

ERSRI Governance Policy Review

Finalize Recommendations

July 13, 2016 Board Meeting



Project Purpose

- Identify ways to improve the effectiveness of the Board and its Committees
 1. Decision-making and meetings
 - a. Board meetings (including procedure bylaw)
 - b. Practices for preparing the Board for decision-making, including Board Briefings
 - c. Timing and format of meetings
 - d. Role and authority of committees
 2. Delegated authority to staff (including delegation bylaw)
 3. Policy documentation
- Provide draft charters and policies for staff to complete and bring to the Board for approval
- Provide an implementation roadmap for implementing new charters and policies and other improvements

Process

Project Start: week of April 11

- Develop findings and identify leading practices
 - Document review
 - Survey
 - Interviews
 - Preliminary observations and conclusions
 - Workshop #1 – May 13

- Prepare and present draft governance policy recommendations
 - Incorporate feedback
 - Prepare draft recommendations
 - Submit draft charters and policies for staff review
 - Workshop #2 – July 13

- Complete governance review project
 - Revise recommendations
 - Revise and submit draft charters and policies
 - Provide high-level implementation roadmap

Project Complete: week of July 25

Process

Goals for Today's Workshop

- Discuss all recommendations
- Identify any areas of disagreement and potential modification of recommendations
- Achieve consensus among Board members on the direction of changes to be pursued in each area
 - Board policies and procedures
 - Committee structure and responsibilities
 - Decision making
 - Meeting timing and format
 - Delegations to staff
- Provide feedback to the Funston team and ERSRI staff
 - Input for completing charters and policies
 - Priorities for implementation

Role of the Board

We find it helpful to keep in mind the top responsibilities for a retirement system board:

- Hire, evaluate, and compensate the Executive Director
- Set the expected rate of return and other key actuarial assumptions
- Set policy and strategic direction
- Allocate resources to priorities
- Oversee performance and risk management
- Delegate / assign work to Committees
- Delegate authorities
- Oversee stakeholder relations

Preliminary Recommendations

- The scope of this review included the following:
 1. Decision-making and meetings
 - a. Board meetings (including procedure bylaw)
 - b. Practices for preparing the Board for decision-making, including Board Briefings
 - c. Timing and format of meetings
 - d. Role and authority of committees
 2. Delegated authority to staff (including delegation bylaw)
 3. Policy documentation
- For each of the specific recommendations which follows, we are seeking from the Board today:
 - Your agreement on each recommendation as a basis for developing new charters and policies for subsequent Board approval
 - Your prioritization for each recommendation

1. a. Board Meetings (including procedure bylaw)

1. Revise the committee structure and meeting schedules to improve committee effectiveness, vetting and oversight of decision-making
 - a. The Executive Director (ED) should assign staff to assist each committee
 - b. Establish committee procedures for reporting to Board (addressed in 1.b.2)
2. Review governance policies and committee charters on a periodic (2- or 3-year) basis and update, as appropriate
3. Establish an annual goal-setting and evaluation process for the ED and ensure the ED has a similar process for the Assistant Executive Director
4. Institute ongoing fiduciary “refresher training” for the Board annually or biennially

1. b. Practices for preparing the Board for decision-making, including Board Briefings

1. Develop a strategic policy agenda to guide Board and Committee activities
 - a. Identify the Board's top priorities annually, including both recurring and one-time topics
 - b. Make work assignments to Committees
 - c. Committee Chairs provide the Board with draft Committee agendas for further input
2. Develop standard staff and Committee report formats that include an executive summary with cross-references to supporting materials
3. Periodically (every 2 – 4 years) commission independent benchmarking studies to monitor ERSRI's performance vis-à-vis peer systems
4. Implement a Board e-portal using the already approved budget to purchase and implement a system

1. c. Timing and format of meetings

1. Provide an opportunity for Board member input into the agenda setting process for each meeting
2. The ED should organize the draft annual agenda calendar for both recurring and one-time items for Board and Committees
 - a. Governance Committee to be responsible for oversight of Board calendar of agenda items
 - b. Chairs should be responsible for oversight of Committee agenda calendars
3. Add a strategic planning retreat to the annual off-site to:
 - a. Discuss Board priorities, outline strategy agenda, and conduct self-assessment
 - b. Set agenda for strategic issues education focus of annual training offsite tied to policy priorities and the calendar of policy decisions

1. c. Timing and format of meetings (cont'd.)

4. Periodically add training sessions as part of regular board meetings
5. Continue information sharing and joint sessions with Investment Commission, focusing on areas of reciprocal impact
6. Use consent agendas to reduce time on administrative items

1. d. Role and authority of committees

Policy Changes

- Currently, all policy changes must go to the Rules and Regulations Subcommittee
- We are recommending that policy changes be the responsibility of each subcommittee consistent within its scope, subject to approval by the Board

Board and Committee Calendars and Schedules

- Currently, most committees do not have annual calendars or regular meeting schedules
- We are recommending development of an annual agenda calendar for the Board and each committee
 - Likely will require more frequent and longer committee meetings in some cases
 - Should improve the efficiency of and use of time at full Board meetings

1. d. Role and authority of committees (cont'd.)

Example CalPERS Board of Administration Annual Agenda Calendar



Board of Administration Agenda Item Calendar 2016

January <ul style="list-style-type: none"> • President & Vice President Election • Board Offsite • Annual Fiduciary Training • Portfolio Priorities • ESG Strategy Workshop • ACA – Excise Tax • Succession Planning - Investments • Board Compensation Consultant, Introductory Session 	February <ul style="list-style-type: none"> • BOA Calendar • Security Briefing 	March <ul style="list-style-type: none"> • No Meeting Scheduled 	April <ul style="list-style-type: none"> • Full Board Hearing: Santa Clara County Health Authority and Kathleen King • Closed Session: CEO Search Update 	May <ul style="list-style-type: none"> • Full Board Hearing: Lee Turner Johnson • Risk and Compliance - (Board Education Program) • May 10 & 11, Closed Session: CEO First Round of Interviews • Annual Review of Committee Delegations 	June <ul style="list-style-type: none"> • Strategic Planning Workshop • CEO Interviews & Selection
July <ul style="list-style-type: none"> • Board Offsite • Investment Performance Update • Strategic Planning Workshop • ESG/Global Governance Strategic Plan Workshop • Health Care Presentation on Value Based Insurance Design (Board Education Program) • Financial Services Industry Long-Term Outlook (Board Education Program) • Board & Committee Mtg. Management (Board Education Program) 	August <ul style="list-style-type: none"> • Fair Hearings/OAH (Board Education Program) 	September <ul style="list-style-type: none"> • Draft Strategic Plan 	October <ul style="list-style-type: none"> • No Meeting Scheduled 	November <ul style="list-style-type: none"> • First Reading of the Strategic Plan 	December <ul style="list-style-type: none"> • Second Reading of the Strategic Plan

• **Bold = Strategic Issues**

1. d. Role and authority of committees (cont'd.)

Example CalPERS Governance Committee Annual Agenda Calendar

January 1. Board Offsite	February 1. Board Self-Assessment RFP 2. Second Reading for Board Governance Policy	March 1. No Meeting Scheduled	April 1. First Reading for Board Gift Policy* 2. CEO Delegation – Contracts Authority	May 1. Second Reading for Board Gift Policy	June 1. Board Self-Assessment Process 2. First Reading for Board Travel Policy
July 1. Board Self-Assessment	August 1. Second Reading for Board Travel Policy	September 1. Board Self-Assessment Report	October 1. WORKSHOP -- Board Training – Role of Committee Chair 2. Board Confidentiality Policy (1st Reading)	November 1. Board Confidentiality Policy (2nd Reading)	December 1. Committee Delegations – Annual Review 2. Board Self-Development Process

1. d. Role and authority of committees (cont'd.)

Assignment of Work to Committees

- Committees only exercise advisory and oversight responsibilities
- Part of a Committee's oversight responsibilities include monitoring key performance indicators within its purview
- All decision authorities are reserved for the full Board, though related oversight, work or development of recommendations may be assigned
- The following responsibilities will not be assigned to committees and will be addressed only by the full Board:
 - Develop and recommend key actuarial assumptions (including the expected rate of return)
 - Monitor interaction between actuarial assumptions and investment practices
 - Monitor litigation and legal issues involving the Board
 - Recommend topics for Board discussion with Investment Commission

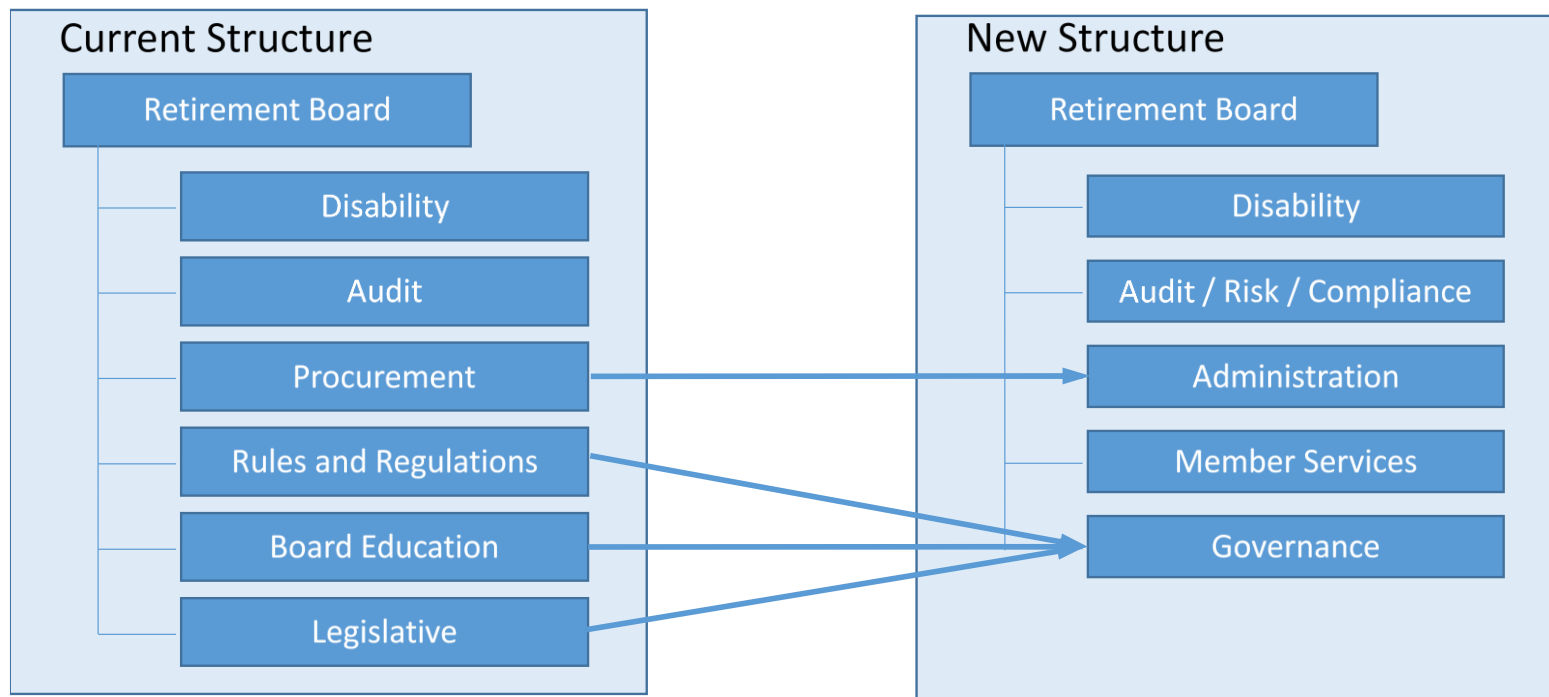
1. d. Role and authority of committees (cont'd.)

The Board's Authorities and Delegations

Power	Description
Conduct	The Board itself performs the tasks described. This is the highest level of involvement. The Board or its Committees (standing or ad hoc) is actively involved in doing the work, e.g., writing the requirements, conducting due diligence, selecting and interviewing finalists, making the recommendation to the full Board for Approval.
Approve or Set	The Board retains final decision authority on prudently delegated activities to approve or set policies and limits. Once approved, the Board must then Oversee to ensure that actual practice reflects policy.
Oversee	The Board has a minimum legal duty to monitor and question. The Board reserves the power (with Committee assistance) to oversee that prudently delegated authorities are properly exercised, appropriate policies and controls are in place and delegates (CEO/staff) are held accountable for performance. Oversee does not constitute close supervision and day-to-day management.

1. d. Role and authority of committees (cont'd.)

- The proposed new committee structure, show below, should improve the Board's oversight of ERSRI
- The responsibilities of each proposed new committee is described on the following slides



1. d. Role and authority of committees (cont'd.)

Disability Subcommittee

1. The Board should examine the role of the Disability Subcommittee and develop a new charter
 - a. Conduct a third party benchmark study to determine leading disability review and appeal practices
 - b. Review the appeals process and approval and oversight of IMEs and identify issues with disability benefits structure
2. The Disability Subcommittee should meet periodically to review and update its policies

1. d. Role and authority of committees (cont'd.)

Audit/Risk/Compliance Subcommittee

2. Retain the Audit Subcommittee and expand its scope to include oversight of Risk and Compliance and ensure the committee oversees the full scope of the charter, for example:
 - a. System of internal controls
 - b. Internal audit (in addition to external audit) processes
 - c. Consider adding enterprise risk oversight (operational risk) to the committee scope

NOTE: It was also discussed whether this Committee might be combined with the Administration Committee; we do not recommend this option because it could overload the Audit Subcommittee.

1. d. Role and authority of committees (cont'd.)

Administration Subcommittee

3. Expand the scope of the Procurement Subcommittee to become the Administration Subcommittee with a charter to include, for example:
 - a. Procurement (same as current Procurement Subcommittee role)
 - b. Financial planning, budgeting and accounting oversight
 - c. Organizational strategy and staffing oversight
 - d. Information technology, security, privacy and business continuity oversight

1. d. Role and authority of committees (cont'd.)

Governance Subcommittee

4. Combine the Rules and Regulations, Legislative and Board Education Subcommittees into a new Governance Subcommittee with a charter to include, for example:
 - a. Board processes and policies (including self-assessment, education and familiarity with Ethics Commission standards)
 - b. Content and format of Board meeting books (with input from other committees, as relevant)
 - c. Board committee structure and charters (with input from other committees, as relevant)
 - d. Board performance and effectiveness
 - e. Strategic planning and leading the annual strategy retreat
 - f. Goal-setting and evaluation of the ED and succession planning for senior staff
 - g. General updates to Rules and Regulations
 - h. Proactive and reactive responses to legislation, both proposed and/or enacted

1. d. Role and authority of committees (cont'd.)

Member Services Subcommittee

5. Form a new Member Services Subcommittee with a charter to include, for example:

a. Oversight of retirement benefit administration (including member and employer service delivery quality and efficiency), for example:

Member Services

- Responding to member inquiries
- Processing member requests
- Providing member reporting
- Managing required member actions
- Providing member education services
- Recommending *Compass* articles

Employer Services

- Recruiting/enrolling new employers
- Managing employer relations
- Coordinating actuarial information
- Managing employer contracts and compliance
- Managing employer data
- Providing employer support services

b. Oversight of retirement system performance (including defined contribution plan members' retirement readiness and evolving best practices)

c. Communications with members, employers and other stakeholders

2. Delegated authority to staff and committees

1. The subcommittees have the authority to propose promulgation of rules pertaining to their area of responsibility, subject to approval by the Board (i.e., recommended rules changes are not required to go through a Rules and Regulations Subcommittee)
2. Reconsider Board appointment and evaluation of the Assistant Executive Director (AED) as the Board does not have sufficient interaction with the AED
 - a. The appointment and evaluation of the AED should be the responsibility of the ED, in consultation with the Board, and should be delegated by the Board to the ED

2. Delegated authority to staff and committees (cont'd.)

3. Expand the mandate of Internal Audit to:

- a. More systematically evaluate the organization's effectiveness, efficiency and economy of operations under management's control
- b. Report to Executive Management and the Board (through the Audit, Risk and Compliance Committee) the results of the evaluation along with recommendations for improvement

4. Have Internal Audit report directly to the Board (through the Audit, Risk and Compliance Committee) to increase independent reassurance

2. Delegated authority to staff and committees (cont'd.)

5. The Executive Director should work with the full Board (and the Governance Committee) to develop a strategic plan for ERSRI
6. The Board (through the Governance Committee) should develop a succession plan for the Executive Director position
7. The Board (with Governance Committee input) should clarify the powers reserved for the Board and delegations to staff, i.e., conduct, approve/set and oversee
8. The job description for the ED should be reviewed (with Governance Committee input) and updated to reflect the Board's delegation of authorities

3. Policy documentation

1. Recommended high priority policy areas to consider include:
 - a. Executive Director goal-setting and evaluation process
 - b. Update Board bylaws and Board Member/Officer charters
 - c. Update/develop Committee charters
 - d. Update Trustee education and orientation policy
 - e. Develop a Board self-assessment policy and process
 - f. Develop a risk oversight policy and program
 - g. Update/develop a strategic planning and related education policy
 - h. Develop a policy for setting the annual Board and Committee agenda calendars
 - i. Review disability appeals process and revise, as appropriate

3. Policy documentation (cont'd.)

2. Recommended priority policy areas to consider include:
 - a. Updating the Board powers reserved and delegations
 - b. Developing Member services policy and standards
 - c. Updating the actuarial services policy (e.g., frequency of review of actuarial assumptions, actuarial assumptions subject to Board approval, etc.)
 - d. Developing a policy on vendor referrals or contact during RFP processes
 - e. Developing a policy on external communications
 - f. Developing a policy for a whistleblower complaint internal process
3. Review and update all policies at least every 2 - 3 years

3. Policy documentation (cont'd.)

Included in scope – FAS has provided draft policies and charters to staff			
Policy, Charter, or Other	Exists	Requires Update	New
Board Bylaws	X	Various additions and edits based upon recommendations	
Board Member Charter			X
Chair and Vice Chair Charters			X
Board Education Policy	X	Link to policy agenda and results of self-assessment	
Board Self-Evaluation Policy			X
Committee Charters	Audit only	Update Audit Subcommittee charter, all others new	X

3. Policy documentation (cont'd.)

Not in scope – ERSRI staff will develop initial draft policies			
Policy, Charter, or Other	Exists	Requires Update	New
<i>Procurement Rules/Policy</i>	X	Cover vendor referrals; limit RFP contact points	
<i>Annual Agenda Calendar</i>			X
<i>Powers Reserved/Delegation</i>	X	Reserved powers; conduct, set/approve or oversee	
<i>Executive Director Evaluation</i>			X
<i>Strategic Planning Process</i>			X
<i>Member Services Standards</i>			?
<i>Actuarial Services Policy</i>			?
<i>External Communications Policy</i>			?
<i>Whistleblower Process</i>			?

Next Steps

- FAS prepares revisions to recommendations based upon feedback from today's meeting
- Draft policies are submitted to the Executive Director consistent with the Board's direction
- FAS prepares a proposed implementation roadmap which considers timing and resource requirements
- ERSRI staff bring new charters and policies to the Board for approval according to the roadmap