

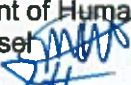



COUNTY OF MILWAUKEE
Inter-Office Communication

Date: February 16, 2018

To: Supervisor Theodore Lipscomb, Sr., Chair, Milwaukee County Board of Supervisors
Norb Gedemer, Pension Board Chair

From: Teig Whaley-Smith, Director, Department of Administrative Services 
Kerry Mitchell, Director, Department of Human Resources 
Margaret Daun, Corporation Counsel 
Jerome J. Heer, Director of Audits 

Subject: Milwaukee County Employee's Retirement System Governance Audit

In October 2017, Baker Tilly issued a report ("Phase III") on the Milwaukee County Employees' Retirement System (ERS). The consulting report was prepared in the wake of the filing of several Voluntary Correction Programs with the Internal Revenue Service and significant breakdowns in the payment of pensions to Milwaukee County retirees. One of the key findings of the report was that ERS had unclear governance and guidance related to critical functions and rules, as well as roles and responsibilities of various departments and service providers that serve the pension fund and the pension board.

We have reviewed the report by Baker Tilly in the context of our own experiences with the ERS and conclude that additional work is needed in addressing governance challenges within the system. This conclusion is not an indication that any one part of ERS governance is not functioning well. Rather, the system of shared responsibility has often led to confusion about decision making in the County's complex pension plan. A governance audit will help assure Milwaukee County, and all parties involved in the system, that decisions are made in a clear and effective manner. Enhanced governance will reduce the likelihood of future errors and increase accountability when errors do occur. The County Executive agrees with the need for this review and we are writing to seek your support as well. We are cognizant of the investment that has been made in past and ongoing professional services related to the ERS and we believe that this project is necessary to build on those efforts.

The Audit Services Division conducted research on potential firms to solicit to conduct a governance audit of funds such as Milwaukee County ERS. Only one firm consistently emerged as a national subject matter expert on this topic. That firm, Funston Advisory Services (FAS), has an impressive client list including work with clients which have undergone stress in their pensions. The FAS "one size fits one" approach should allow a tailored result that, while rooted in national best practices and their national database, meets any needs unique to Milwaukee County. To that end, FAS would work with fiduciary and sponsor boards and managers to prioritize the audit and focus on areas of most significant need.

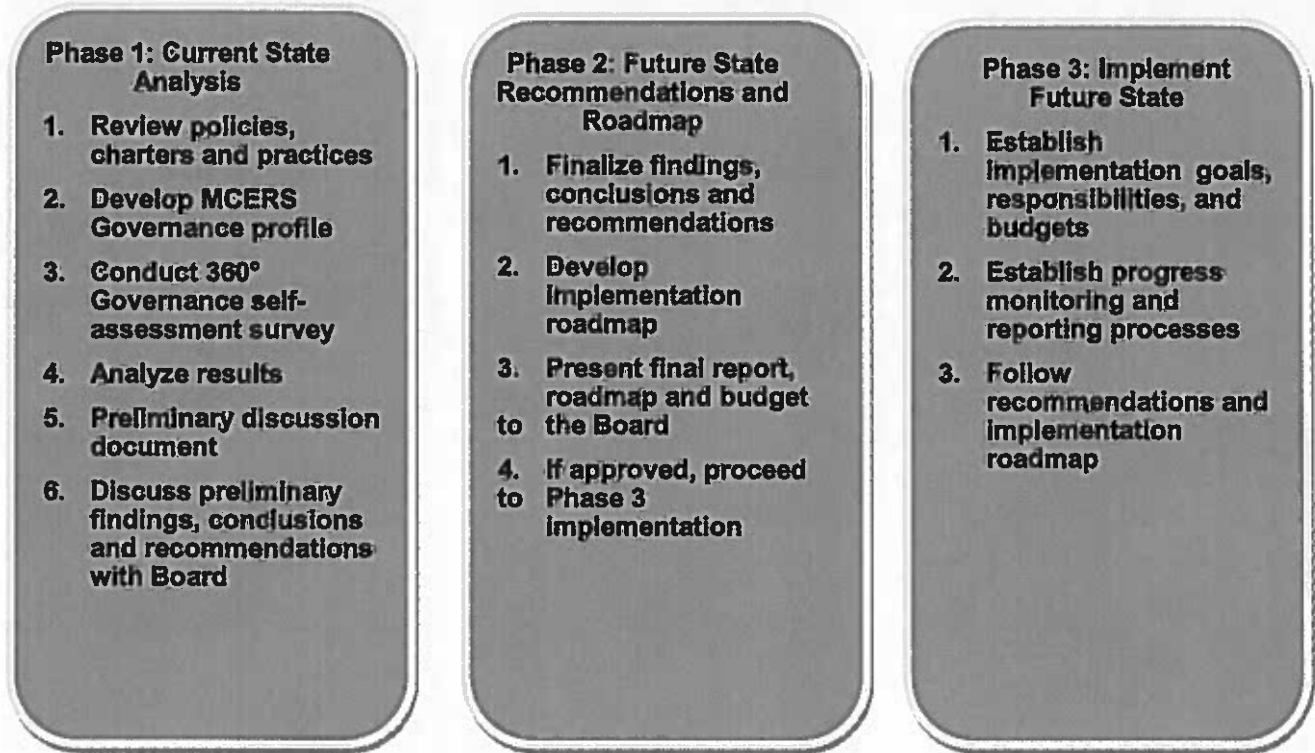
The attached resolution and fiscal note authorize the project management team (DAS, DHR, Audit, and Corporation Counsel) to enter into Phase 1 of a contract with FAS for a not-to-exceed amount of \$85,000.

The project scope may include the following items which will be prioritized by the project management team with input from stakeholders:

1. Legal and Regulatory Framework
2. Governance Framework
3. Enterprise Strategies and Policies
4. Enterprise Risks

5. Investment Operations
6. Pension and Insurance Operations
7. Any Other Areas Identified by Stakeholders

Based on the success of Phase 1, the County may commit to one or two other phases as described below:



The Phase 1 report will be provided to both the Pension Board and the Board of Supervisors. A decision about proceeding with any subsequent Phase will be made in consultation with those Boards.

It is important to note that the work will be conducted in full awareness of the potential for fundamental change in the structure of ERS as result of interest in alternatives to the current plan (e.g. some form of agreement with the Wisconsin Retirement System). Enhancing the effectiveness of ERS governance would actually make a transition smoother and provide better management of "legacy" pension benefits. If fundamental changes are not made, the ERS would be strengthened in any event.

cc: Scott B. Manske, CPA, Milwaukee County Comptroller
 Chris Abele, Milwaukee County Executive
 Raisa Koltun, Chief of Staff, County Executive's Office
 Amy Pechacek, Director, Department of Risk Management
 Kelly Bablitch, Chief of Staff, County Board Staff
 Steve Cady, Research & Policy Director, Office of the Comptroller
 Janelle Jensen, Legislative Services Division Manager, County Clerk's Office



Milwaukee County Retirement Plan Services

Timothy Coyne, Director

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Milwaukee, WI 53233
(414) 278-4207 (877) 652-6377

Date: December 19, 2018

To: Theodore Lipscomb, Sr., Chairman, Milwaukee County Board of Supervisors

From: Timothy Coyne, Director, Retirement Plan Services

Subject: **Informational Report on phase one of the Milwaukee County Employees' Retirement System Governance Review conducted by Funston Advisory Services**

Milwaukee County Employees' Retirement System – Phase One Report

Background

Under the direction of Jerome Heer, the previous Director of Audit for Milwaukee County, the County engaged Funston Advisory Services to conduct a comprehensive review of the governance of the Milwaukee County Employees' Retirement System (MCERS), including OBRA¹. Phase one of the governance review is complete. The review includes:

- The legal and regulatory framework
- The governance framework
- Other selected aspects of policies, processes and decision-making, including pension operations, administrative operations, and compliance

The objectives for phase one were to conduct a current state analysis to identify appropriate issues to address the concerns of key stakeholders and develop preliminary recommendations. The report provides a detailed analysis of identified issues, a detailed set of several recommendations to successfully address those issues, and an overview of leading practices for public retirement systems.

Governance Review Phase One Recommendations

The attached document, submitted as Exhibit A, is the completed governance review phase one report. RPS is seeking support from the Board of Supervisors – as well as other County stakeholders like the Pension Board, County Executive, and Comptroller – to move forward with recommendations. This report is an initial step towards what is likely to be a six-to-12-month implementation process.

Thank you.

¹ Retirement Plan Services (RPS) is the umbrella term for the Milwaukee County department that administers and carries out the day-to-day operations for MCERS and OBRA.

Cc: Supervisor James Schmitt, Chairman, Finance and Audit Committee
Supervisor Eddie Cullen, Chairman, Personnel Committee
Chris Abele, County Executive
Finance and Audit Committee
Personnel Committee
Raisa Koltun, Chief of Staff, Office of the County Executive
Teig Whaley-Smith, Director, Department of Administrative Services
Scott Manske, Comptroller
Jennifer Folliard Director of Audit, Office of the Comptroller
Steve Cady, Research and Policy Director, Office of the Comptroller

Exhibit A

Milwaukee County Employees' Retirement System

Governance Review – Phase 1 Report

December 17, 2018



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- B. MCERS Comparisons to Leading Practices
- C. Results of Self-Assessment Survey

Executive Summary

Executive Summary

- The priorities for improving MCERS and OBRA governance vary depending upon where one sits in the Milwaukee County organization
- Even if the preliminary recommendations of the Retirement Sustainability Taskforce are implemented, ERS and OBRA responsibilities, complexities and workload will not be substantially reduced for many years
- There is broad (if not unanimous) agreement that the current MCERS and OBRA governance structure does not work well and that several areas should be addressed:
 - The Pension Board is the only fiduciary board in the County yet does not have authority to direct and oversee ERS and OBRA staff
 - Retirement Plan Services (RPS) should not report to the Human Resources Department but, rather, to the Pension Board
 - The provision of legal support for ERS and OBRA may not comply with County ordinance (“The county corporation shall be the legal advisor of the board”)
 - The relationship between the Pension Board and the Corporation Counsel is dysfunctional and needs to be fixed
 - The Pension Board is overly involved in resolving appeals
 - Many services are provided by outside providers, but there is a lack of procurement policies, standards, and procedures

Executive Summary

- Although there is general agreement that the Pension Board should have greater responsibility and be central to resolving these issues, there is concern that:
 - The Pension Board is not perceived to be prepared to take on the tasks due to lack of appropriate experience and perspective
 - The Pension Board lacks documented charters, policies and processes which could provide guidance for its members and support an effective functioning of the Board and its committees
 - The Pension Board is currently heavily involved in the resolution of appeals and lawsuits and is not focused on strategic issues and the direction of ERS and OBRA
 - There appears to be a high level of distrust among many ERS stakeholders
- Success in addressing these concerns will require a coordinated effort to implement all the recommendations in this report, as well as a greater level of trust among the stakeholders

Executive Summary

Our recommendations for improving ERS and OBRA governance are co-dependent and include:

1. Empower the Pension Board with authority over the Retirement Plan Services organization, including staffing, budgets, external provider selection and spending approval and create an Executive Director position with overall ERS and OBRA responsibility who is hired/fired/evaluated/compensated solely by the Pension Board
2. Resolve the issue regarding legal advice under MGCO Section 8.11 – Legal advisor
 - The Executive Director should be responsible for obtaining and directing legal services
 - Option 1: Corporation Counsel provides one or two full-time attorneys to support ERS and OBRA under the day-to-day direction of the Executive Director
 - Option 2: The County rescinds Section 8.11, the Executive Director hires and provides direction to an ERS full-time General Counsel who engages any external counsel
3. Enhance the capabilities of the ERS and OBRA (RPS) staff
 - Form a staff appeals group comprised of members of RPS and legal staff
 - Hire a Chief Investment Officer (CIO) to oversee the investment advisor and managers on behalf of the Pension Board
 - Consider hiring a Chief Financial Officer (CFO) or Chief Administrative Officer (CAO) to oversee ERS and OBRA finances, procurement, and human resources
4. Develop a comprehensive Board Policy Manual which includes:
 - Powers reserved for the Pension Board
 - Delegations to the Executive Director and external parties
 - Charters for the Board and each committee
 - Duties of Board and committee chairs, vice chairs and other trustees
 - Board bylaws (e.g., election of Pension Board chair, attendance, calling a meeting, appointment of committee chairs and members, procedures, etc.)
 - All Board policies

Executive Summary

Our recommendations for improving ERS and OBRA governance are co-dependent and include (cont'd):

5. Develop the ERS and OBRA strategic agenda, with a focus on key decisions to be made
 - Develop a strategic plan for ERS/OBRA and the organization (started in September)
 - Identify key decisions to be made and timing and develop a Pension Board calendar
 - Update delegations to Board committees to effectively support the strategic agenda
 - Develop Committee calendars which support the Pension Board calendar
6. Improve the functioning and efficiency of the Pension Board and its committees
 - Focus committees on the duties reflected in the charters
 - Consider creation of an Appeals Committee to reduce demands on the full Board and more effectively consider appeals
 - Reduce the number of meetings, eliminate the agenda-setting meeting, and determine the frequency of meetings required
 - Develop a formal process for accepting requests from Board members, with all requests to be discussed and agreed to by the full Board and then assigned to the Executive Director
7. Improve the capabilities of the Pension Board through a structured onboarding and mandatory continuing education program
 - Develop a year-long new trustee on-boarding process
 - Develop a Pension Board continuing education program designed to support preparation for making key policy decisions
 - The Executive Director should take the lead in developing the onboarding and continuing education program for the Pension Board

Main Body of Report

1. Background and Purpose
2. Review Process
3. Issues Identified
4. Detailed Recommendations
5. Proposed Phase 2 Workplan

1. Background and Purpose

- MCERS has experienced adverse publicity related to negative audit findings, litigation, poor record-keeping, actuarial errors, ordinance violations, policy misinterpretations, a reluctance to quickly surface and correct problems, and growth in unfunded liabilities
- To improve its governance and re-establish stakeholder confidence, MCERS engaged Funston Advisory Services LLC (FAS) to conduct a comprehensive review of the governance of the Milwaukee County Employees' Retirement System (MCERS), including OBRA
- The review includes:
 - The legal and regulatory framework
 - The governance framework
 - Other selected aspects of policies, processes and decision-making, including pension operations, administrative operations and compliance
 - Investments were considered out of scope
- The objectives for this Phase 1: Current State Analysis are to identify appropriate issues to address the concerns of key stakeholders and develop preliminary recommendations
- Phase 2: Future State Recommendations and Roadmap will build upon the current state analysis though more in-depth analysis and development of recommendations

1. Background and Purpose

- Milwaukee County created a Retirement Sustainability Taskforce (RST) in 2017 to consider the long-term direction for ERS
- A Draft Report and Recommendations issued by the RST in October 2018 recommends:
 - “New hires would be moved to WRS and receive benefits through that system. ERS would be closed to new entrants.
 - Non-vested employees would potentially be moved to WRS as well and vested Milwaukee County workers could potentially receive future service through WRS.
 - Employee contribution rates would be subject to a maximum level (though this may require a change in State law).
 - COLA reductions/modifications would be applied to reduce the unfunded liability and share costs.
 - The WRS rules, or something similar, would be considered in identifying how to reinstate COLAs when full funding is reached and provide both risk sharing as well as sharing of gains.”
- This analysis and report assumes that, even if these RST recommendations are adopted, MCERS will continue to provide retirement services for coming decades and that identified governance improvements will still be needed and beneficial

2. Review Process

1. Reviewed MCERS policies, charters and practices
2. Developed a mapping of MCERS responsibilities and authorities
3. Developed MCERS InGovSM profile based upon responses to questionnaire and comparison to FAS database
4. Conducted 360° Governance self-assessment survey with participation by 23 respondents
 - MCERS Pension Board members
 - Milwaukee County Human Resources and Retirement Plan Services staff
 - Milwaukee County stakeholders (Executive, Comptroller, Administrative Services, Audit, Corporation Counsel) and Independent Advisors (Investment Consultant, External Counsel)
5. Prepared preliminary list of issues and areas of potential opportunity
6. Conducted follow-up interviews with self-assessment participants
7. Prepared Phase 1 Assessment final report (this report)

3. Issues Identified

1. MCERS has complex administrative requirements and lacks a cohesive retirement plan document
 - Legacy of multiple plans with numerous changes resulting in many unique retirement situations and calculations
 - What is normally described in a plan document is contained in numerous County ordinances as well as rules promulgated by the Pension Board
 - Although there has been a workgroup working to rationalize ordinances and rules and ongoing plan changes have been reduced, significant legacy complexity remains for ERS
2. The Pension Board gets overly involved in resolving appeals rather than delegating final decisions to the RPS staff
 - The relatively new pension administration system (V3) cannot accommodate all calculations, resulting in many manual calculations and, sometimes, errors
 - The underlying data quality in member records is uneven
 - Due to staffing limitations:
 - The Pension Board spends significant time reviewing appeals and operational details (e.g., check registers, travel vouchers, detailed system enhancements)
 - There is a heavy reliance by the Pension Board on outside counsel for what would normally be routine decisions and general support at other retirement systems

3. Issues Identified

3. The Pension Board is the only fiduciary board in the County, with responsibility for investing \$1.6 billion in assets, yet must comply with the same governance and rules as other non-fiduciary boards
 - The Pension Board lacks any staff resources or authority for hiring, firing and compensating the Director of RPS
 - Pension Board trustees do not have the ability to hire any internal resources in support of ERS activities
 - In addition, the Pension Board does not have final authority for RPS budgets and spending

3. Issues Identified

4. The MCERS legal and governance structure is fragmented, with misalignment of responsibilities and authorities, resulting in lack of accountability and unclear lines of control
 - Roles and responsibilities of the Pension Board vis-à-vis County departments are unclear
 - Pension Board responsibilities and authorities for investments is reasonably clear
 - Most other areas of authority are unclear, often with multiple approvals required beyond the Pension Board
 - Although the Pension Board approves selection of the actuary, the actuary is not independent of the County (which is the plan sponsor)
 - The reporting relationship of the Director of Retirement Plan Services (a fiduciary) to the Chief Human Resources Officer (not a fiduciary) is not appropriate
 - There is not a document clearly identifying powers reserved for the Pension Board or delegations from the Pension Board to the Director of RPS
 - County agency cross charges to ERS are not subject to approval by the Pension Board nor do they seem to be well understood
 - Although investments were not included in the scope of this review, there is no staff oversight of investments, requiring the Pension Board to oversee the external investment advisors and managers without staff assistance

3. Issues Identified

5. Concerns have been raised that MCERS may be in non-compliance with MCGO 201.24 Section 8.11 – Legal Advisor
 - The ordinance states, “The county corporation counsel shall be the legal advisor of the board. Whenever the county corporation counsel deems it necessary to obtain the services of private legal counsel to advise the board, the county corporation counsel shall follow the provisions of section 56.30(5) of the General Ordinances of Milwaukee County.”
 - Despite the ordinance, which is clear, there is a lack of agreement concerning appropriate roles of Corporation Counsel vis-à-vis external counsel which has led to the non-compliance situation
 - Responsibilities of Corporation Counsel vs. external counsel
 - Lack of a standard protocol for engaging external counsel
 - Billing and cost concerns regarding external counsel (e.g., external counsel as Pension Board secretary)
 - There is a long history of the Pension Board relying on outside counsel for pension system expertise which was lacking within the County
 - Consequently, the Pension Board routinely obtains external legal counsel without consultation with Corporation Counsel, despite the contractual relationship of external counsel being directly with the Corporation Counsel
 - The current relationship between the Pension Board and Corporation Counsel is fractured and dysfunctional

3. Issues Identified

6. The Pension Board and its committees lack charters and formal policies in many areas
 - No clear description of the duties of:
 - The Board as a whole
 - Board committees
 - Board and committee chairs
 - Individual Board members
 - No documented process for selecting committee chairs or the Board Secretary
 - No Board Policy Manual, and many policies are not defined, for example:
 - Board by-laws (e.g., attendance, calling a meeting, appointment of chairs, procedures, etc.)
 - Board continuing education
 - Board self-assessment
 - Ethics and standards of conduct
 - Travel and gifts
 - Procurement
 - Strategic planning
 - Referral of investment opportunities and service provider candidates
 - Communications
 - Board/staff interaction
 - There is a consensus that policies and procedures documentation and updating needs significant improvement

3. Issues Identified

7. The Pension Board and committee operations are not efficient

- There is no annual Board calendar identifying key policy decisions or approvals to be acted upon at future meetings
 - This would create a structure for Board members to prepare for key decisions
 - Could link to a Board continuing education agenda
- Board and committee meeting materials are often available only 1-2 days in advance of a meeting
 - Limits preparation time for Board members
 - MCERS does not use an electronic board portal, which has become prevailing practice at larger public funds and could help improve timeliness of meeting material availability
- Committee meetings, which are monthly, are much more frequent than peer funds
 - Audit committees typically meet 4-5 times annually at peer funds
 - Investment committee meetings are more typically bi-monthly
- The agenda setting process could be more efficient and should not require a separate meeting
 - Having a forward calendar could help eliminate the need for separate agenda-setting meetings
 - The Board and committee chairs, working closely with the Director of RPS, could be responsible for finalizing Board and committee agendas
- There is no formal process for the Pension Board requesting information through the Director of RPS, resulting in inappropriate direct requests to external service providers from individual Board members and lack of accountability when requests are made

3. Issues Identified

8. The Pension Board is very tactical in focus and has not identified its strategic agenda or oversight requirements
 - There is no current strategic plan for MCERS
 - Consequently, meeting plans and agendas tend to evolve each month
 - The Pension Board has not identified its key strategic decisions to be addressed and when they expect to make them
 - The Pension Board has also not identified its requirements for oversight (what it needs to see, what level of details, frequency, etc.)
 - The Pension Board appears to lack confidence in RPS and pension operations, particularly the member contact center, member self-service capabilities, and member data management and security
 - Expectations for oversight and when situations should be brought to the Board's attention have not been articulated
 - There are no policies, standards, or procedures for oversight of external providers
 - The full Pension Board appears to spend significant time resolving appeals and administrative issues

3. Issues Identified

9. Pension Board on-boarding and continuing education and training is limited and lacking in direction and structure
 - The Pension Board does not have a continuing education program which helps trustees be ready to discuss and consider key decisions
 - There is no Board continuing education policy or requirement, which is a lagging practice
 - Leading practice would include standard ongoing trustee training for every Board member along with customized components for each to fill in experience gaps, addressing topics such as:
 - Fiduciary duties
 - Investment management
 - Ethics
 - Pensions and actuarial considerations
 - Governance
 - The trustee on-boarding process is new and could be substantially improved
 - Onboarding process could be a series of planned education sessions throughout the first year for each new trustee
 - Similar to continuing education, onboarding could include a standard core with customized optional components designed to fit the new trustee's background

4. Detailed Recommendations

1. Empower the Pension Board with authority over the Retirement Plan Services organization, including staffing, budgets, external provider selection and spending approval
 - The Director of RPS should be given the title of Executive Director of ERS and OBRA and report directly to the Pension Board and be hired/fired/evaluated/compensated solely by the Pension Board
 - The Executive Director should be given responsibility for day-to-day management of all ERS and OBRA operations, including pension operations, investments and legal services
 - RPS staff should remain County employees, but should be moved from Human Resources and become an independent group under the Executive Director
2. Resolve the issue regarding legal advice under MGCO Section 8.11 – Legal advisor
 - In any case, the Executive Director should be responsible for obtaining and directing legal services, not the Pension Board
 - Option 1: Corporation Counsel provides one or two full-time attorneys to support MCERS, under the day-to-day direction of the Executive Director, and the Corporation Counsel, in cooperation with the Executive Director, engages any external counsel, as required
 - Option 2: The County rescinds Section 8.11, the Executive Director hires and provides direction to an in-house ERS full-time General Counsel (and perhaps a second in-house attorney), and the General Counsel engages any external counsel, as required, with concurrence of the Executive Director

4. Detailed Recommendations

3. Enhance the capabilities of the ERS/OBRA (RPS) staff:

- Form a staff appeals group, including RPS and legal staff (either Corporation Counsel or internal ERS legal counsel), to handle the bulk of appeals and litigation issues, with only the most complex issues going to the Pension Board for resolution
- Hire a Chief Investment Officer (CIO) to oversee the investment advisor and managers on behalf of the Pension Board
 - Assist and advise the Board, in conjunction with the external investment advisor, in development of the strategic asset allocation and investment policies
 - Provide ongoing oversight of the fund and external investment providers and advise the Board
- Consider hiring a Chief Financial Officer (CFO) or Chief Administrative Officer (CAO) to oversee ERS finances, procurement, and human resources

4. Detailed Recommendations

4. Develop a comprehensive Board Policy Manual which includes:

- Powers reserved for the Pension Board
 - Set strategic policy and direction
 - Approve certain key decisions
 - Conduct selected activities
 - Oversee prudently delegated authority
- Delegations to the Executive Director and external parties
- Charters for the Board and each committee
- Duties of Board and committee chairs, vice chairs and other trustees
- Board bylaws (e.g., election of Pension Board chair, attendance, calling a meeting, appointment of committee chairs and members, procedures, etc.)
- Board policies, including continuing education, self-assessment, ethics and standards of conduct, travel and gifts, procurement, strategic planning, referral of investment opportunities and service provider candidates, communications and Board/staff interaction

4. Detailed Recommendations

5. Develop the MCERS strategic agenda, with a focus on key decisions to be made
 - The Executive Director and staff develop a strategic plan for ERS/OBRA and the organization in collaboration with the Pension Board
 - Identify key decisions to be made and timing (e.g., annually, every three years, etc.) and develop a Pension Board calendar for future meetings, e.g.:
 - Set investment allocation
 - Set fund target rate of return
 - Approve investment benchmarks
 - Set organizational strategy
 - Approve strategic plan
 - Update delegations to Board committees to effectively support the strategic agenda
 - Develop Committee calendars which support the Pension Board calendar

4. Detailed Recommendations

6. Improve the functioning and efficiency of the Pension Board and its committees
 - Utilize the strategic agenda to drive priority agenda items
 - Focus committees on the duties reflected in the charters
 - Consider creation of an Appeals Committee to reduce demands on the full Board and more effectively consider appeals which should come to the Board for resolution
 - Identify oversight and reporting requirements and trigger points for reporting to the Board by ERS and/or third parties
 - Add oversight reporting requirements to the annual Board and committee calendars
 - Reduce the number of meetings
 - Eliminate the agenda-setting meeting
 - With a focus on responsibilities in the new committee charters, determine the frequency of meetings required, e.g., quarterly or bi-monthly
 - With a focus on the strategic agenda and oversight requirements, determine the frequency of meetings required for the Pension Board
 - Develop a formal process for accepting requests (e.g., information, reports, analyses) from Board members
 - All requests to be discussed and agreed to by the full Board
 - The Executive Director is responsible for following up, working with the Chair, and advising the Board on progress
 - Executive Director to assign a lead staff liaison for each Board committee

4. Detailed Recommendations

7. Improve the capabilities of the Pension Board through a structured onboarding and mandatory continuing education program
 - Develop a year-long new trustee on-boarding process
 - A series of planned education sessions throughout the first year for each new trustee
 - Include a standard core curriculum, e.g.:
 - Overview of MCERS and OBRA, including legal and governance framework
 - Fiduciary duties and role of the Pension Board
 - Pension Board and committee operations and policies
 - RPS role and operations and external service providers
 - Investment policies and operations
 - Also offer customized optional components designed to fit gaps in the new trustee’s background
 - Develop a Pension Board continuing education program designed to support preparation for making key policy decisions, e.g.:
 - Establishing investment beliefs, investment policy and risk appetite
 - Setting the strategic asset allocation
 - Setting the assumed rate of return or discount rate
 - In addition, continuing education would include “refresher” topics as appropriate, e.g.:
 - Fiduciary duties and related legal requirements
 - Emerging issues in investments
 - Emerging issues in pension administration
 - The Executive Director should take the lead in developing an onboarding and continuing education program for the Pension Board using a combination of internal and external training venues

5. Proposed Phase 2 Workplan

- Obtain agreement on desirable MCERS and OBRA governance and organization “end state” to be pursued
 - Governance model and alignment of responsibilities, authorities and resources
 - Powers reserved exclusively for the Pension Board
 - Delegations to staff and third parties
- Identify key implementation steps to achieve the end state, e.g.:
 - Ordinance changes
 - Development of Pension Board charters and policies
 - MCERS/OBRA organizational development and lines of reporting
 - Pension Board onboarding and continuing education program
 - Root cause analysis on source and nature of appeals and new resolution procedures
- Identify internal and external resources required
- Develop implementation workplan
 - Key activities and milestones
 - Implementation responsibilities
 - Budgets
 - Oversight

Appendices

- A. Leading Practices for a public pension of MCERS' size
- B. MCERS compared to InGovSM Leading Practices
- C. Results of MCERS' Self-Assessment Survey

A. Leading Practices for a Public Pension Fund of MCERS' Size

For an integrated public pension system such as MCERS (with outsourced investment management), leading practices include the following characteristics:

- Board of Trustees responsibilities are aligned with and supported by authorities for managing the fund, system, budgets and staffing
- The Board can make the most appropriate investment decisions based upon the selected strategy without consideration of legal asset allocation limits or non-economic factors
- The Board maintains a consistent focus on long-term, strategic issues, oversight and monitoring of overall operations performance, with minimal focus on operational details given independent reasonable reassurance (e.g., audits)
- Clear priorities and accountabilities are established and agreed for the Board, Executive, and supporting third parties
- The Board and committees are actively involved in setting the strategic agenda on an annual basis and refining it, as appropriate
- The Board oversees stakeholder relations, for example, acting as ambassadors for the organization and overseeing the effectiveness of key stakeholder relations

A. Leading Practices for a Public Pension Fund of MCERS' Size

- The Board clearly defines the powers reserved for itself and each of its committees, e.g.:
 - Setting strategic direction and policy
 - Approving recurring decisions which are the responsibility of the Board
 - Conducting Board activities (e.g., hiring / evaluating / compensating / firing the CEO, Board self-assessments)
 - Overseeing performance, risk and controls on delegated activities
- The Board obtains effective independent reassurance (e.g., internal audits, external audits, benchmarking reports) which corroborate management and third-party reporting and assurances
- The CEO (or Executive Director) is the single direct report to the Board for operations:
 - The Board delegates to the CEO the authority for the development of policy and strategy proposals, and, once approved by the board, their implementation and the day-to-day management of the organization
 - Authority and responsibility are clearly defined, contributing to an effective working relationship based on mutual confidence and trust
 - The CEO has responsibility for hiring, evaluating, compensating and firing all executives
 - The CEO or his subordinates provide day-to-day direction to external service providers

A. Leading Practices for a Public Pension Fund of MCERS' Size

- The Board and each committee are comprised of an odd number of members to minimize tie votes
- Board committees operate effectively and assist the Board in accomplishing its work
 - Typically Investment, Audit and Compensation Committees which each meet 2-6 times per year
 - Well-defined responsibilities for each committee are described in a charter
 - Transparent process for nomination and election of committee chairs and vice chairs
 - Committee chairs are rotated for development purposes
- An effective on-boarding process for new trustees which begins as soon as elected or appointed and continues for up to two years
- Annual continuing education is required for all Board members
 - Minimum continuing education requirements include ethics, fiduciary responsibility, pension actuarial principles, investments, pension operations, and governance
 - There is a continuing education plan and budget for the entire Board and for each member that identifies targeted knowledge gaps, as well as a program for new members, linked to the Board self-assessment

A. Leading Practices for a Public Pension Fund of MCERS' Size

- The Board establishes behavior policies regarding code of ethics, conflicts of interest, external communications, travel, gifts and loans, confidentiality, continuing education and crisis communications
- A Board Policy Manual contains all key policies relating to the Board and its responsibilities, including statutory framework and charters
- Most policies are reviewed on a regular basis (rather than ad hoc) with the frequency depending on the volatility of the policy issue, typically annually, biennially, or triennially
- As external service providers are a critical resource component, there are procurement policies, standards and procedures for effectively sourcing, managing and evaluating external providers with periodic rebidding

B. MCERS Compared to InGovSM Leading Practices

- The MCERS Pension Board composition, term of office, and other requirements are typical, except for:
 - The Pension Boars comprises an even number of members (10) which can more easily result in a tie vote
 - Although term limits can be helpful, six years may be too short, resulting in premature loss of expertise – a typical trustee is not fully onboarded until after about two years of service
- As a small fund, MCERS has the two most typical committees at integrated funds – Audit and Investments
- Consistent with half of its peer group, MCERS has an outsourced CIO arrangement through its investment consultant for managing its fund
- The areas where the MCERS Board utilizes outside expertise is consistent with peer funds; the most common areas are legal, investments, and actuarial
- The MCERS exceptions allowed under the open meetings law are generally consistent with peers, with additional exceptions granted for self-evaluation, strategy and IT issues
- MCERS is consistent with its peer group with the Pension Board contracting with an independent auditing firm

B. MCERS Compared to InGovSM Leading Practices

- However, the MCERS governance structure is highly unusual and dysfunctional
- The Pension Board of Trustees has full fiduciary responsibility for the retirement system and pension fund but has limited authorities aside from overseeing the management of investments and hearing appeals
 - No executives or staff report to the Board
 - The Board does not have authority to hire, evaluate performance, or compensate the Director of RPS
 - The Board does not have final authority to approve budgets, hiring of staff, or spending for the retirement system
 - Despite delegated authority to retain the actuary, in practice, the determination is made by the County
- MCERS does not have a policy or requirement for Pension Board continuing education
 - Both effective onboarding and required annual continuing education are lacking
 - Leading practice would include a structured program with both core and individualized trustee training

B. MCERS Compared to InGovSM Leading Practices

- Most public pension funds have board and committee charters, trustee role descriptions, and a board policy manual; MCERS does not
- MCERS committees meet significantly more often than others in the peer group
- Although the Investment Committee is sometimes a committee of the whole at other funds, it is highly unusual to have an Audit Committee of the whole Board
- MCERS is unusual for having a regular meeting to determine the agenda; typical peer practice is for the Executive Director to develop the draft Board agenda, in consultation with the Board chair, and the Board provides feedback
- It is also unusual for the CEO (Director of RPS) to be a part-time role (i.e., with general, non-retirement system Human Resources duties) for a retirement system of this size which detracts from pension-related responsibilities

C. Summary Results of MCERS' Self-Assessment Survey

- Based upon the self-assessment survey, there is significant diversity of perspective among the three groups of respondents regarding needs and priorities for MCERS improvement
 - The Pension Board members (four of whom are relatively new to the Board) appear to be generally satisfied with nearly all areas – legal framework, governance structure, administrative operations, and compliance – all areas except pension operations
 - The RPS staff believes the highest priority areas for improvement are legal framework and governance structure
 - The County stakeholders appear to see significant opportunities for improvement in all five broad areas
- The only topic which all three groups rated as a high priority improvement area was “policies and procedures documentation and updating”
- Areas which were rated as functioning well by all three groups included:
 - Process for selection and hiring of the investment consultant
 - Payment processing