Building The Structure

- Make policy
  - What are my goals?
  - How will I pay for it?
- Delegate
  - What is my level of expertise?
  - Who might do it better?
- Oversee
  - Are they qualified?
  - Will they understand what I want?
  - Will their work meet my standards?
  - Will they be timely and on budget?
  - Will I still be in charge or will I lose control?
Who's In Charge?

- Those who “govern” have authority to carry out certain activities for others
  - Act on behalf of others
  - Act for benefit of others
- Those who carry out activities are subject to scrutiny
  - Accountable to those who gave them authority
  - May lose authority if don’t perform well

Actions Of Those Who Govern

- Make policy
  - What is the desired outcome?
- Delegate
  - Who can best carry out the necessary tasks?
- Oversee
  - Is the desired outcome being achieved?
  - Are the tasks being carried out effectively, efficiently, and fairly?
Pension Governance In Washington

- Benefits policy is to pay pensions for life
- Financing plan is systematic actuarial funding
- Carrying out these policies requires
  - Calculate funding requirements
  - Adopt contribution rates
  - Collect the money
  - Invest the money
  - Write the checks
- Legislature can delegate these functions

Washington’s First Model – Delegate To Trustees

- Legislature
  - Make benefits policy
  - Advise
  - Trustees
    - Calculate funding
    - Adopt rates
    - Collect money
    - Invest money
    - Write checks
Who Were The Trustees

- State elected officials
  - Auditor
  - Attorney General
  - Insurance Commissioner
  - Superintendent of Public Instruction
  - Treasurer
- Plan members
  - Active and retired
  - Number grew over time
- No legislators on boards
- No governor appointments

Why Use Trustees?

- Trustees have expertise
- Can focus exclusively on the business of pensions
- Highest legal duty to
  - Act for benefit of others
  - Act on behalf of others
  - “Fiduciary” responsibility
- Most common model in state retirement systems
What Does It Mean To Be A Trustee?

- Duty of loyalty
  - Put self-interest aside
  - Act for the exclusive benefit of past, present, and future members
- Duty of prudence
  - Act in a way that a reasonable person facing a similar situation would act
- Trustees can be held liable if they fail in these duties

Legislature Trusted The Trustees

- Legislature’s policies would be carried out
  - Efficiently
  - Effectively
  - Fairly
- Trustees would be accountable
- Those who govern are subject to scrutiny
  - Accountable to those who gave them authority
  - May lose authority if they don’t perform well
Separate Boards Of Trustees

- Legislature delegated authority to individual retirement systems’ boards of trustees
- Retirement board for teachers
- Retirement board for public employees

By The 1960’s Things Were Going Wrong

- Unfunded liabilities emerged in the Plans 1
- Inconsistencies in benefits policies and administration of benefits by the retirement boards
- 1963 - Legislature formed special commission to look at the state retirement systems
**In The 1970’s The Legislature Stepped In**

- Took away some authority from retirement boards
  - Set funding policy
  - Administer plans
  - Oversee actuarial work
- Legislature kept control over funding policy
- Legislature delegated plan administration and actuarial functions to others

**DRS Created In 1976**

- The Department of Retirement Systems (DRS) was created to serve as the “plan administrator” for all plans
  - Executive branch agency
  - Collects the contributions and writes the checks
  - Performs other administrative duties
    - Makes rules and regulations to implement benefits policy
    - Enrolls members and maintains accounts
    - Helps members understand and apply for benefits
    - Assures IRS compliance
    - Files reports
OSA Also Created In 1976

- The Office of the State Actuary (OSA) provides actuarial services
  - Non-partisan, independent, legislative agency
- In-house pension experts
  - Unique among the states
  - Most states contract with private actuarial firms
- Actuarial services include
  - Calculating funding requirements
  - Advising the Legislature and Governor on benefits and funding policy
  - Preparing actuarial fiscal notes for every pension bill dropped

Legislature Stepped In Again In 1980

- Took away retirement boards' authority to invest pension funds
- Delegated investment authority for all plans to a new board of trustees
- Overrode Governor’s veto to create the new investment board
**WSIB Created In 1981**

- The Washington State Investment Board (WSIB) oversees investments for all plans
  - Board includes legislators, state officials, and stakeholders
  - Voting board members are trustees
  - Supported by a state agency
- WSIB has special expertise
  - Receives training
  - Hires and contracts with investment professionals
- Charged with maximizing returns using prudent level of risk
  - Sets investment policy and invests contributions
  - About 75 percent of plan costs covered by investment returns

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**Retirement Boards Abolished In 1982**

- Any remaining duties transferred to DRS
- Part of broader bill to eliminate state boards and commissions
- What were the conditions at that time?
  - Boards had a track record
  - Boards had little authority left
  - State in financial crisis
    - Budget cuts, tax increases, workforce reductions
Why Did Early Trustee Model Fail In Washington?

- Problem with model?
  - Composition?
    - No legislators on boards
    - No Governor-appointees
  - Adequate oversight?
- Problem with people?
  - Did they act in their self interest despite higher legal duties?
  - Did they have the proper training and expertise?
- External problems?
  - Those who act on behalf of others must carry out their activities well or their authority can be revoked

Washington’s Next Model – Legislative

1. Legislature
   - Make benefits policy
   - Make funding policy
   - Advise

2. OSA
   - Calculate funding

3. DRS
   - Administer plans

4. WSIB
   - Invest money
PFC Created In 1998

- Pension Funding Council (PFC) adopts contribution rates
  - Body of legislators and executive branch officials
    - Mostly state budget writers
  - Adopts long-term economic assumptions and member and employer contribution rates
    - In open public meetings
    - Subject to revision by Legislature
- Prior to PFC others adopted rates
  - Economic and Revenue Forecast Council adopted employer rates and long-term economic assumptions
  - DRS adopted member rates

Another Veto

- Bill creating PFC would have made it easier to change economic assumptions
  - Required fewer votes
  - Allowed changes outside of two-year rate-setting cycle
- Governor vetoed that section of bill
  - “…risk that adjustments in long-term economic assumptions could be made to address short-term budget problems, rather than ... funding pensions in a responsible long-term manner.”
Washington’s Legislative Model Revised

ImPLICATIONS OF LEGISLATURE-CENTERED MODEL

- Legislature controls delegation
- Need for oversight
  - Legislators oversee OSA, PFC, DRS, and WSIB
- Legislators are not trustees
  - No special expertise or training required
  - No higher legal duties
- May want advice and input from others
  - Legislators focused on needs of entire state
  - Not necessarily pension experts
Legislature Used Different Advisors Over Time

- Public Pension Commission
- Office of the State Actuary
- Joint Committee on Pension Policy
- Select Committee on Pension Policy

Public Pension Commission (1963-1975)

- Created to advise on benefits and funding policy
- First structure designed to operate on a state-wide level
  - Evaluate pension proposals for policy and cost implications
  - Begin developing standard pension policy for all the state retirement systems
- Allowed policy for separate state retirement systems to be considered as a whole
- Disbanded about the time that governance shifted away from retirement Boards and Plans 1 were closed
Office Of The State Actuary (1976-Present)

- Charged with directly advising and consulting with the Legislature and the Governor
  - Advises on funding policy
  - Advises on benefits policy
- Required to prepare actuarial fiscal notes explaining the financial impact of pension bills
- Allows Legislature access to independent, non-partisan, pension experts


- Advised Legislature on benefits and funding policy
  - All legislators
  - Staffed by OSA
- Allowed Legislature to:
  - Develop pension knowledge
  - Filter pension proposals
- Replaced by Select Committee on Pension Policy in 2003
Select Committee On Pension Policy (2003-Present)

- Quasi-legislative body
  - Members include stakeholders, legislators, state officials
  - Staffed by OSA
- Studies benefits and funding policy and makes recommendations to Legislature
  - No fiduciary duties
  - Recommending body
- Allows stakeholders a place “at the table”

Washington’s Model Today

- SCPP advises Legislature
- Legislature makes benefits policy, funding policy
- SCPP calculates funding, adopts rates, administers plans, invests money
- OSA, PFC, DRS, WSIB perform specific tasks
Observations Under The Current Model

- Legislature retains control of benefits and funding policy
- More entities are tied to funding than to benefits
- State budget writers have a lot of influence
- Only the investment function is overseen by trustees
  - Most common model is for trustees to oversee all functions

LEOFF Plan 2 Is An Exception

- Law Enforcement Officers’ and Fire Fighters’ Plan 2 Board created by initiative of the people in 2002
  - Legislators and stakeholders
  - Appointed by Governor
- Modified Board of Trustees model
  - Board has authority over benefits and funding policy, subject to actions of Legislature
  - WSIB invests funds
  - DRS administers plan
Observations From History Of Governance

- Washington has tried different governance models
- Legislature has always retained control of benefits policy
- The Legislature has used different advisers on pension policy over the years
- Biggest governance change was made when there were external pressures

What Changes Are Being Discussed Today?

- 2009 bills to suspend or abolish SCPP
  - Conditions similar to when Board of Trustees were abolished
    - Funding challenges in Plans 1
    - Financial crisis
  - Troopers have sought a board for the Washington State Patrol Retirement System
    - Proposed bills in 2008 and 2009
    - Voiced concerns that interests not adequately addressed
Evaluating Governance

- People?
- Processes?
- Structures?
- A combination?
- Context?
  - When will something external to governance affect it?

Back To The Basics

- Make policy
  - Clear and consistent goals
  - Good advice
- Delegate
  - Expertise
  - Trust
- Oversee
  - Accountability
  - Take back authority if not satisfied
Hallmarks Of Good Governance

- Policies are working
  - The promise is being kept
  - The shared values and goals are maintained
  - The policies accommodate change

- Delegation is working
  - All the right interests are represented
  - The delegees have the right expertise
  - They act within the scope of their authority
  - They do their jobs according to plan
  - They act for the good of the whole instead of in their own self interest

- Adequate oversight in place

Oversight Is Ongoing

- Accountability measures are built into the structure
  - Checks and balances in roles
  - Various interests and expertise represented
  - Fair and open processes

- Evaluation and self-evaluation
  - Studies
  - Feedback mechanisms
  - Compliance testing
  - Audits
  - Regular reporting
Governance Is More Than The Model

- Those who govern are subject to scrutiny
  - Accountable to those in charge
- Levels of authority and trust determine governance structure
- Governance models can change; basic activities of governance continue!