

Survey of Trustees Board Composition and Pension Investment Policies Among Public Employee, Teacher and University Pension Plans

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A healthy public sector pension plan is consistently and adequately funded, prudently invested and managed transparently by a well-educated, representative board of trustees, who can assure the public that their actions are above board, without conflicting interests and focused on service to plan participants and to the tax paying public.

The information in this memorandum was gathered from publicly available information from the various pension plans and other organizations listed. It is clear that the average public employee who participates in a pension plan sponsored by a US state or local government has the ability to provide meaningful input to the decisions which are made by those that govern that pension plans. While such input is limited to the ability to vote for a representative on the governing board, it is generally the case that any employee with an interest in doing so could offer him or herself to be elected to serve on that board.

Participant Representation on Public Pension Plans

The National Association of State Retirement Plan Administrators compiled information on the composition of the boards of trustees of 88 state and municipal employee and teacher pension plans. Of these plans, only 4 include no members who are participants in the plan itself. Indeed, at least 50% of the board consists of plan participants in 55 of the 88 plans in the survey. Participants make up more than 70% of 18 boards, and 100% of 4 boards.

See Appendix 2

Best Practice Recommendations

Organization for Economic Co-operation and Development

In July 2009, the Working Party for Private Pensions of the Organization for Economic Co-operation and Development (OECD) released its newly updated Guidelines for Pension Fund Governance. OECD recommendations generally reflect the views of other international bodies such as the International Organization of Pension Supervisors, an association of governmental pension regulators which does not include the United States, and the International Accounting Standards Board (IASB). While at present, no body is empowered to enforce these guidelines in the US, it is thought that their relevance will increase as the views of the Government Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB) converge with those of the IASB.

The OECD recommendations cover governance structure and governance mechanisms. Of particular interest is the inclusion of ways to insure the accountability of the “governing body” or board of trustees. The first of these is the idea that ***“Accountability to plan members and beneficiaries can be promoted via the appointment of members of the governing body by pension plan members and beneficiaries or their representative organizations,”*** that is, the election of representatives by plan participants.

Later, the report expands upon this concept: “Election through a fair voting system (e.g. majority voting) is recommended in cases where plan members and beneficiaries can elect some of the members of the governing body. Biographical information on the member of the governing body seeking election should be provided to those involved in the selection process. The information should be provided in a timely manner and should be sufficient including age, length of time he/she has been associated with the pension fund, qualifications and experience. Having said this, existing associations of employees (e.g. trade unions) already have internal electoral systems in place which may make these additional elections redundant.”

Accountability is enhanced when the governing body can be held liable for its actions, in particular for mismanagement, but also for failure to represent the expressed interests of participants.

Government Finance Officers Association

The Government Finance Officers Association offers a series of best practices for government finance policies. Among these is a policy on the “Governance of Public Employee Post-Retirement Benefit Systems” which was issued earlier this year.

This statement of best practice makes many important points about the duties and responsibilities of pension fund trustees, particularly with regard to duties of loyalty, care and prudence.

In this context, the statement makes reference to the board structure and representation. In the section on governing boards, the policy states:

Board Composition – Any board that operates effectively includes members who have a mix of skills, competencies, and behaviors, including leadership, teamwork, communication, planning and organizational abilities, and knowledge of sound decision-making principles. A successful board actively pursues and makes use of these skills and behaviors. Board composition should reflect the varied interests of those responsible for funding the plan and should include plan participants and retirees, citizens of the governmental unit, and officers of the plan sponsor, as well as independent directors. This assures balanced deliberations and decision making.

The Stanford Institutional Investors’ Forum

The Committee on Fund Governance of the Institutional Investors’ Forum at Stanford Law School issued a report on Best Practice Principles on May 31, 2007. The committee is chaired by Peter Clapman, Vice President and Chief Counsel for TIAA-CREF.

The report makes recommendations for best practices in five areas:

- transparency of a fund’s rules and governance structure
- fund leadership: the governing body and executive staff
- trustee attributes and core competencies
- approach to addressing conflicts of interest and related disclosure policy
- delegation of duties and allocation of responsibilities among relevant parties

While the report does not focus directly on the specifics of board composition but the second recommendation, on fund leadership, makes the point that “A governing body should consist of appropriately qualified, experienced individuals dedicated to fulfilling their fiduciary duties to fund beneficiaries.” And that “Trustee selection should be made in a manner that provides effective accountability to fund beneficiaries.”

In the same recommendation, the report states that “trustees should be individuals dedicated to fulfilling a fiduciary duty to fund beneficiaries and should have qualifications and experience consistent with standards for service as a fiduciary.” However, a trustee may not come to the task fully prepared for the duties and so, “should take reasonable steps to acquire the skills to serve appropriately as a fiduciary.”

State University Pension Systems

The structure of retirement benefits for employees of state university systems varies. In some states, all university employees participate in a stand-alone plan. In others, employees participate in the plan for all other state employees. Still others may provide benefits through the state plan for teachers and other public school employees. And others may university employees a choice between a one of these defined benefit plans or participation in a defined contribution plan.

While the National Association of State Retirement Administrators has systematically gathered the information in Appendix 2, there is no single source for such board composition information on state university pension systems. Preliminary information from one such survey (based on one third of state wide university systems) indicates that

- 50% of state university employees participate in the state’s public employee plan
- 10% participate in the statewide teachers’ plan
- Only one of the 22 plans (5%) only serves university employees.
- 35% of universities offer access to defined contribution plan.

The following table summarizes information from online sources for the universities themselves.

Plan	Board Size	Appointed Members	Elected Members	Participant Members	Ex Officio Members
Illinois State University Retirement System (SURS)	11	9	2	7	0
University of Texas System	9	9	0	4	0
Florida Retirement System (University of Florida)	3	0	0	0	3
State University of New York					
Employees Retirement System Option	1	0	1	0	1
Teachers’ Retirement System Option	10	5	4	4	1
University of Missouri System	9	9	0	0	0
University of California	26	19	0	0	7

Illinois State University Retirement System (SURS)

The Board of Trustees of the State University Retirement System of Illinois is made up of 11 members. 5 are academics (3 economists, 1 in accountancy and 1 in business), 2 from the business community, 1 attorney and 1 foundation program director. Also among the 11 are the AFSCME local president representing clerical employees in the system and the AFT local president representing faculty members.

University of Texas System

Employees of the University of Texas automatically participate in the Texas Teachers’ Retirement System. The board is composed of nine trustees who are appointed to staggered terms of six years. Three trustees are direct appointments of the governor. Two trustees are appointed by the governor from a list prepared by the State Board of Education. Two trustees are appointed by the governor from the three public school district active member candidates who have been nominated for each position by employees of public school districts. One trustee is appointed by the governor from the three retired member candidates who are nominated by retired TRS members. One trustee is appointed by the

governor from the three higher education active member candidates nominated by employees of institutions of higher education. The current active trustee from higher education is a power plant operator from the University of Texas at Austin who was nominated as a member of the Texas State Employees Association.

University of Florida

Employees of the University of Florida may choose from defined benefit or defined contribution programs. If they choose the DB (defined benefit) program, they join other state employees and become participants in the Florida Retirement System. The FRS board of trustees is limited to three people, the Governor, the Attorney General and the state's elected Chief Financial Officer.

State University of New York

Employees of the State University of New York who choose to participate in the Employees Retirement System defined benefit pension plan become participants in the New York State and Local Retirement System. The sole trustee of this plan is the State Comptroller.

Employees may also choose the Teachers' Retirement System, which has somewhat different terms for benefits, eligibility and contributions. The board of the TRS is made up of 3 active teachers, elected by delegates to the TRS, a retired teacher elected by TRS retirees, 2 bank executives and an insurance executive appointed by the SUNY Board of Regents, two administrators appointed by the Commissioner of Education, and a representative from the state Comptroller's office.

University of Missouri Retirement Plan

The Board of Curators is the governing board of the University of Missouri system. There are 9 curators, plus a student representative. Most are attorneys and/or from banks or other financial institutions. One is active family nurse practitioner.

These same individuals serve as the trustees of the pension plan. They are guided by stated investment philosophy and a series of investment benchmarks.

The curators are appointed to their positions from each of 9 regions of the state, by the Governor.

California's Pension Systems for Public Employees

California Public Employee Retirement System (CalPERS)

The CalPERS Board of Administration includes 13 members - six elected "member" representatives, three appointed representatives, and four "ex officio" representatives. The following excerpt from the CALPers website describes the upcoming elections to fill 3 four-year terms for member representatives on the board.

Three separate Board member elections will be held for three representatives on the Board of Administration: State, Public Agency, and School. The successful candidate for the three positions will serve a four-year term and represent their members in all aspects of CalPERS business – including benefit and membership issues, and oversight and investment of Fund assets. Their terms of office will be January 16, 2011 – January 15, 2015.

You are eligible to vote in the State, Public Agency, and School elections if you are an active CalPERS member (employed at a CalPERS-covered agency) on July 1, 2010. Your employer will determine your member group and you may only vote in that election (e.g. members employed by a school may only vote for the candidates running in the school election). A ballot package will be mailed to your home September 3, 2010 and you can vote for a candidate through October 1, 2010.

California State Teachers' Retirement System (CalSTRS)

The California State Teachers' Retirement System is run by the 12-member Teachers' Retirement Board.

The board includes 3 member-elected positions. The three must be active members of the plan and at least one must be a participant in the Cash Balance program and elected by participants in the program. One other must be a participant in the Defined Benefit program and elected by participants in the program. The third may be a participant in either program and is elected by participants in both programs.

The governor appoints 5 members who must be confirmed by the state senate. Three are representatives of the public, one must be a retired CalSTRS member and the last a school board representative. Four other trustees serve as ex-officio members: the Director of Finance, State Controller, State Superintendent of Public Instruction, and State Treasurer.

University of California Retirement Plan

The University of California Retirement Plan is run by the Board of Regents of the University of California. While some 100,000 academics, researchers, technicians, clerical and service employees depend upon the UC Retirement Plan for a secure retirement, they have no voice in the decisions that govern the operation of the plan, the investment of its multibillion dollar assets or the choice of who will be making those decisions.

Of the 17 public members of the Board of Regents 7 are from the business community, 4 are from the financial industry, 3 are lawyers, a doctor, an educator and, finally, a member of the San Diego Airport Authority. All have been appointed to multi-year terms by the current governor or by his predecessor.

One university student serves as a board member, with a one year term.

Ex Officio members include the Governor, the Speaker of the Assembly, the State Superintendent of Public Instruction, the President of the University and the president and vice president of the University Alumni Association.

The only representatives of participants in the pension plan are two non-voting faculty members, the chair and vice chair of the Academic Council and two employees as staff advisors, currently both management employees, the Registrar and the Director of Academic Services for UC San Diego Extension and the Director of Gift Management at UC Berkeley, who sit in as non-voting members.

Appendix 1: References:

1. National Association of State Retirement Plan Administrators, <http://nasra.org/resources/Board%20Composition.pdf> , April 2009
2. The Government Finance Officers Association, “Governance of Public Employee Post-Retirement Benefit Systems”
http://www.gfoa.org/downloads/GFOA_governanceretirementbenefitssystemsBP.pdf
3. The Working Party for Private Pensions of the Organization for Economic Co-operation and Development (OECD) Guidelines for Pension Fund Governance,
<http://www.oecd.org/dataoecd/18/52/34799965.pdf>
4. The Stanford Institutional Investors’ Forum, Committee on Fund Governance report on Best Practice Principles http://www.law.stanford.edu/program/executive/programs/Clapman_Report-070316v6-Color.pdf
5. Illinois State University Retirement System (SURS), <http://surs.org/homepage.surs>
6. University of Texas System,
http://www.trs.state.tx.us/info.jsp?submenu=about&page_id=/about/about_trs
7. University of Florida,
<http://www.sbafla.com/fsb/InvestmentFunds/FRSPensionPlan/tabid/371/Default.aspx>
8. State University of New York, <http://www.osc.state.ny.us/retire/>,
<http://www.nystrs.org/main/about/>
9. University of Missouri Retirement Plan,
<http://www.umssystem.edu/ums/departments/fa/treasurer/retirement/summary.shtml>
10. California Public Employee Retirement System (CalPERS),
<http://www.calpers.ca.gov/index.jsp?bc=/about/organization/home.xml>
11. California State Teachers’ Retirement System (CalSTRS), <http://www.calstrs.com/>,
www.calstrs.com/About%20CalSTRS/Teachers%20Retirement%20Board/BoardPolicyManual.pdf
df (see page 8, under Statutory Authority)
12. University of California Retirement Plan,
<http://www.universityofcalifornia.edu/regents/about.html>, <http://www.ucop.edu/treasurer/>

Appendix 2 NASRA Survey of Board Composition

Plan	Board Size	Appointed Members	Elected Members	Participant Members	Ex Officio Members
Alabama Employees' Retirement System	13	3	6	9	4
Alabama Teachers' Retirement System	14	0	10	10	4
Alaska Retirement Management Board	9	7	0	5	2
Arizona Public Safety Personnel Retirement System	5	5	0	4	0
Arizona State Retirement System	9	9	0	4	0
Arkansas Public Employees Retirement System	9	6	0	6	3
Arkansas Teachers Retirement System	15	0	11	10	4
Austin Employees' Retirement System	11	5	5	6	1
California Public Employees Retirement System	13	3	6	6	4
California State Teachers Retirement System	12	5	3	4	4
Colorado Public Employees Retirement Association	15	3	11	11	1
Connecticut Teachers Retirement Board	12	5	5	5	2
Delaware Public Employees Retirement System	7	5	0	0	2
District of Columbia Retirement Board	12	6	6	6	0
Duluth Teachers Retirement Fund Association	9	1	7	7	1
Fairfax County Educational ERS	7	4	3	3	0
Florida State Board of Administration	3	0	0	0	3
Georgia Employees Retirement System	7	4	0	3	3
Georgia Teachers Retirement System	10	8	0	6	2
Houston Firefighters Relief and Retirement Fund	10	3	6	6	1
Idaho Public Employee Retirement System	5	5	0	2	0
Illinois Municipal Retirement Fund	8	0	8	8	0
Illinois State Employees Retirement System	7	3	2	4	2
Illinois Teachers Retirement System	11	4	6	6	1
Indiana Public Employees Retirement Fund	6	5	0	3	1
Indiana State Teachers Retirement Fund	5	4	0	0	1
Iowa Public Employees Retirement System	11	6	0	3	5
Kansas Public Employees Retirement System	9	6	2	2	1
Kentucky Retirement Systems	9	3	5	5	1
Kentucky Teachers Retirement System	9	0	7	5	2
Los Angeles County Employees Retirement Assn	9	4	4	4	1
Louisiana State Employees Retirement System	9	0	6	6	3
Louisiana Teachers Retirement System	16	0	12	12	4
Maine State Retirement System	8	5	2	4	1
Maryland State Retirement and Pension System	14	6	5	11	3
Massachusetts Teachers Retirement Board	7	2	2	3	3
Michigan Public School Employees Retirement Sys	12	11	0	6	1
Michigan State Employees Retirement System	9	4	0	4	5
Minnesota Public Employees Retirement Association	11	5	5	9	1
Minnesota State Retirement System	8	0	5	5	3
Minnesota Teachers Retirement Association	8	1	5	5	2
Mississippi Public Employees Retirement System	10	1	8	8	1
Missouri Local Government ERS	7	1	6	6	0
Missouri Public Schools Retirement System	7	3	4	4	0

Plan	Board Size	Appointed Members	Elected Members	Participant Members	Ex Officio Members
Missouri State Employees Retirement System	11	6	3	3	2
Montana Public Employees Retirement Board	7	7	0	2	0
Montana Teachers Retirement System	6	6	0	4	0
Municipal Employees' Retirement System of Michigan	9	3	6	7	0
Nebraska Retirement Systems	9	8	0	6	1
Nevada Public Employees Retirement System	7	7	0	7	0
New Hampshire Retirement System	13	12	0	8	1
New Jersey Public Employees Retirement Board	9	3	6	6	0
New Jersey Teachers' Retirement Board	7	3	3	3	1
New Mexico Educational Retirement Board	7	3	2	3	2
New Mexico Public Employees Retirement Assn	12	0	10	10	2
New York City Teachers Retirement System	7	2	3	3	2
New York State Teachers Retirement System	10	5	4	6	1
North Carolina Retirement Systems	14	12	0	7	2
North Dakota Public Employees Retirement System	7	3	4	4	0
North Dakota Teachers Fund for Retirement	7	5	0	5	2
Ohio Police & Fire Pension Fund	9	3	6	6	0
Ohio Public Employees Retirement System	11	3	7	7	1
Ohio School Employees Retirement System	9	3	6	6	0
Ohio State Teachers Retirement System	11	3	7	7	1
Oklahoma Public Employees Retirement System	13	8	0	3	5
Oklahoma Teachers Retirement System	13	11	0	6	2
Oregon Employees Retirement System	5	5	1	2	0
Pennsylvania Public School ERS	15	2	6	5	7
Pennsylvania State Employees Retirement System	11	10	0	6	1
Phoenix Employees' Retirement System	9	2	3	4	4
Rhode Island Employees Retirement System	15	2	6	6	7
San Diego County Employees Retirement Assn	9	4	4	4	1
San Francisco City and County Retirement System	7	4	3	3	0
South Carolina Retirement System	5	0	0	0	5
South Dakota Retirement System	16	3	13	13	0
St. Louis Public School Retirement System	11	4	7	7	0
St. Paul Teachers' Retirement Fund Association	10	0	9	9	1
Teacher Retirement System of Texas	9	9	0	6	0
Tennessee Consolidated Retirement System	19	4	6	10	9
Texas County & District Retirement System	9	9	0	9	0
Texas Employees Retirement System	6	3	3	3	0
Texas Municipal Retirement System	6	6	0	6	0
Utah Retirement Systems	7	6	0	2	1
Vermont State Employees Retirement System	8	1	4	4	3
Vermont Teachers Retirement System	6	1	2	3	3
Virginia Retirement System	9	4	5	4	0
Wisconsin Retirement System	13	10	2	2	1
Wyoming Retirement System	11	10	0	5	1