January 26, 2017

Teachers', State, and Local Employees' Retirement Systems of North Carolina

Study on Board of Trustees Policies and Practices

Agenda

- Study Background
- Executive Summary
- Discussion of Findings by Topic:
    - Governance
    - Structure
    - Communications
    - Write-In Comments
- Appendix:
    - Study Methodology
    - Survey Questionnaire
    - Board Governance Rationale
    - Board Structure Exhibits
    - Benchmark Statistics on Not-for-Profit Boards

Background

- In the Fall of 2016, the North Carolina Teachers' and State Employees' Retirement System and Local Governmental Employees' Retirement System Boards of Trustees (TSERS and LGERS) requested that Buck Consultants, their actuary since 1943, provide a study to reflect upon the board's effectiveness in a variety of areas:
  - Governance
  - Structure
  - Communications
- An online study was developed and launched in November, 2016
- Nineteen members, or 100%, of the TSERS and LGERS Board members participated in the study and provided feedback
- This report presents results based on the combined TSERS and LGERS responses

Board self-assessments

- In a "board self-assessment," the board is essentially assessing itself:
  - It is not a performance evaluation of the executive director, the organization, or even individual board members
  - Rather, it is an opportunity for the board to look at itself and ask, "How are we doing as a board?"

- Board self-assessment needs to be regarded as a process and not a one-time activity or as simply the completion and tabulation of a survey. Best practices show that the administration of the self-assessment tool is the starting point in a journey that the board embarks upon together—a journey towards the development of a "board governance agenda"

- Its value comes when the assessment tool leads to a healthy and productive discussion about the board's strengths and weaknesses and results in an agreed upon plan for building a stronger board and governance model

Board self-assessments

- A board self-assessment can be effective in:
  – Providing a snap shot of how the board thinks it is doing at a point in time
  – Providing a summary of responses that can serve as a baseline from which to work on its governance improvement efforts
  – Helping to begin the essential conversations about strengths and weaknesses
  – Providing a format for discussing some ongoing issues and concerns
  – Serving as a starting point for an ongoing governance committee, the development of a governance agenda, and continuing to strengthen the board
- It is generally not effective in:
  – Taking the place of an organizational assessment or serve as a vehicle to evaluate the work of the executive director
  – Solving performance problems related to a "difficult" board member
  – Transforming an ineffective board

Executive Summary

- Governance:
  - The Board believes it functions effectively and is kept up to date with fiduciary responsibilities, the changing regulatory environment, and issues relevant to its responsibilities as a Board

- Structure:
  - The majority of the Board believes the current structure fits well
  - The Board believes its quarterly meeting frequency is appropriate and that the morning meeting time should not change

- Communications:
  - The Board has mixed feedback on communication related topics
    - Paper or no paper
    - Cross-board topics of conversation raise question of relevance

Board Governance

Governance highlights

- The Board majority, 95%, believes they are keeping up to date with relevant trends related to their responsibilities on the Board

- The Board majority, 82%, believes it is trained and kept up to date on fiduciary responsibilities (only TSERS Board members responded to this question)

- The majority, 74%, of the Board believes that members are prepared in advance of the meetings

Governance Best Practices

Category	Best Practice
Board Evaluation	Board performance is typically evaluated through a formal process that may include: Evaluation of entire board; Formal evaluations of individual board members; Self-evaluations of individual board members.
Documented Policies & Practices	A retirement fund should establish, document and adhere to a set of policies and practices that have a proven impact on performance, risk oversight and are aligned with achievement of stated goals.
Clearly Defined Roles	Retirement board trustees are typically fiduciaries, and as such, are responsible for acting solely in the interest of plan participants. A majority of state-sponsored public retirement systems have responsibility for oversight of investing retirement fund assets.

Governance Best Practices

Category	Best Practice
Strategic Planning	A board should adopt a strategic planning approach either in the form of a multi-year plan or within other documents. It provides the board with a mechanism to map out long-term goals along with the implementation steps necessary to achieve them.
Risk Oversight	A board should adopt a risk management framework and document it in a risk policy or within other policy documents (e.g., investment policy, privacy policy). The board should delegate accountability for management of specific functions to others.
Independent Advisors	Boards exercise their fiduciary responsibilities in a manner consistent with the principle of "Business Judgement," making decisions with the best possible data available. Boards rely on the opinions provided by experts to ensure they act in the best interests of their constituencies.

Structure

Board structure highlights

- The Board majority, 95%, believes the time of the Board meetings should not change

- The Board majority, 95%, believes it should meet quarterly

- The majority of the Board, 63%, believes it should not be structured differently than it currently is

- The majority of the Board, 89%, believes meeting in the morning is the ideal time to convene

- The Board is divided as to the composition of the Board.

    - 54%, would add required credentials of its members

    - 38% would increase the number of sub-committees

    - 8% would modify the length of time a Board member serves on a board

Board Structure Best Practices

Category	Best Practice
Number & type of meetings	Meetings of the full board tend to be more frequent than sub-committees. The sub-committees of the board vary based on scope and type of board responsibility. Boards with more sub-committees usually are responsible for organization-wide responsibilities.
Diversity of membership	Most public retirement system boards include participant representatives, most often trustees who are active (working) employees and members of the retirement system. Many boards also have one or more retiree representatives and one more ex-officio members.
Number of members & term limits/lengths	Public boards include a broad array of members depending on the size and scope of authority. The political environment and other internal factors generally drive limits and/or term lengths.

Communications

Communication highlights

- The majority of the Board, 74%, believes new members are on-boarded and oriented adequately

- The majority of the Board, 79%, believes board meeting materials should be provided only online

- However, the Board unanimously has electronic access to materials

- The majority of the Board, 93%, believes there is an appropriate level of interactions among other boards and commissions within the State Treasury

  - A minority of the Board, 7%, believes a designate should be named on the Board to keep up with other boards' minutes and report to the Board as appropriate.

Communication Best Practices

Category	Best Practice
Reporting	Reports to the board should include a set of key performance and risk measures to help the board assess the fund's progress toward goals across actuarial, administrative, audit, compliance and investment functions.
Information Sharing	A fund should communicate regularly with members and other stakeholders through multiple media including web site notifications, publications and letters as well as required reports. Communications provide transparency into fund operations and may increase member satisfaction, while strengthening the fund's reputation.
Governance Manual	A well designed governance manual facilitates effective management and provides a tool to educate trustees and stakeholders on fund operations.

Appendix

Write In Comments – What would you change concerning the Board's policies or procedures if you could?

Generally the current format works well to address a large amount of information in an efficient way. It would be nice if there were a consistent delivery date for board packets with electronic updates as needed (I realize there are often breaking issues). I think it would be useful if there were a designated email which board members could share in the days before meetings with knowledge that all inquiries to and answers from staff would be shared with all board and staff.
None that I can think of.
Nothing.
no change
N/A
Nothing. Board meetings are run according to efficiently and with appropriate input from staff and board members.
Members should take online testing to make sure they are adequate in serving. We should be able to look at charts and graphs and understand them and make rational conclusions.
The board is not structured or prepared sufficiently to have voting authority over financial decisions or actuarial authority.
With both Boards meeting at the same time, the agendas are confusing and my time is wasted requiring me to sit through the business of TSERS. I suspect those on TSERS feel the same while dealing with business associated with LGERS. I would suggest starting with one Board, then have the joint meeting, then finish with the the other Board. Flip-flop which Board starts early and which Board ends with a late day. With a meeting such as described DST could still hold the meetings on the same date to provide e mechanism for any joint business.

Write In Comments – Other commentary or additional feedback related to survey questions

Would welcome receiving materials electronically!
1. As to going paperless . . .when isp service is never interrupted, when printers always work, when laptops and tablets are engineered to never fail unexpectedly; then we need to discuss paperless. 2. The Board's highest responsibility is to serve and protect members of the system, including retirees and current state and local employees. Especially on the local side, there should be more board representation by advocates for non-exempt employees. 3. As to Board orientation, I attended a day long staff presentation that was excellent. The problem is that to the best of my knowledge these sessions occur very infrequently; understandably so given the time and effort needed. We should focus on developing workable solutions to orientation and education. I have often thought that I could benefit now and especially in my earlier years on the board by having a member or former member of the board as a mentor.
I'm new to the board, but would appreciate more discussion on the key topics. Seems like there is limited back and forth.
Awkward to have LGERS/TSERS on same board with different votes. Smaller plans not represented. TSERS members tend to be recipients of benefits. LGERS tend to be administrators of benefits.
The current Board structure has a good base of representation. In my opinion, there is participation in Board meetings that shows Board members come prepared. Pertinent information related to items on the agendas are shared by the staff. I believe the value in having hard-copies is being able to refer back to them, easily, over time. I quite often go back and look at materials from previous meetings in preparing for upcoming meetings. I find it easier to refresh myself in looking at my handwritten notes in the materials rather than trying to do this in an electronic format. In qualifying my response, I am an accountant, and we find comfort in paper.
no comment
Would highly recommend switching material to an electronic version.
I think there should be only one board not two and this would take legislative action.

Appendix contents

- Study Methodology

- Survey Questionnaire

- Board Governance Rationale

- Board Structure Exhibits

- Benchmark Statistics on Not-for-Profit Boards

Methodology

- Buck Consultants was retained to develop an anonymous survey to capture the feedback of the Board members regarding the Board's effectiveness and areas for improvement

- Buck Consultants created an online survey, which was open for participation from November 21, 2016 – January 13, 2017

- Participants electronically accessed the multiple choice survey and were able to write in comments at the conclusion of the survey

- The survey results were reviewed and tabulated by Buck Consultants. No member of the Board or North Carolina Retirement System viewed results other than what was shared with the Board members

- The survey was presented to Board members on Thursday, January 26, 2017, at its regularly occurring quarterly meeting

Survey questionnaire

1.	On which Board(s) do you currently serve?
2.	Does our Board have the right level of expertise related to investment decision-making?
3.	How would you restructure the Board if you could?
4.	How often do you believe the Board should convene?
5.	Do we interact enough with other Boards and commissions?
6.	Do we keep current with relevant trends in the marketplace related to our Board responsibilities?
7.	Do most Board members adequately prepare in advance and arrive at meetings fully prepared to discuss agenda items?
8.	Should the time of day for Board meetings change?
9.	What is the ideal time for our Board's meetings?
10.	Currently Board materials are provided both online and in paper format. A trend with other large public retirement systems is to provide meeting information only online and members review the materials on a laptop or I-Pad. Would you be agreeable to this approach?
11.	Are you able to receive information by email or by accessing a private shared drive?
12.	What would you change concerning the Board's policies or procedures if you could?
13.	Please state any other commentary you believe is valuable for other Members to know or additional feedback related to previous questions in this survey.

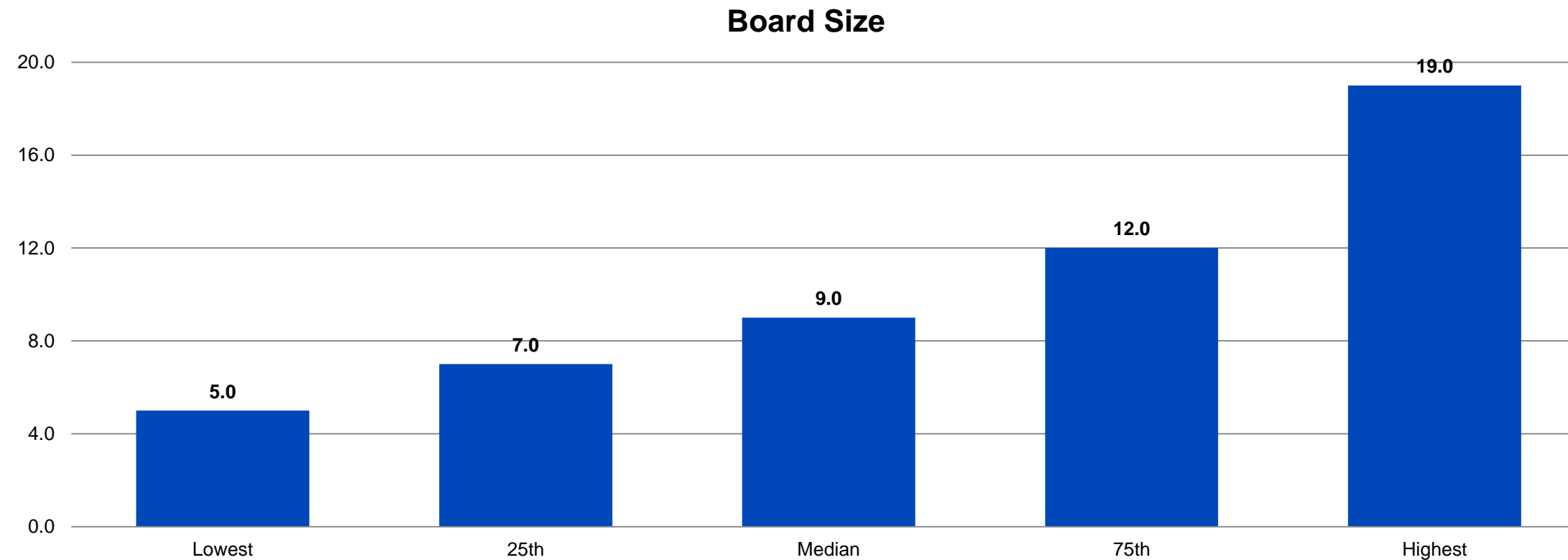# Governance: Why is governance an important issue

- A lack of good governance can lead to a number of performance concerns, including:
    - Lack of adherence to policies and rules that leads to compliance and/or risk failures
    - Excessive bureaucracy (e.g., too many committees) that slows or halts decision making
    - Unattainable policies and goals that increase the probability of compliance failures
    - Cumbersome documentation that discourages stakeholders from understanding policies
    - Overly rigid rules that take discretion from experts who are compensated to exercise them

- Positive steps that a board can take to ensure good governance include:
    - Training the board and staff to ensure adherence to policies
    - Clear documentation of authority for decisions in job descriptions, charters and contracts
    - Summaries of policy documents that trustees use as a basis for making decisions
    - Reasonable flexibility in applying performance targets, risk thresholds and timelines

Governance: Alignment of the Board

- A pension fund's governance structure is typically comprised of its board, executive management, functional staff and contracted service providers

- Within this structure and under the fund's statutory framework, the board sets strategy, approves implementation plans and oversees performance and risk

- The board delegates specialized functions such as actuarial studies, asset management, benefits administration and auditing to internal staff and contracted service providers

- The fund functions within a framework that is comprised of statutes, rulings, agreements, policies and contracts that regulate system operations. Risk oversight is a key responsibility of the board. In the post financial crisis environment, managing reputation risk is an increasingly important responsibility for public funds
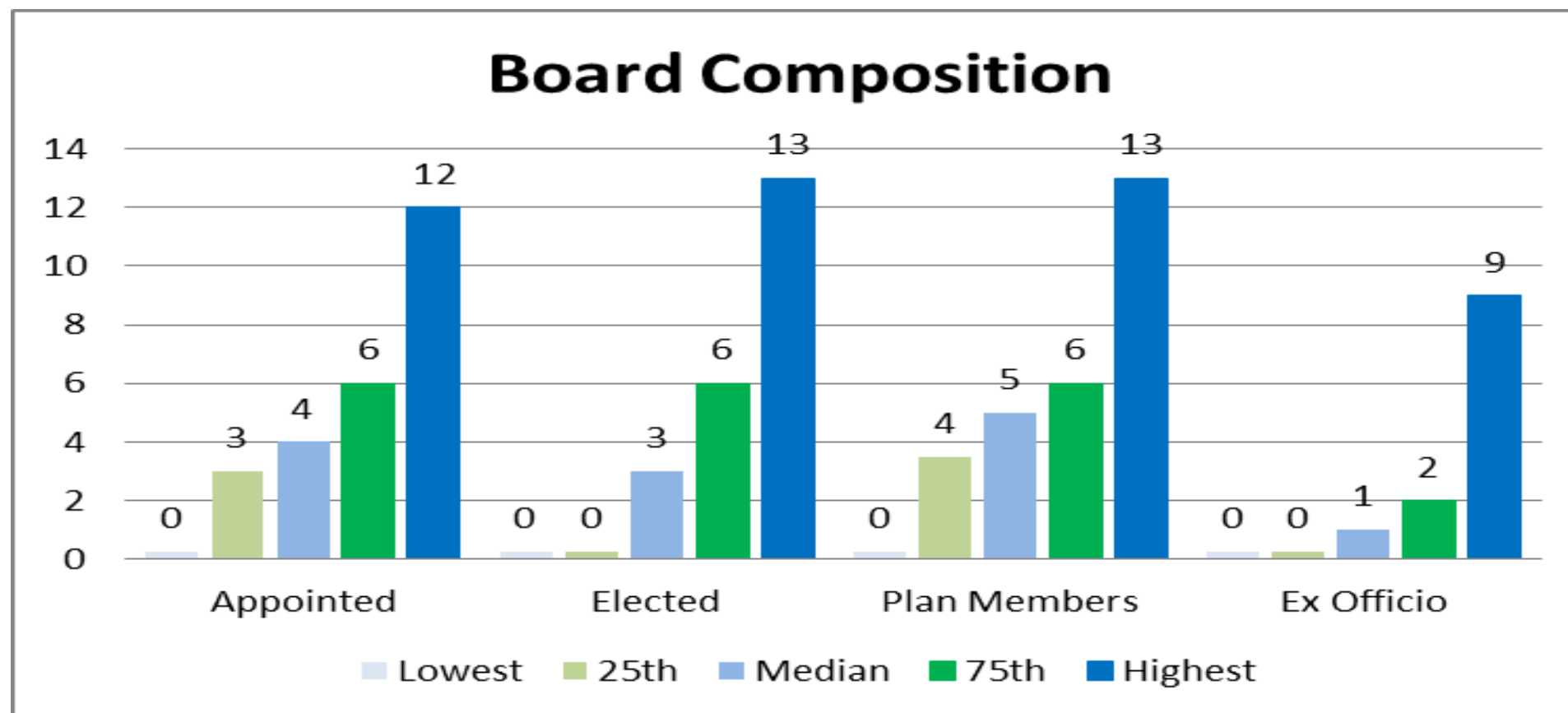
Structure: Board composition

- The median public retirement system board size is nine
- Board size ranges from a low of five directors to a high of 19 directors

Board Size

Source: NASRA: Composition of Public Retirement System Boards

Structure: Board composition

- The composition of public retirement system boards varies widely in terms of constituent groups that are represented; whether members are appointed, elected, or serve ex-officio; and what knowledge and experience, if any, are required
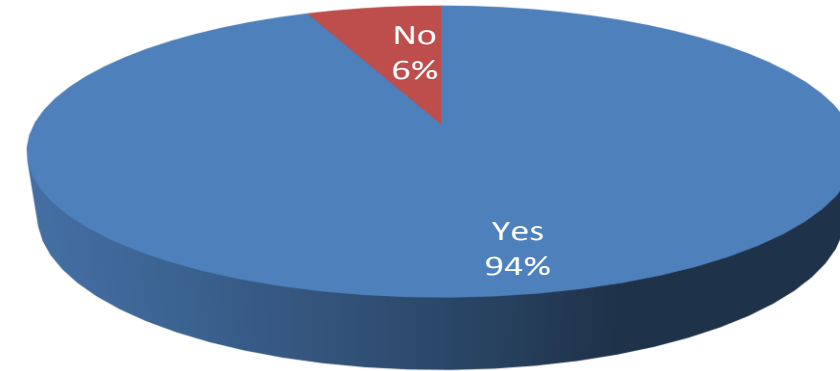

Source: NASRA: Composition of Public Retirement System Boards

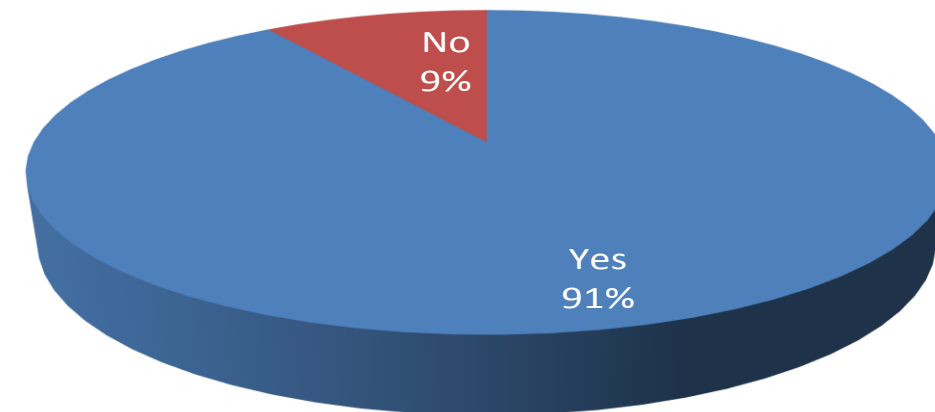# Structure: Best practices in not-for-profit Boards

CONDUENT

Board Policies

- It is clearly a majority practice for not-for-profit boards to have a conflict of interest policy in place

- Most boards also have a mandatory retirement age; however, the trend has been to increase the age limits. It is not uncommon to see mandatory retirement ages set at 72 years of age or higher

- There has also been several cases where organizations are offering Emeritus Directorships for those that reach mandatory retirement

Source: Compensation Resources: Board of Director Compensation Survey

Does the Board Have a Conflict of Interest Policy?

No 6%

Yes 94%

Is there a Mandatory Retirement Age?

No 9%

Yes 91%

Structure: Best practices in not-for-profit Boards

CONDUENT

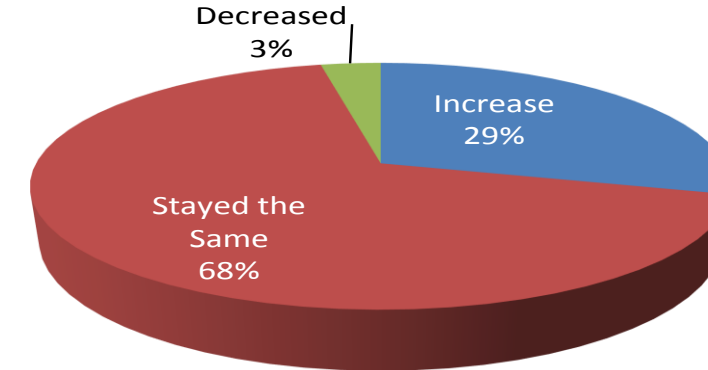- Boards typically meet seven times a year. Committee meetings range from two to six times a year

Board and Committee Meeting Frequency

	Board	Audit Committee	Compensation Committee	Executive Committee	Finance Committee	Nominating/ Governance Committee	# Other Committees
Meetings	7	5	2	6	6	4	5

Source: Compensation Resources: Board of Director Compensation Survey

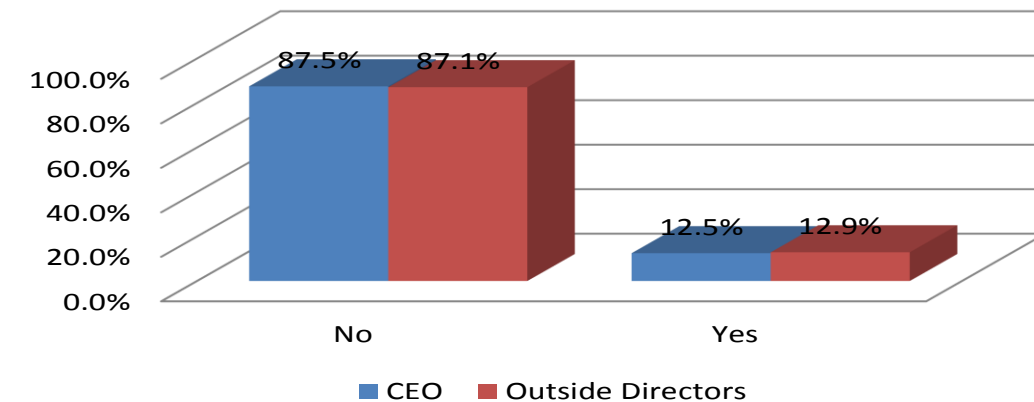# Structure: Best practices in not-for-profit Boards

CONDUENT

Governance Concerns

- Over two-thirds of not-for profit boards feel that the increased pressures related to governance have not had an impact on either the frequency and/or length of board meetings

- Almost one-third feel that the frequency and/or length of board meetings has increased as a result of heightened governance concerns

- Most not-for-profit boards have not imposed limitations on either the CEO or board members related to serving on other boards or other outside activities

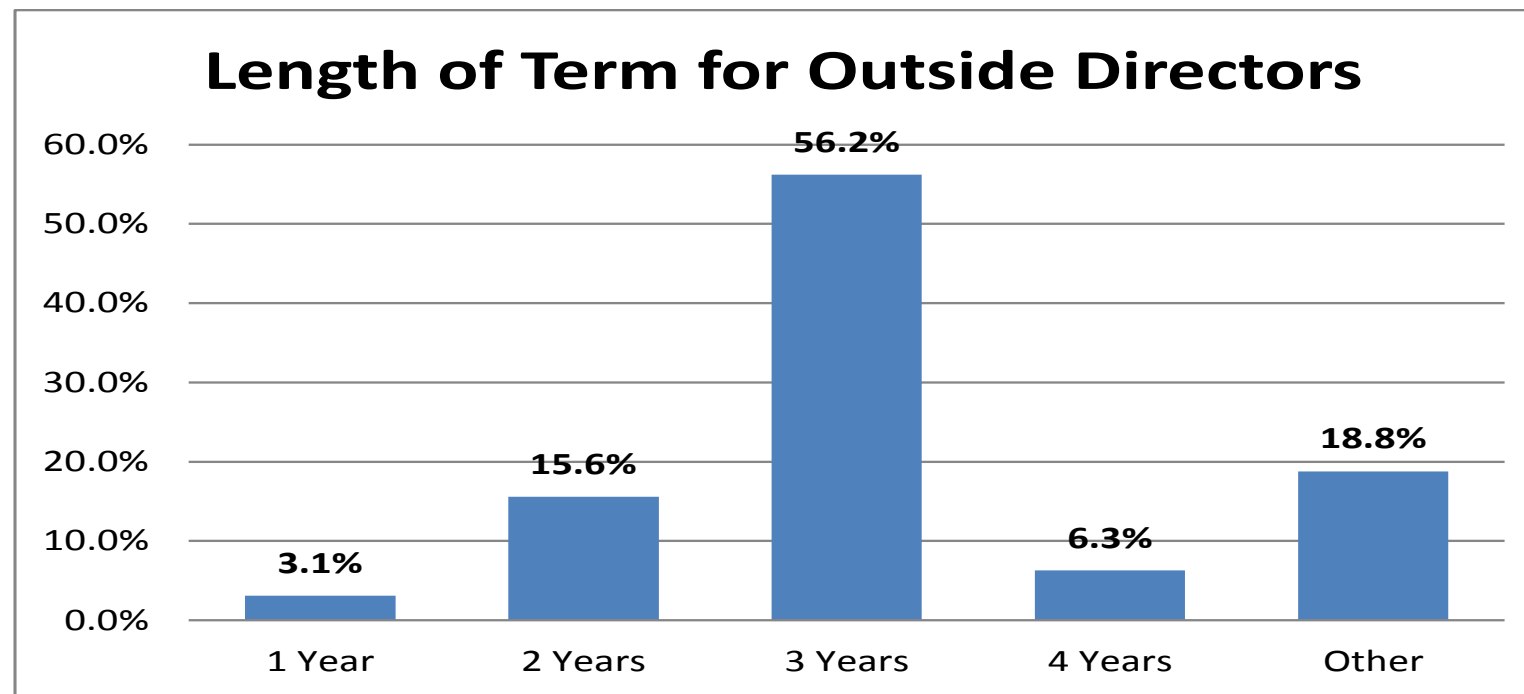### Has Governance Concerns Increased The Frequency or Length of Board Meeting?

- Decreased 3%
- Increase 29%
- Stayed the Same 68%

Are There Limitations on Participation in Other Boards/Outside Activities for CEO and Board Members?

	No	Yes
CEO	87.5%	12.5%
Outside Directors	87.1%	12.9%

■ CEO   ■ Outside Directors

PWC: Annual Corporate Directors Survey - Insights from the Board Room

28

Structure: Best practices in not-for-profit Boards

- The majority practice for outside directors is to serve a term of three years

Length of Term for Outside Directors

Source: Compensation Resources: Board of Director Compensation Survey