of Education
- <sup>38</sup> Los Angeles City - Appointed by the chief executive officer of the jurisdiction -- the Mayor.
- <sup>39</sup> Los Angeles County - The System has two Boards – a Board of Retirement and a Board of Investments.
- <sup>40</sup> Los Angeles County - There are nine (9) members on each Board.
- <sup>41</sup> Los Angeles County - Under the supervision of the Board of Retirement
- <sup>42</sup> Los Angeles County - Under the supervision of the Board of Retirement
- <sup>43</sup> Los Angeles County - Under the supervision of the Board of Investments
- <sup>44</sup> Los Angeles County - Selected by the Board of Investments.
- <sup>45</sup> Los Angeles County - 5 members are appointed by the County Board of Supervisors.
- <sup>46</sup> Los Angeles County - 3 retiree members on the Board of Retirement and 2 on the Board of Investments
- <sup>47</sup> Minnesota State Employees – The PERA Board does not have authority over investments. Investment authority is vested in the State Board of Investments. The SBI is composed of the Governor, State Auditor, Treasurer, Secretary of State and the Attorney General. The SBI has an Advisory Council of 17 members, 10 of which must have investment knowledge. The Advisory Council is appointed by the SBI.
- <sup>48</sup> Minnesota State Employees The Board and the Legislature select the actuary.
- <sup>49</sup> Minnesota Teachers - The Board is considered a state agency for most purposes.
- <sup>50</sup> Minnesota Teachers - Investment authority is vested in the State Board of Investments.
- <sup>51</sup> Minnesota Teachers - The Board of Trustees hires one actuary on its behalf and the Legislature hires another actuary on its behalf.
- <sup>52</sup> Minnesota Teachers Commissioner of Finance (Comptroller); Commission of Children Families – Learning; Representative from the Minn. School Boards Association.
- <sup>53</sup> Missouri State Retirement - The Treasurer and the Commissioner of Administration.
- <sup>54</sup> New Hampshire Retirement System – Investment, Actuary, and Commercial Real Estate -- Please note that the respondent responded affirmatively to this question. However, they indicated they had advisory “consultants” rather than advisory “boards.”
- <sup>55</sup> New Hampshire Retirement System - The Board also hires the Director of Finance.
- <sup>56</sup> New Jersey Police and Firemen’s Retirement System - The Division of Pension and Benefits, a division of the Department of Treasury, has administrative/management oversight over the system. The Division is headed by the Executive Director.
- <sup>57</sup> New Jersey Police and Firemen’s Retirement System - The Division of Pension and Benefits, a division of the Department of Treasury, is responsible for benefits administration
- <sup>58</sup> New Jersey Police and Firemen’s Retirement System - The Division of Investment, a division of the Department of Treasury, is responsible for investment-related decision. This Division is under the jurisdiction of the State Investment Council
- <sup>59</sup> New Jersey Police and Firemen’s Retirement System – There is a Medical Review Board
- <sup>60</sup> New Jersey Police and Firemen’s Retirement System – The System’s executive director is hired and supervised by the State Treasurer. The Treasurer is ex-officio on all state pension boards and commissions.
- <sup>61</sup> New Jersey Public Employees Retirement System - The Division of Pension and Benefits has administrative/management oversight over the system. The Division of Pensions and Benefits falls under the jurisdiction of the New Jersey Department of the Treasury. The Director of the Division of Pensions and Benefits reports directly to the State Treasurer. The Treasurer is an ex-officio member of all State pension boards and commissions
- <sup>62</sup> New Jersey Public Employees Retirement System - The Division of Pension and Benefits is responsible for benefits administration. See description of the Division above.
- <sup>63</sup> New Jersey Public Employees Retirement System - The Division of Investment, Department of Treasury, is responsible for investment-related decision. This Division is under the jurisdiction of the State Investment Council
- <sup>64</sup> New Jersey Public Employees Retirement System - The System’s executive director is hired and supervised by the State Treasurer
- <sup>65</sup> New Jersey Teachers’ Pension and Annuity Fund – A seven member board has oversight.

## Board Composition, Roles and Responsibilities

## CHART A

- <sup>66</sup> New Jersey Teachers' Pension and Annuity Fund – The Division of Pension and Benefits, a division of the Department of Treasury, has administrative/management oversight over the system.
- <sup>67</sup> New Jersey Teachers' Pension and Annuity Fund – The Division of Pension and Benefits, a division of the Department of Treasury, is responsible for benefits administration..
- <sup>68</sup> New Jersey Teachers' Pension and Annuity Fund – The Division of Investment, a division of the Department of Treasury, is responsible for investment-related decision. This Division is under the jurisdiction of the State Investment Council
- <sup>69</sup> New Jersey Teachers' Pension and Annuity Fund – There is an 11-member State Investment Council. The Council is responsible for the development of investment policies and procedures to be followed by the Director of the Division of Investment. The 11 member Council is composed of -- 6 Gubernatorial appointees (4 of the Governors appointees must have investment or finance expertise, 5 appointees from the 5 State pension funds, and 1 appointee by the Governor from a slate provided by the Legislature.
- <sup>70</sup> New Jersey Teachers' Pension and Annuity Fund – The System's executive director is hired and supervised by the State Treasurer
- <sup>71</sup> New York City Police – The Executive Director is not hired by the Board, but is under their supervision
- <sup>72</sup> New York City Police – The Board and the Mayor select the actuary.
- <sup>73</sup> New York City Teachers – Selection of the actuary is defined by law.
- <sup>74</sup> New York City Teachers – 2 member are appointed by the mayor, 1 by the comptroller, and 1 by the head of the Board of Educations.
- <sup>75</sup> The New York State Common Fund – The system is governed by a Sole Trustee – the New York State Comptroller. The Comptroller is a 4 year elected official.
- <sup>76</sup> The New York State Common Fund – The fund has an Advisory Board that provides input on investments, benefits, governance and actuarial Issues.
- <sup>77</sup> The New York State Common Fund - The Executive Director of the Fund is hired by the sole trustee.
- <sup>78</sup> The New York State Common Fund - The Sole Trustee selects the actuary
- <sup>79</sup> New York State Teachers – The System has an Advisory Board that provides input on investments
- <sup>80</sup> New York State Teachers – The System has an in-house actuarial staff
- <sup>81</sup> New York State Teachers - The pension contribution assumptions and the contribution amount are developed by in-house staff and approved by the Board.
- <sup>82</sup> New York State Teachers – The Governor does not have an appointment on the Board; however, the Comptroller of the State (who is also the Sole Trustee of the State and Local Fund) has an appointment.
- <sup>83</sup> North Dakota Retirement System – The assets of the System are invested by the North Dakota State Investment Board (SIB). The Board and the SIB develop investment policy.
- <sup>84</sup> Ohio Public Employees – There are 3 ex-officio members – The State Auditor, The State Attorney General, the Director of the State Department of Administrative Services
- <sup>85</sup> Oklahoma Public Employees Retirement System – None of the members are elected by the constituent group.
- <sup>86</sup> Oklahoma Public Employees Retirement System – 2 are appointed by the Speaker of the House and 2 by the President Pro Tempore of the Senate.
- <sup>87</sup> Oklahoma Public Employees Retirement System – The 5 ex-officio members are (represent) the Dir. Of State Finance, the Administrator of Personnel management, the Chair of the Okla. Corporation Commission, the State Insurance Commissioner, and the Okla. Tax Commission.
- <sup>88</sup> Oregon Public Employees – The Board considers itself to be independent, with exceptions. Board members are appointed by the governor and be removed by the Governor. The Board administers a state agency and therefore must comply with all the laws and administrative rules for state agencies.
- <sup>89</sup> Oregon Public Employees – The Treasurer is responsible for investments and investment-related decisions.
- <sup>90</sup> Oregon Public Employees – The Board of Trustees establishes the contribution amount
- <sup>91</sup> Oregon Public Employees – 4 Union and 4 management representatives
- <sup>92</sup> Idaho Public Employees – Board of Trustees determines the contribution
- <sup>93</sup> Idaho Public Employees – The Governor must appoint 2 active employee members, who must have at least 10 years of service, and 3 citizens.
- <sup>94</sup> Public Employees Retirement System of CO. – Respondent indicated that the Executive Director is hired by and reports to the Board, but that the Board does not “actively supervise him”
- <sup>95</sup> Public Employees Retirement System of CO - The Board does not hire the CIO. However, the Internal Auditor and legal Counsel can be fired only with the concurrence of the Board.
- <sup>96</sup> Public Employees Retirement System of CO - The State employees elect 4; the School employees elect 5; the municipal employees elect 2; the retirees elect 2; and the judges elect 1.
- <sup>97</sup> Public Employees Retirement System of CO - The Treasurer and State Auditor are the ex-officio members.
- <sup>98</sup> Nevada Public Employees Retirement System - There is a Benefits Advisory Committee – Police/Fire Advisory Committee
- <sup>99</sup> Pennsylvania Public School Employees' Retirement System – The System is subject to Commonwealth regulations regarding hiring, purchasing, legal representation, budget, pay, and classification.
- <sup>100</sup> Ex-officio members are – the Governor, the Treasurer , and a representative from the School Boards Assoc.
- <sup>101</sup> Mississippi Public Employees Retirement System – The System has an Investment and a Retire Health Care Advisory Board.
- <sup>102</sup> Mississippi Public Employees Retirement System – The contribution amount is recommended by the actuary subject to Board approval and legislative changes
- <sup>103</sup> Mississippi Public Employees Retirement System – The Governor's appointee has a four year term, other Board members have a 6 year term.
- <sup>104</sup> Mississippi Public Employees Retirement System – The Lieutenant Governor designates two senators and the Speaker of the House selects two representatives to attend Board meetings on a non-voting basis.
- <sup>105</sup> Missouri Public School Employees – The System has an internal investment staff responsible for oversight of investments. External management is used.
- <sup>106</sup> Alabama Retirement System - Viewed as semi-autonomous.
- <sup>107</sup> Alabama Retirement System - The ex-officio members are the Governor, the Treasurer, the Finance Director, and the Personnel Director.

## Board Composition, Roles and Responsibilities

## CHART A

- <sup>108</sup> Ohio School Employees Retirement System - The ex-officio members are the State Auditor and the State Attorney General
- <sup>109</sup> South Carolina Retirement System - The Board is the South Carolina State Budget and Control Authority. It is composed of 5 elected officials – the Governor, the Comptroller, the Treasurer, and Chair of the Senate Finance, and the Chair of the House Ways and Means
- <sup>110</sup> South Carolina Retirement System - Day-to-day responsibility for administration is the responsibility of the Director of the Retirement System.
- <sup>111</sup> South Carolina Retirement System - See following note regarding Investment Panel.
- <sup>112</sup> South Carolina Retirement System - The State has a newly created 5 member Retirement System Investment Panel. Each member of the Board has an appointment to the Investment Panel. The Investment Panel is advisory to the Board
- <sup>113</sup> South Carolina Retirement System - The Director of the Retirement System reports to the Executive Director of the Budget and Control Board.
- <sup>114</sup> South Dakota Retirement System Budget approval, purchasing, and some salaries are subject to restrictions/approvals from others within the State.
- <sup>115</sup> South Dakota Retirement System - The Investment Council appoints a non-voting member.
- <sup>116</sup> Texas Teachers – The Governors appoints all nine of the Board members. However, 4 (3 actives and 1 retired) must be selected from the top “vote-getters” identified in election held by active and retired members
- <sup>117</sup> Illinois Teachers’ – The Internal auditor reports to and is supervised by the Board and the Executive Director.
- <sup>118</sup> Illinois Teachers’ - Executive Director recommends and Board approves.
- <sup>119</sup> Illinois Teachers’ – Board certifies based on actuary’s calculations.
- <sup>120</sup> Illinois Teachers’ – The State Superintendent of Education.
- <sup>121</sup> Louisiana Teachers’ – The Treasurer, State Superintendent of Education, Chairperson of House Retirement Committee, Chairperson of Senate Retirement Committee.
- <sup>122</sup> Tennessee Consolidated Retirement System - Board staff is part of Treasurer’s staff.
- <sup>123</sup> Tennessee Consolidated Retirement System – The Board has an Investment Advisory Board
- <sup>124</sup> Tennessee Consolidated Retirement System – The Executive Director is hired by and under the supervision of the Treasurer
- <sup>125</sup> Tennessee Consolidated Retirement System - Five of the members on the Board are elected by the active members.
- <sup>126</sup> Tennessee Consolidated Retirement System – Elected by the retirees.
- <sup>127</sup> Tennessee Consolidated Retirement System – The ex-officio 6 members are the Comptroller, the Secretary of State, the Treasurer, the Court Administrator, the Commissioner of Finance, and the Commissioner of Personnel.
- <sup>128</sup> Utah Retirement System – Insurance Advisory Committee
- <sup>129</sup> Virginia Retirement System – All members are appointed.
- <sup>130</sup> Washington State Public Employees Retirement System – The Washington State Department of Retirement Systems (WDRS) is responsible for the administration of the 6 state wide systems (Public Employees Retirement System, Teachers, Law Enforcement Officers and Fire Fighters, Judges, Judicial, and State Patrol).
- <sup>131</sup> Washington State Public Employees Retirement System – Administrative/management oversight is the responsibility of the Washington State Department of Retirement Systems.
- <sup>132</sup> Washington State Public Employees Retirement System – Benefits are administered by the Washington State Department of Retirement Systems.
- <sup>133</sup> Washington State Public Employees Retirement System – The assets of the retirement system are invested by the State Investment Board. The Investment Board is a 14 member Board, with 3 member appointed by the Governor, 2 by the Legislature, 3 ex-officio (The Treasurer, The Director of Retirement Systems, and the Director of Industrial Insurance), and 5 non-voting member appointed by the Board. Eight of the State Investment Board members are active employees and 1 is a retired employee.
- <sup>134</sup> Washington State Public Employees Retirement System – The State Legislature selects the actuary.
- <sup>135</sup> Washington State Public Employees Retirement System - The Department of Retirement Systems establishes the pension contribution amount with input from the State Actuary and the Pension Funding Council.
- <sup>136</sup> West Virginia Public Employees Retirement System – The general administration of the Public Employees Retirement Systems (as well as the administration of the other retirement system) is vested in the Consolidated Public Retirement Board (CPRB).
- <sup>137</sup> West Virginia Public Employees Retirement System – The management of the assets of the retirement system is vested in the West Virginia Investment Board
- <sup>138</sup> West Virginia Public Employees Retirement System – The Consolidate Public Retirement Board consists of the Governor, the Treasurer, the State Auditor, the secretary of the Department of Administration, 4 resident of the state (who are not members of the systems) an active or retired member of the public employee system who is or was a state employee, an active or retired member of the public employees system who is not or was not a state employee, an active or retired member of the Teachers Retirement System, an active or retired member of the Department of Public Safety Fund, and an active or retired member of the Teachers Defined Contribution System.
- <sup>139</sup> Wisconsin Department of Employee Trust Funds – The data provided is for the Employee Trust Funds Board. There is also a Wisconsin Retirement Board (9 members), a Teachers Retirement Board (13 members), a Group Insurance Board (10 members), and a Deferred Compensation board (5 members). The ETF Board set policy for the Department of Employee Trust Funds, appoints the ETF Secretary, and generally oversees the benefit programs, except for group insurance and deferred compensation. Some members (4 by each) are appointed by the TRB and the WRB.
- <sup>140</sup> Wisconsin Department of Employee Trust Funds – The retirement assets are under the control of the State of Wisconsin Investment Board. The WSIB is an independent state agency, not a part of the ETF Board, with a separate board.
- <sup>141</sup> Wisconsin Department of Employee Trust Funds - Some of the members are direct appointees of the Governor, others are appointed to fixed terms from lists submitted to the Governor by specified organizations (WRS and TRB)
- <sup>142</sup> Wisconsin Department of Employee Trust Funds – The governor or governor’s designee on the group insurance board, and the Secretary of employment relations or the secretary’s designee.
- <sup>143</sup> Wyoming Retirement System – No more than 6 members may belong to the same political party.
- <sup>144</sup> Wyoming Retirement System – There is an Investment Advisory Board and a Benefits Advisory Board





Summary of Survey Responses

Chart B

	No Board of Trustees	Sole Trustee	Have an Advisory Board	Have Independent Budgetary Authority	Subject to Jurisdiction's Appropriation Process	Part of Another Agency within the Jurisdiction	Expenses Paid Out of Fund Earnings	Expenses Rolled Into Contribution Rate	Members of Staff are Fiduciaries	Entity Other Than Board Hires the Executive Director	Executive Director Hires & Supervises Staff	Boards Utilize a Committee Structure	Provides Summary Plan Description	Members are Indemnified	Permitted to Purchase Fiduciary Liability Insurance	Subject to Respective Jurisdiction's Conflict of Interest or Ethics Standards	Subject to Jurisdiction's "Sunshine" Laws	Required to File an Annual Report	Have Financial Disclosure Requirements
Alaska Public Employees Retirement System					✓		✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓
Arlington County Employees Retirement System				✓				✓	✓	✓					✓	✓	✓	✓	✓
California Public Employees Retirement System				✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
California State Teachers Retirement System					✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Employees Retirement System of Georgia					✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Employees Retirement System of Hawaii			✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Employees Retirement System of Texas			✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Fairfax County Supplement Retirement System				✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Florida Retirement System	✓					✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Houston Firefighters Relief & Retirement Fund				✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Illinois Municipal Retirement Fund				✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Indiana State Teachers Retirement Fund					✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Kentucky Teachers Retirement System					✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Los Angeles City Employees Retirement System				✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Los Angeles County Employees Retirement Association				✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Minnesota State Retirement System				✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Minnesota Teachers Retirement Association					✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Missouri State Employees Retirement System				✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
New Hampshire Retirement System			✓		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
New York City Police Pension Fund			✓		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
New York State and Local Retirement Systems	✓	✓	✓		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
New York State Teachers Retirement System			✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
North Dakota Public Employees Retirement System					✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Ohio Public Employees Retirement System				✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

<sup>1</sup> Respondent responded affirmatively to independent authority and subject to appropriation process

Summary of Survey Responses

Chart B

	No Board of Trustees	Sole Trustee	Have an Advisory Board	Have Independent Budgetary Authority	Subject to Jurisdiction's Appropriation Process	Part of Another Agency within the Jurisdiction	Expenses Paid Out of Fund Earnings	Expenses Rolled Into Contribution Rate	Members of Staff are Fiduciaries	Entity Other Than Board Hires the Executive Director	Executive Director Hires & Supervises Staff	Boards Utilize a Committee Structure	Provides Summary Plan Description	Members are Indemnified	Permitted to Purchase Fiduciary Liability Insurance	Subject to Respective Jurisdiction's Conflict of Interest or Ethics Standards	Subject to Jurisdiction's "Sunshine" Laws	Required to File an Annual Report	Have Financial Disclosure Requirements
Oklahoma Public Employees Retirement System				✓			✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓
Oregon Public Employees Retirement System					✓		✓				✓	✓				✓		✓	✓
Police & Firemen's Retirement System New Jersey			✓		✓	✓	✓	✓		✓	✓	✓	✓			✓	✓	✓	✓
Public Employees Retirement Association of Colorado				✓			✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓
Public Employees Retirement System of Idaho					✓		✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓
Public Employees Retirement System New Jersey			✓		✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Public Employees Retirement System of Mississippi			✓		✓		✓				✓	✓	✓	✓	✓	✓	✓	✓	✓
Public Employees Retirement System of Nevada			✓	✓			✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓
Public School Employees Retirement System of Pennsylvania				✓			✓		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓
Public School Retirement System of Missouri				✓			✓		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓
Retirement System of Alabama							✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓
School Employees Retirement System of Ohio				✓			✓				✓	✓	✓	✓	✓	✓	✓	✓	✓
South Carolina Retirement System			✓		✓	✓	✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓
South Dakota Retirement System					✓		✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓
Teachers Pension & Annuity Fund of New Jersey			✓		✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Teachers Retirement System of Texas					✓		✓				✓	✓	✓	✓	✓	✓	✓	✓	✓
Teachers Retirement System of Illinois				✓			✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓
Teachers Retirement System of Louisiana				✓			✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓
Teachers Retirement System of the City of New York				✓			✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓
Tennessee Consolidated Retirement System			✓		✓	✓	✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓
Utah Retirement System			✓		✓		✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓
Virginia Retirement System			✓		✓		✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓
Washington State Retirement System	✓									✓		✓			✓				✓
West Virginia Investment Management Board				✓			✓		✓			✓			✓	✓	✓	✓	✓
Wisconsin Department of Employee Trust Funds			✓		✓		✓				✓	✓	✓	✓	✓	✓	✓	✓	✓

### Summary of Survey Responses

### Chart B

	No Board of Trustees	Sole Trustee	Have an Advisory Board	Have Independent Budgetary Authority	Subject to Jurisdiction's Appropriation Process	Part of Another Agency within the Jurisdiction	Expenses Paid Out of Fund Earnings	Expenses Rolled Into Contribution Rate	Members of Staff are Fiduciaries	Entity Other Than Board Hires the Executive Director	Executive Director Hires & Supervises Staff	Boards Utilize a Committee Structure	Provides Summary Plan Description	Members are Indemnified	Permitted to Purchase Fiduciary Liability Insurance	Subject to Respective Jurisdiction's Conflict of Interest or Ethics Standards	Subject to Jurisdiction's "Sunshine" Laws	Required to File an Annual Report	Have Financial Disclosure Requirements
Wyoming Retirement System			✓		✓		✓		✓		✓		✓			✓		✓	✓



**Fiduciary Standards**

	PRUDENT PERSON	DUTY OF LOYALTY	EXCLUSIVE PURPOSE	DIVERSIFICATION	LEGAL LIST	CERTAIN MEMBERS OF STAFF ARE FIDUCIARIES
Alaska Public Employees						✓
Arlington County Employees Retirement	✓					✓
CALPERS	✓	✓	✓	✓		✓
CALSTERS	✓					✓
Employees Retirement System of Georgia	✓					
Employees Retirement System of Hawaii	✓	✓	✓			✓
Employees Retirement System of Texas	✓					✓
Florida Retirement System						✓
Fairfax County Supplemental	✓	✓	✓	✓		✓
Houston Firefighters Relief and Retirement	✓	✓	✓	✓		✓
Illinois Municipal Retirement Fund	✓					✓
Indiana State Teachers	✓		✓			✓
Kentucky Teachers	✓					
L.A. City Employees	✓	✓	✓	✓		✓
L.A. County Employees	✓	✓	✓			✓
Minnesota State Retirement	✓					✓
Minnesota Teachers Retirement	✓					
Missouri State Retirement	✓		✓	✓		✓
New Hampshire Retirement	✓	✓	✓	✓		✓
N.J. Police & Firemens						
N.J. Public Employees						
N.J.. Teachers						

Fiduciary Standards

	PRUDENT PERSON	DUTY OF LOYALTY	EXCLUSIVE PURPOSE	DIVERSIFICATION	LEGAL LIST	CERTAIN MEMBERS OF STAFF ARE FIDUCIARIES
N.Y. City Police	✓	✓	✓			
N.Y. City Teachers	✓					✓
N.Y. State and Local					✓	
N.Y. State Teachers						
North Dakota Retirement	✓		✓			✓
Ohio Public Employees	✓	✓	✓			
Oklahoma Public Employees Ret. System	✓					✓
Oregon Public Employees		✓	✓			
Public Employees of Idaho	✓	✓	✓			
Public Employees of CO.	✓	✓	✓	✓		✓
Public Employees of NV	✓	✓	✓			
Public School Employees of PA.	✓	✓	✓	✓		
Public Employees Retirement System of MS						
Public School Employees of MO.	✓		✓			✓
Retirement System of AL	✓					
School Employees of OH	✓	✓	✓			
S.C. Retirement	✓					
S.D. Retirement system			✓			
Texas Teachers	✓	✓	✓			
Teachers Retirement of IL						✓
Teachers Retirement of LA	✓	✓	✓		✓	✓
Tenn. Consolidated						✓
Utah Retirement	✓					✓
Virginia Retirement System	✓					✓
Washington State Public Employees Retirement						
West Va. Retirement System	✓	✓	✓	✓	✓	✓
Wisconsin Dept. of Employee Trust Funds	✓					
Wyoming Retirement System	✓					✓





**Terms**

**Chart D**

<b>System Name</b>	<b>Length of Term</b>	<b>Are There Term Limitations?</b>	<b>Minimum Qualifications?</b>	<b>Are Terms Staggered?</b>
Alaska Public Employees' Retirement System	6	No	No	Yes
Arlington County Employees' Retirement System	4	No	No	Yes
California Public Employees' Retirement System	4	No	No	Yes
California State Teachers' Retirement System	4	No	Yes	No
Employees Retirement System of Georgia	0	No	Yes	Yes
Employees Retirement System of Hawaii	6	No	Yes	Yes
Employees Retirement System of Texas	6	No	No	Yes
Fairfax County Supplement Retirement System	4	No	No	Yes
Houston Firefighters' Relief and Retirement Fund	3	No	No	Yes
Illinois Municipal Retirement Fund	5	No	No	Yes
Indiana State Teachers' Retirement Fund	3	No	No	Yes
Kentucky Teachers' Retirement Systems	4	No	No	Yes
Los Angeles City Employees' Retirement System	5	No	No	Yes
Los Angeles County Employees Retirement Association	3	No	Yes	Yes
Minnesota State Retirement System	4	No	No	Yes
Minnesota Teachers' Retirement Association	4	No	No	Yes
Missouri State Employees' Retirement System	4	No	No	Yes
New Hampshire Retirement System	2	No	No	Yes
New York City Police Pension Fund	4	No	No	No
New York State and Local Retirement Systems	0	No	No	No
New York State Teachers' Retirement System	3	No	No	Yes
North Dakota Public Employees Retirement System	5	No	No	Yes
Ohio Public Employees Retirement System	4	No	No	Yes
Oklahoma Public Employees Retirement System	4	No	No	No
Oregon Public Employees Retirement System	3	No	Yes	Yes

**Terms**

**Chart D**

<b>System Name</b>	<b>Length of Term</b>	<b>Are There Term Limitations?</b>	<b>Minimum Qualifications?</b>	<b>Are Terms Staggered?</b>
Police and Firemen's Retirement System New Jersey	4	No	No	Yes
Public Employee Retirement System of Idaho	5	No	No	Yes
Public Employees' Retirement Association of Colorado	4	No	No	Yes
Public Employees Retirement System New Jersey	3	No	No	Yes
Public Employees' Retirement System of Mississippi	6	No	Yes	Yes
Public Employees' Retirement System of Nevada	4	No	Yes	Yes
Public School Employees' Retirement System of Pennsylvania	3	No	No	Yes
Public School Retirement System of Missouri	4	No	No	Yes
Retirement Systems of Alabama	3	No	No	Yes
School Employees Retirement System of Ohio	4	No	No	Yes
South Carolina Retirement Systems	0	No	No	No
South Dakota Retirement System	4	No	No	Yes
Teacher Retirement System of Texas	6	No	Yes	Yes
Teachers Pension and Annuity Fund New Jersey	3	No	No	Yes
Teachers' Retirement System of Illinois	4	No	No	Yes
Teachers' Retirement System of Louisiana	4	No	No	Yes
Teachers' Retirement System of the City of New York	3	No	No	Yes
Tennessee Consolidated Retirement System	2	No	No	No
Utah Retirement System	2	No	Yes	No
Virginia Retirement System	3	Yes	Yes	Yes
West Virginia Investment Management Board	6	No	Yes	Yes
Wisconsin Department of Employee Trust Funds	4	No	No	Yes
Wyoming Retirement System	6	No	Yes*	Yes

\* There is a political party limitation.



## Survey Comments

Chart E

*Confidential – Respondent’s have been assigned numbers to protect identity*

74	Board is somewhat cumbersome and takes a long time to reach action decisions.
7	Strength-High quality decision-making with a diverse Board of Administration supported by professional staff. Weakness-The large organization means the pace of change is slower.
8	Strength-Governance process is spelled out in written board policies. Weakness-Appointment process for board members is a low priority for Governor - several positions have been vacant for over two years.
17	The ERS is a cost effective way to provide retirement, disability and survivor benefits for state employees, teachers, professors, county employees, police officers, firefighters, judges and elected officials. It is one of the largest pension funds in the world with over 86,300 employees/retirees/beneficiaries and assets in excess of \$10 billion.
70	Board size (6) and make-up (good cross-section of appointment and elected) are very effective. Some may think that it is a weakness to have no qualification for membership, but we have not found that to be a problem since advisory committees, staff, and investment consultants are utilized.
118	Very efficient / streamlined governance, largely free from politics, not subject to budget problems, good checks & balances, solid fiduciary footing. Would like copy of completed survey if possible.
80	Weakness-lack of term limit; retiree annuitant has no voting authority. General-In lieu of fiduciary liability insurance, the fund hired an independent fiduciary counsel.
22	Status began 7/1/2000
24	Comments are lengthy-reference hard copy of survey.
27	Strength comes from good people being elected to the Board of Trustees with no limit on terms, the focus of the retirement system is by nature long-term and unlimited service by good board members allows the system to think and plan long-term.
82	It works well. I wish they had more control over the procurement process and could set contribution rates.
38	Board is primarily administrative in power; investments governed by State Board of Investment (SBI); actuarial assumptions, contribution rates, benefit provisions are all controlled at legislative level.
41	Comments are lengthy - reference hard copy of survey response.
51	Budget constraints and competitive bidding process slows availability of cutting edge equipment; lack of corpus funding.
47	Decision-making is much easier with State Comptroller as sole fiduciary; however, excessive complexity in plan results from all benefit changes governed by actions of state legislature.

## Survey Comments

## Chart E

61	Budget control is with legislature, not board - this is a weakness.
11	The current process is very good. Legislature controls contribution rates and benefit provisions (formula, etc.). Board sets investment policy, establishes positions on and proposes legislation. Executive Director is hired to accomplish Board strategies, goals, manage staff, comply with laws, propose initiatives.
62	Strength-well diversified Board of Trustees representing all stakeholders. Weakness-The system lacks independence in areas of legal representation, procurement, hiring, pay and classification.
40	Too many (3) appointed by Governor.
58	Strength - board controlled by members and beneficiaries; minimizes political interference; Weakness - Frequent turnover in board members could increase risk of weak board structure.
67	Representative governance is strength - lack of autonomy is weakness.
69	Process; inclusion of trustees having relevant business and investment experience.
29	Too many members on board.
68	Strength-The Board of Trustees deals with broad issues.
72	Board is able to function independently in the best interest of the members.
115	The single focus on investment management for [ ] is a strength in that the Board's efforts are not diffused. Operating budget authority must be approved by the legislature, which sometimes is problematic to the Board as trustees-concerning adequate or timely resources. The survey has been filled out from the perspective of the Washington State Investment Board, which is responsible only for the investment of retirement funds. Plan Administration and Benefit Administration is under a separate state agency.
107	Strengths: Board fiduciary responsibility and personal liability, control over budget, required internal auditor, required annual audit, staggered terms, board member qualifications, and non-voting retiree members as representatives with some obligation as to confidentiality as board members. Weakness: Size of board and non-voting member structure. General: Believe it is useful to have participation in some form by retirees from investment standpoint but they should not dominate the board.
77	WRS is a hybrid plan (defined benefit plan overlays define contribution plan). Experience is extremely positive and participants are advocates, as it provides excellent benefits to employees at a reasonably low cost. Weaknesses-include poor service - the system cannot process benefits fast enough due to inadequate staffing and budget constraints.
73	Appointments by both the Governor and the General Assembly, as well as staggered terms have resulted in stability. System is neither the executive, legislative, nor judicial branch of government. There is legislative oversight. In addition to the safeguards outlined above, the [name of oversight entity] is designated as the oversight entity.
78	The current system's structure works great.





W

# Review of Staffing Resources and Compensation Issues

Prepared for  
Iowa Public Employees Retirement System

November 19, 1998



## *Wilshire Survey Results*

### IPERS

• Average Fund Size	\$10.9B (\$21.5)	\$13B
• Average Asset Allocation	Domestic Equities	39% 32%
	International Equities	13% 9%
	Private Equities	2% 8%
	GTAA	1% 11%
	Domestic Fixed Income	36% 29%
	Global Fixed Income	3% 7%
	Real Estate	4% 4%
	Cash	2% 0%
• #Professional Staff	5 (10)	5
• #Support Staff	3 (5)	4
• Internally Managed Assets	7 Funds (of 19)	None
• 3 Yr. Average Staff Turnover	2 people (of 8) (4 of 15)	4 people (of 9)
• Use Employment Contracts?	None	No
• Use Non-Compete Clauses?	None	No





## *Wilshire Survey Results (continued)*

- Number of responses was limited (24%); 19 out of 80 surveys sent
- Turnover was experienced by 74% (14 of the 19) respondents over the last three years
- Average three year percentage turnover (of total staff): 25%
- IPERS three year percentage turnover: 44%
- Where departing employees went: 

		<u>IPERS</u>
– Other Public Funds	21% (10%)	25%
– Private Funds	9 (5%)	0
– Managers, Consultants, etc.	27 (47%)	75
– Other	42 (39%)	0
- Most recent survey by Pension System Cooperative Data Exchange (“PSCDE”) indicates that only 45% of CIOs had been in their current positions more than five years.

**W**

# How Do IPERS' Staffing Resources Compare?

<u>Per Greenwich:</u>	<u>Perform Administrative and Manager Monitoring and Evaluation Functions</u>	<u>Manage Internal Investments</u>	<u>Total Profes- sional Staff</u>
Corporate Fund > \$1B	4.8	3.3	4.7
Endowment Fund > \$1B	6.3	4.8	7.0
State Fund	6.0	4.3	7.2
<i>Public Fund &gt; \$1B</i>	<i>6.2</i>	<i>4.0</i>	<i>7.8</i>
<b>IPERS</b>	<b>5.0</b>	<b>0.0</b>	<b>5.0</b>

• IPERS appears to be modestly under-resourced relative to peers

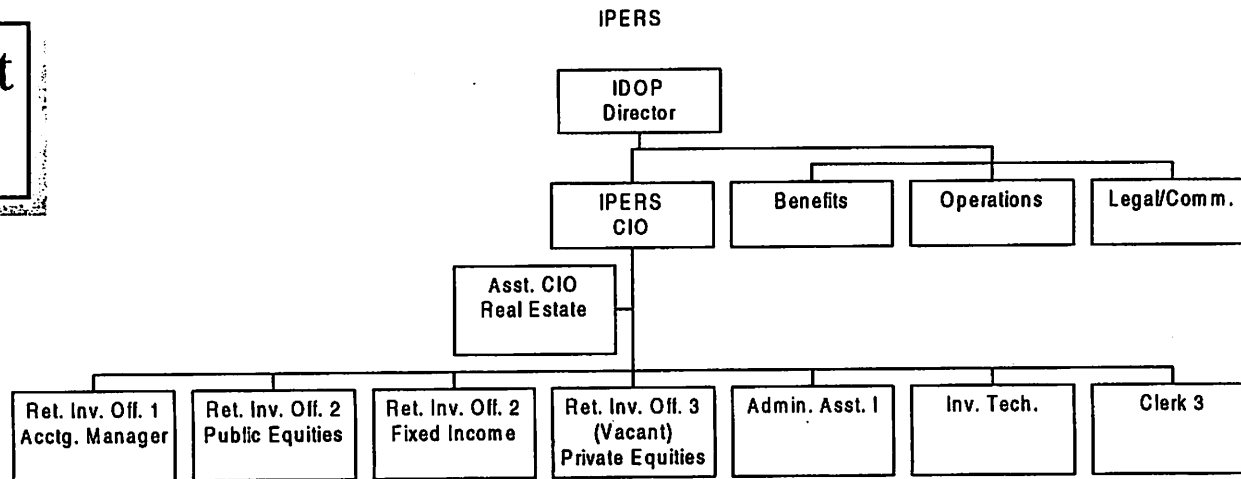
<u>Per PSCDE:</u>	<u>Overall Average Assets</u>	<u>Overall Externally Managed Assets</u>	<u>Professional Investment Staff Size Externally Managed Assets</u>
Median	\$8.2B	8.5	5
Top Quartile	-	13	6
Bottom Quartile	-	4	2
Assets \$10B - \$20B	\$15B	12.4	6.8
<b>IPERS</b>	<b>\$13B</b>	<b>8</b>	<b>5</b>

W

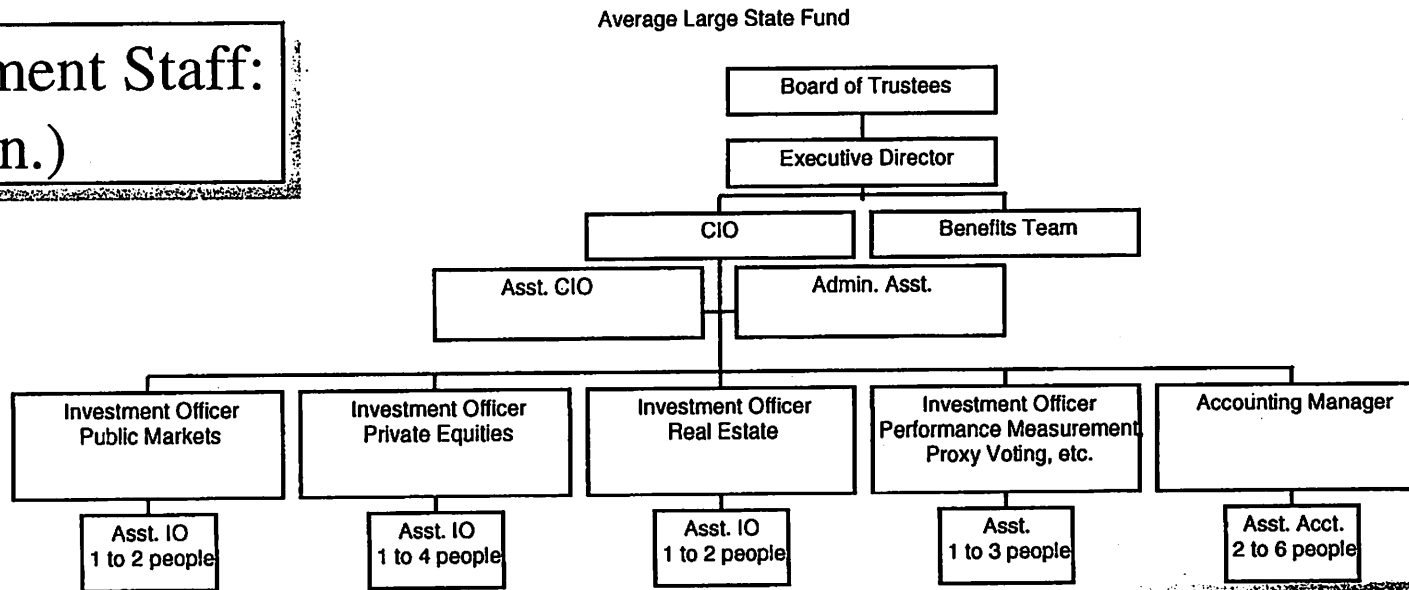
# How Do IPERS' Staffing Resources Compare?

(continued)

Investment Staff: 9



Investment Staff: 14 (Min.)



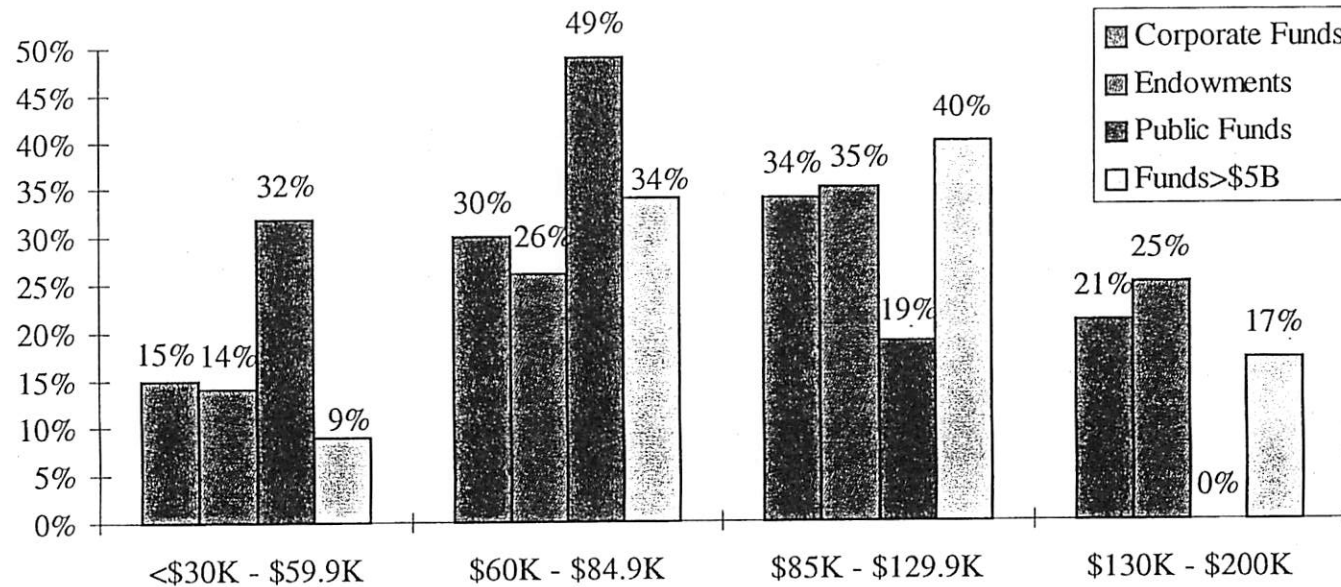


## *How Do IPERS' Staffing Resources Compare?* *(continued)*

- IPERS is unique among other state level funds in that there is not Executive Director and Staff does not report to the Board.
- Given IPERS' structure, IPERS' senior investment staff also undertakes functions normally assumed by Executive Director (i.e., routinely interacts with actuary and benefits staff, etc.). In the typical state level fund structure, senior investment staff would be 100% focused on investment-only issues.
- IPERS' staff pay grades and job descriptions are set relative to all state government employees. Several large public funds have differentiated pay grades and job descriptions in order to be able to attract and retain high quality senior investment professionals on a level nearly competitive with private funds.
- Several large funds have implemented, or are considering implementing, incentive pay programs. IPERS currently has no incentive pay program in place.



## How Does Compensation of CIO-Level Staff Vary Across Fund Type?



Source: Greenwich Associates

- In general, Public Funds' salaries are low relative to private and not-for profit funds despite the fact that public fund assets are normally many times the size of these other fund assets.
- Wilshire's survey confirmed IPERS' experience that terminating employees generally do not leave for other public funds, but for opportunities in the private sector.



## *How Does IPERS' Compensation of Top Officials Compare to Other Funds?*

	<b>Mean Salary (\$000's) (Executive Director/CIO)</b>	<b>Bonuses (\$000's)*</b>	<b>Total Compensa- tion (\$000's)</b>
<b><u>Per Greenwich:</u></b>			
All Corporate Funds	\$102	\$21	\$123
Corporate Funds>\$5B	\$134	\$30	\$164
All Endowments	\$107	\$20	\$127
Endowments>\$1B	\$137	\$24	\$161
State Funds	\$76	\$27	\$103
Public Funds>\$5B	\$90	\$33	\$123
<i>Average</i>	<i>\$108</i>	<i>\$26</i>	<i>\$133</i>
<i>PSCDE 1998 Survey**</i>	<i>\$102</i>	<i>***</i>	<i>\$102</i>
<b>IPERS</b>	<b>\$108</b>	<b>N.A.</b>	<b>\$108</b>

\* Based upon participants eligible for a bonus.

\*\* Salary mean for Midwest Region

\*\*\* PSCDE Survey indicated the average bonus for eligible participants was \$21K, however, it was unclear from their results whether total reported compensation included a bonus component.



## *How Does IPERS' Compensation of Top Officials Compare to Other Funds? (continued)*

	CEO	Deputy CEO	CIO	Deputy CIO
<u>Compensation Per PSCDE 1998 Survey:</u>	<u>(000's)</u>	<u>(000's)</u>	<u>(\$000's)</u>	<u>(\$000's)</u>
Overall Average	\$107	\$85	\$103	\$79
Top Quartile	\$126	\$92	\$106	\$79
Bottom Quartile	\$85	\$68	\$69	\$57
Midwest Region	\$111	\$80	\$102	\$73
Externally Managed Assets \$10B - \$25B	\$99	\$81	\$89	\$74
<b>IPERS</b>	<b>N.A.</b>	<b>N.A.</b>	<b>\$108</b>	<b>\$71</b>

- IPERS' CIO compensation level seems comparable to the average. However, the Deputy CIO position is modestly behind average and represents the top of the salary range for this position at IPERS.
- IPERS is unique relative to other large public funds as there is no Executive Director. The current senior IPERS staff performs functions which would normally be conducted by the Executive Director or Executive Officer.

# W

## *Survey and Review Conclusions*

- IPERS has experienced higher than average turnover relative to other state level funds in the last three years.
- Main reasons behind departures:
  - Limited upside in terms of pay grade and salary advancement;
  - Limited career enhancement opportunities;
  - CIO position not seen as desirable by senior investment officers due to the extent of responsibilities beyond the investment program.





## *Survey and Review Recommendations*

- Recommendations:
  - ① Expand pay grades and salary ranges for senior investment officers to become more competitive with peers;
  - ② Consider implementation of incentive compensation program;
  - ③ Expand career enhancement opportunities within IPERS via job rotation or other means;
  - ④ Review staffing resources to determine if expansion is necessary;
  - ⑤ Consider reducing CIO's non-investment responsibilities to allow the CIO to be more focused on the Fund's investments.



## Board Composition – Trustees Elected by Active and Retired Members

	Trustees Elected by Actives	Trustees Elected by Retirees
Alaska Public Employees	1	1
Arlington County Employees Retirement	3	0
CALPERS	5	1
CALSTERS	0	0
Employees Retirement System of Georgia	1	1
Employees Retirement System of Hawaii	2	1
Employees Retirement System of Texas	3	0
Florida Retirement System	0	0
Fairfax County Supplemental	2	1
Houston Firefighters' Relief and Retirement	1	5
Illinois Municipal Retirement Fund	3	1
Indiana State Teachers	0	0
Kentucky Teachers	1	2
Los Angeles City Employees	2	1
Los Angeles County Employees	3	1
Minnesota State Retirement	7	1
Minnesota Teachers Retirement	4	1
Missouri State Retirement	2	1
New Hampshire Retirement	8	0
New Jersey Police & Firemen's	4	1
New Jersey Public Employees	3	0
New Jersey Teachers'	6	0
New York City Police	8	0
New York City Teachers	0	0
New York State and Local	0	0
New York State Teachers	0	0
North Dakota Retirement	3	1
Ohio Public Employees	5	1
Oklahoma Public Employees Retirement System	0	0
Oregon Public Employees	0	0
Public Employees of Idaho	0	0
Public Employees of Colorado	2	2
Public Employees of Nevada	0	0
Public School Employees of Pennsylvania	4	1
Public Employees Retirement System of Mississippi	6	2
Public School Employees of Missouri	0	0
Retirement System of Alabama	4	2
School Employees of Ohio	0	0
South Carolina Retirement	0	0
South Dakota Retirement System	10	1
Texas Teachers	0	0
Teachers Retirement of Illinois	4	1
Teachers Retirement of Louisiana	10	2
Tennessee Consolidated	5	1
Utah Retirement	2	0
Virginia Retirement System	0	0
Washington State Public Employees Retirement	0	0
West Virginia Retirement System	0	0
Wisconsin Department of Employee Trust Funds	4	1
Wyoming Retirement System	0	0