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Observations on the Composition of Public Pension Boards

Ohio Retirement Study Council

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Please Note:

- These are observations drawn from experience drawn from working with and serving on public pension (and other) funds over the past 40 years.
- References to fiduciary duty are observations as well and are not legal counsel. This can only be provided by fiduciary counsel.
- These observations should not be taken to point out the "optimal" approach to pension board composition but are offered because they are important to consider in creating, revising or assessing board composition.

It Always Comes Back to Fiduciary Duty

- Nearly all public pension boards oversee the investment of assets we understand to be held "for the exclusive benefit of the plan's beneficiaries".
- This is also true for the many plan implementation decisions that may sometimes be delegated to the board such as setting COLA's, setting contribution levels, deciding on disability and eligibility claims, choosing actuarial assumptions, and more.
- The prospective likelihood that a specific board composition is more or less likely to best serve that core responsibility should be a central consideration in evaluation alternative compositions.

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Board Composition is a Structural Decision

- As noted: The prospective likelihood that a specific board composition is more or less likely to best serve that core responsibility should be a central consideration in evaluation alternative compositions.
- A good structure is one that assumes that "no trustee", serving now or into the future, can be assumed to be an angel. That is a good structure assumes that from time to time some trustees may be less committed to, or willing to always, wear their fiduciary hat.

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Board Composition Varies – Quite a Bit

Across public pension plans throughout the US, there is considerable variation in Board composition. The variations are significant and include these important examples:

- Size
- Delegated Authority
- Method of Selection
- Integration/Separation of Investment and Representational Requirements
- Pension Administration
- Terms and term limits
- Required Ethical Standards
- Required experience

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Integration/Separation of Investment and Pension Management

While there are some unique variation in US public pension systems, the two main structures with regard to investment vs administration are:

A: The Board of Investment Structure with Separate Pension Boards
Examples: Montana, Oregon, Wisconsin, West Virginia, Florida, Vermont

B: The integrated Pension Board handling both investment and administration.
Examples: Illinois, California, Wyoming, New York, Pennsylvania

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Representation vs Open Appointment

US public pension plan boards also vary considerably in the degree to which founding legislation requires representation or open appointment.   Many boards are a blend of both.

- Representation based seats are those that must be filled by trustees representing specific entities, organizations or officials.
  Examples: Retirees, Active members, employees, specific elected officials (Treasurer, Governor, etc.), Legislative Houses, labor organizations.
- Open appointment seats are just that: they "belong" to no constituency.

Method of Selection

There is considerable variation among US public pension plans as to precisely how individuals are selected to serve on pension boards. Some examples:

- Executive Branch appointment (typically the governor for state plans) (with or without confirmation by the Legislature)
- Election by a constituency holding a "representation-based" board seat.
- Selection by legislative leadership where relevant.

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Delegated Authority

While there is substantial homogeneity in the scope of authority given public pension boards in the US, there are many examples of exceptions.

- Vermont: The Investment Board rather than the Pension Board(s) set the Assumed Rate of Return and the Inflation Rate utilized.
- Multiple states: The Pension Board’s may have authority to alter (cap, revise, defer) COLA adjustments to benefits.
- Contribution Policy: Most pension boards have material control over contributions, but some have limited authority or none. Montana, Oregon, New York, Vermont, Pennsylvania, Illinois.

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Required Experience

While rare, there are some public pension plans that require minimum experience in investments/finance to be appointed.

These tend to be very general in nature and even more so in practice. They are difficult to define in meaningful and constructive ways.

Ethics Related Requirements

The imposition of ethics requirements on trustees is broadly observed in US public pension plans. These come in two general forms:

1. The application of the same broad ethics requirements used across the entire state government.
2. Special ethical obligations focused on the trustee role typically related to financial dealings which may range from prohibition to required transparency, or both.

Note: Boards also, in addition to these obligations, may impose (by requirement or voluntarily) on their members ethical codes of conduct relating to meetings and dealing with asset managers and other vendors.

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Closing Comments

1. Structure outlives individuals and thus has a far more lasting effect on good pension plan investment and administration decisions.

2. Once a structure is "in place" organizations, constituencies and individuals have a vested interest in it. That makes it difficult to change should change be needed.

Implication of #'s 1 and 2 above? Put some serious thought into the structure of a public pension plan board from minute one.

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Presenter Bio

Located in our Portland office, Jim serves as our Director of Research and a Senior Consultant. He joined the firm in 2004 and brings over 40 years of industry experience. Additionally, Jim served as RVK's President and on our firm's Board of Directors for 15 years until May 2024.

A highly sought-after public speaker, Jim has delivered original presentations on various topics at numerous institutional investment conferences and economic/public policy forums. He is involved in multiple aspects of RVK's specialty consulting practices, most notably with asset/liability studies and board governance/investment program structural reviews. Jim's research responsibilities are focused primarily on capital markets issues and investment decision-making.

Prior to joining RVK, Jim served as the CEO/Executive Director of Oregon's statewide pension system for all employees at the state and local levels—including teachers, police and fire, and general staff as well as the Oregon 457 DC plan and health insurance plans. He also served as a member of the Oregon Investment Council, which is charged with investing all state funds—pension, workers compensation insurance, and others. His career includes several decades managing Wall Street research efforts, investment banking, and serving as the Chief Investment Officer at a major private bank. Jim has also served as a director on several corporate boards, a trustee on both corporate and public pension and savings plans, and on the Advisory Board of the Institutional Investor's Conference Series

Jim earned his Bachelor of Arts degree from Carnegie Mellon University, Master of Public Administration degree from the University of Washington, and Master of Public Policy degree from Harvard University. Jim is a shareholder of the firm.

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